

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2013**

**City of Morganton
North Carolina**

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2013

City Council

**Mel L. Cohen, Mayor
John H. Cantrell, Jr.
Forrest A. Fleming
Alfred W. Hamer, Jr.
S. Sidney Simmons**

City Manager

Sally W. Sandy, CPA

Finance Director

Karen B. Duncan, CPA

Prepared by the City of Morganton's Finance Department



CITY OF MORGANTON

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CITY OF MORGANTON NORTH CAROLINA

October 10, 2013

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Morganton:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2013.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Eric Bowman, CPA, a licensed certified public accountant has issued an unqualified (“clean”) opinion on the City of Morganton’s financial statements for the year ended June 30, 2013. The independent auditor’s report is located at the front of the financial section of this report.

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

Profile of the Government

The City of Morganton, incorporated in 1885, is located in the western part of the state. It currently occupies 19 square miles and serves a population of 16,861. The City of Morganton is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The City of Morganton has operated under the council-manager form of government since 1913, having been the first in the state to adopt this form of government. Policy-making and legislative authority are vested in the City Council consisting of the mayor and four other members, all elected on a non-partisan basis. The City Council appoints the city manager, who in turn appoints the heads of the various departments. Council members serve four-year terms, with two members elected every two years. The mayor is elected for a four-year term. The mayor and council members are elected at large; each of the council members represents one of the four-districts within the City limits.

The City of Morganton provides a full range of governmental services, including public safety protection; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural events. The City of Morganton also provides public utilities including water, wastewater, electric and cable enterprises. The City of Morganton also is financially accountable for the ABC Board and the Morganton Redevelopment Commission, both of which are reported separately within the City of Morganton’s financial statements. Additional information on these legally separate entities can be found in the notes to the financial statements.

The City Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Morganton's financial planning and control. The budget is prepared by fund, function and department. Department directors may transfer resources within a department as they see fit. Transfers between departments, however need special approval from the governing council.

Local economy

The City serves as the retail trade and employment center for a majority of the 90,505 people of the County. Additionally, many people from sections of the surrounding counties of Avery, McDowell, Rutherford and Cleveland work or shop in the City.

The principal manufacturing activities in the City include furniture and metal working with many other types of establishments providing a diversified manufacturing base. Agriculture is a large industry in the County with approximately 90,000 acres in farmland, but very little farming is done in the City. Government at local and State levels is a large employer in the City. City, County and several State-affiliated offices and facilities are located within the corporate limits.

Long-term financial planning

The City of Morganton has to be in a continued state of planning to keep up with the ever-changing environment of local government. This is the ongoing charge to the elected officials as well as City staff.

A comprehensive Recreation Plan has been designed for the City. This plan has been and will continue to be used, as a tool to address current and future recreational needs in the City. The creation of such a plan demonstrated the commitment of the Council and staff to enhance quality of life in the Morganton community.

As further evidence of the Council's commitment to the future, the City staff has been directed to maintain the Cemetery Perpetual Care Permanent Fund. This fiduciary operation is designed to accumulate funds to provide ongoing care and upkeep for the City's cemetery in later years.

Overall, the City is meeting the demands of the present while constantly planning for the future. As always, the City of Morganton places the interest of its citizens as its number one priority. The City Council and City staff are challenged daily, and as a result, the City of Morganton continues to prosper.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morganton for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance department. I would like to express my appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the city manager, mayor and the city council for their support for maintaining the highest standards of professionalism in the management of the City of Morganton's finances.

Respectfully submitted,

Karen B. Duncan, CPA

Karen B. Duncan, CPA
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

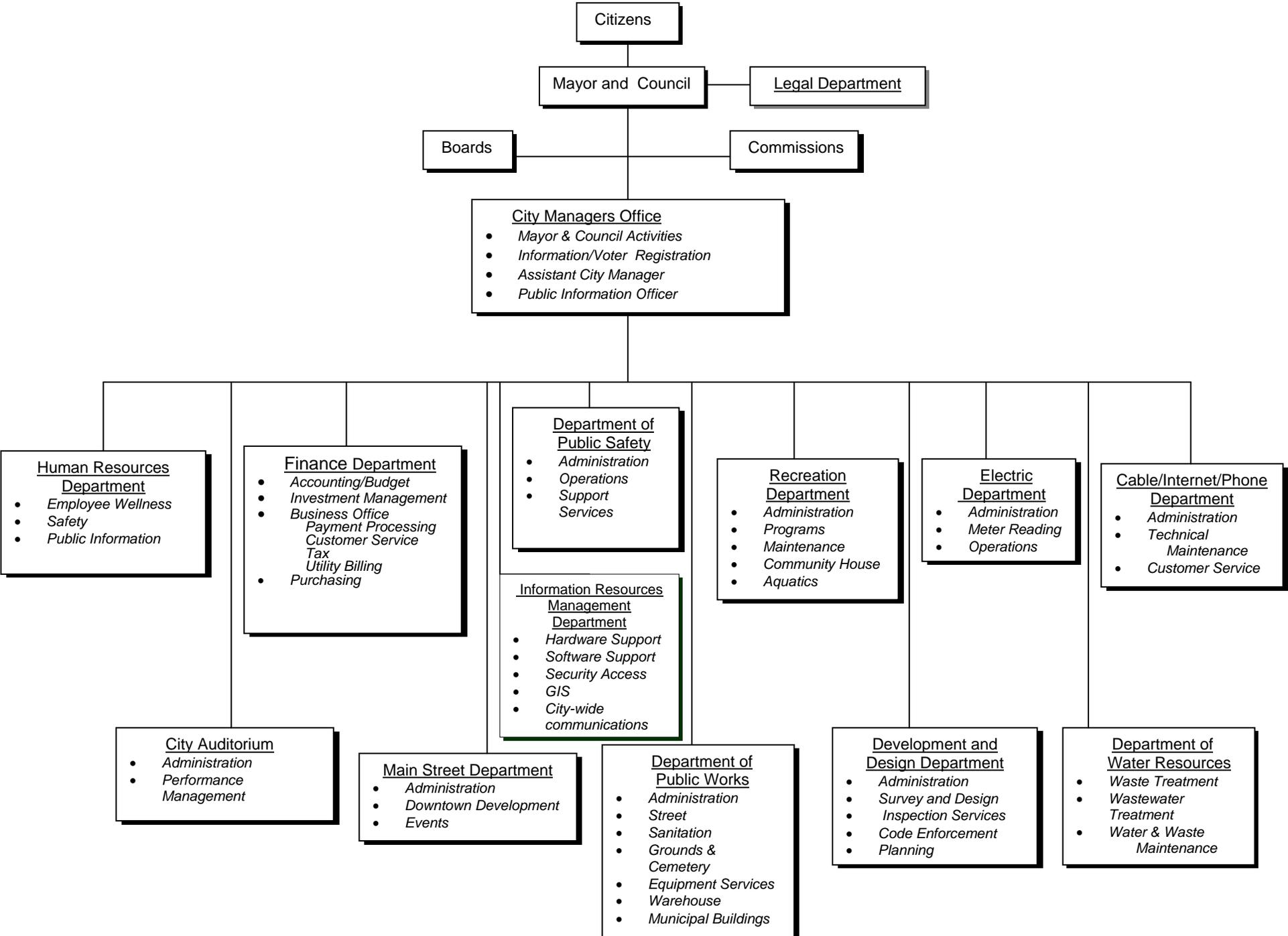
**City of Morganton
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

CITY OF MORGANTON ORGANIZATION CHART



403 South Green Street
P.O. Box 1476
Morganton, NC 28680-1476
Telephone (828) 438-1065
Fax (828) 438-9117

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Morganton'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 did not audit the financial statements of the City of Morganton ABC Board which represents .28 percent, .17 percent and 4.8 percent, respectively, of the assets, net position and revenues of the component unit. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Morganton ABC Board, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of City of Morganton ABC Board were not audited in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit 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 entity'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 entity'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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the Other Post Employment Benefit and Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on page 4 through 12 and 60 through 61 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morganton's basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, other schedules and statistical section as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and other reports of other auditors, the combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information and the statistical sections have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of City of Morganton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 City of Morganton's internal control over financial reporting and compliance.



S. Eric Bowman, P.A.
Certified Public Accountant

Morganton, North Carolina
October 15, 2013

Management's Discussion and Analysis

As management of the City of Morganton, we offer readers of the City of Morganton's financial statements this narrative overview and analysis of the financial activities of the City of Morganton for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follows this narrative.

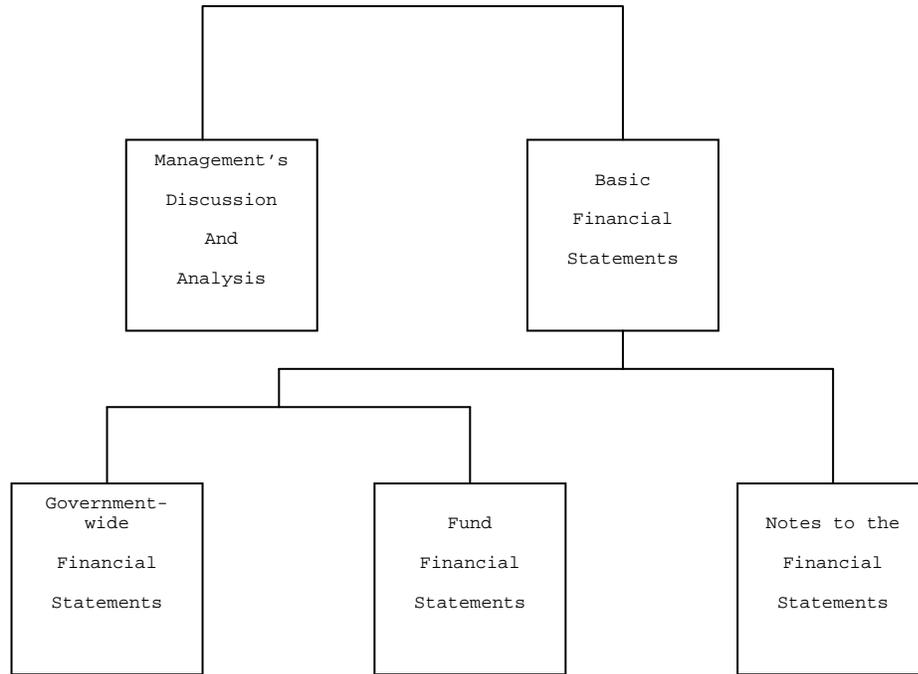
Financial Highlights

- The assets and deferred outflows of resources of the City of Morganton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$112,815,427 (*net position*).
- The government's total net position increased by \$245,101 split between a decrease in governmental activities and an increase in business-type activities net position.
- As of the close of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balances of \$12,397,898, an increase of \$1,032,718 in comparison with the prior year. Approximately 76 percent of this amount, or \$9,446,802, is available for spending at the government's discretion (*committed and unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,702,828, or 26 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt increased by \$5,433,266 (59%) during the current fiscal year.
- Moody's Investors Service reviewed the City of Morganton bond ratings in 2003, Standard and Poors in 2011. The City maintained its ratings of A2/A+.

Overview of the Financial Statements

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

**Required Components of Annual Financial Report
Figure 1**



Summary → Detail

Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits 3 through 10) are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units.

The governmental activities include most of the City's basic services such as public safety, culture and recreation, and general administration. Property taxes and grant funds finance most of these activities.

The business-type activities are those that the City charges customers to provide. These include water, electric, cable, and wastewater services offered by the City of Morganton.

The final category is the component units. Although legally separate from the City, the ABC Board and the Morganton Redevelopment Commission are important to the City because the City exercises control over the Board's by appointing their members and because in the case of the ABC Board, it is required to distribute its profits to the City.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

Proprietary Funds – The City of Morganton has two different kinds of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Morganton uses enterprise funds to account for its water, electric, wastewater, and cable operations. These funds are the same as those functions shown in the business-type activities

in the Statement of Net Position and the Statement of Activities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among City functions. The City uses an internal service fund to account for the activities of the management information systems, central warehouse and garage operations. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Morganton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found after the financial statements in this report.

Interdependence with Other Entities: The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2003 were the beginning of a new era in financial reporting for the City of Morganton and many other units of government across the United States. Prior to that year, the City of Morganton maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net position of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Morganton. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Morganton's financial reports as well as those of many other units of government. While the City of Morganton was required to implement these changes for the fiscal year ended June 30, 2003; other units were not required to implement until 2004.

**The City of Morganton's Net Position
(net of depreciation)**

	Governmental-type		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Current and other assets	\$16,474,475	\$14,683,145	\$23,152,842	\$20,926,613	\$39,627,317	\$35,609,758
Capital assets	35,873,630	38,337,710	62,582,803	55,006,120	98,456,433	93,498,575
Deferred outflows of resources			77,372	154,745	77,372	154,745
Total assets	52,348,105	53,020,855	85,813,017	76,087,478	138,161,122	129,108,333
L T debt outstanding	4,065,159	4,284,305	10,596,248	4,943,836	14,661,407	9,228,141
Other liabilities	5,224,417	4,317,882	5,271,646	3,958,302	10,496,063	8,276,184
Deferred inflows of resources	188,225	270,933			188,225	270,933
Total liabilities	9,477,801	8,873,120	15,867,894	8,902,138	25,345,695	17,775,258
Net position:						
Net investment in capital assets	31,808,471	33,673,160	51,986,555	50,371,775	83,795,026	84,044,935
Restricted	7,695,753	6,255,232			7,695,753	6,255,232
Unrestricted	3,366,080	4,219,343	17,958,568	16,813,565	21,324,648	21,032,908
Total net position	\$42,870,304	\$44,147,735	\$69,945,123	\$67,185,340	\$112,815,427	\$111,333,075

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Morganton exceeded liabilities and deferred inflows by \$112,815,427 as of June 30, 2013. The largest portion of the City's net assets is reflected in the City's investment in capital assets (less any related debt still outstanding that was issued to acquire those items.) The City of Morganton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Morganton's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Morganton's net position, \$7,695,753 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$21,324,648 is unrestricted

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

- Continued diligence in the collection of property taxes.
- Tax rate increase
- Reduction in spending

City of Morganton's Changes in Net Position

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$2,839,768	\$2,586,838	\$47,077,618	\$44,716,440	\$49,917,386	\$47,303,278
Operating grants and Contributions	716,426	797,030			716,426	797,030
Capital grants and Contributions	863,938	775,628			863,938	775,628
General revenues:						
Ad valorem taxes	7,944,516	7,623,645			7,944,516	7,623,645
Other taxes	3,460,242	3,517,569			3,460,242	3,517,569
Unrestricted Intergovernmental	1,737,882	1,751,859			1,737,882	1,751,859
Investment earnings	32,542	21,939	46,163	31,769	78,705	53,708
Other	64,550		215,785	220,063	280,335	220,063
Total revenues	17,659,864	17,074,508	47,339,566	44,968,272	64,999,430	62,042,780
Expenses:						
General government	3,912,009	3,982,814			3,912,009	3,982,814
Public safety	7,416,835	7,331,704			7,416,835	7,331,704
Transportation	2,277,238	2,396,894			2,277,238	2,396,894
Economic and physical development	119,035	200,710			119,035	200,710
Environmental protection	1,155,375	1,105,025			1,155,375	1,105,025
Culture and recreation	4,724,850	4,680,010			4,724,850	4,680,010
Interest on long-term debt	127,653	132,767			127,653	132,767
Water			4,803,191	4,626,908	4,803,191	4,626,908
Wastewater			3,723,556	3,465,124	3,723,556	3,465,124
Electric			32,061,280	30,455,928	32,061,280	30,455,928
Cable			4,433,307	4,201,231	4,433,307	4,201,231
Total expenses	19,732,995	19,829,924	45,021,334	42,749,191	64,754,329	62,579,115
Increase (decrease) in net position before transfers	(2,073,131)	(2,755,416)	2,318,232	2,219,081	245,101	(536,335)
Transfers	795,700	786,808	(795,700)	(786,808)		
Increase(decrease) in net position	(1,277,431)	(1,968,608)	1,522,532	1,432,273	245,101	(536,335)
Net position, July 1	44,147,735	46,116,343	67,185,340	65,753,067	111,333,075	111,869,410
Prior year adjustment			1,237,251		1,237,251	
Net position, June 30	\$42,870,304	\$44,147,735	\$69,945,123	\$67,185,340	\$112,815,427	\$111,333,075

Governmental activities: Governmental activities decreased the City's net position by \$1,277,431, thereby accounting for a reduction in the net position of the City of Morganton.

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

- Interest earnings continue to be minimal
- Lack of growth in tax base

Business-type activities: Business-type activities increased the City of Morganton's net position by \$1,522,532.

The most significant element of this change to note is in the growth in charges for services which reflects rate increases in the business-type funds.

Financial Analysis of the Government's Funds: As noted earlier, the City of Morganton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Morganton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Morganton's financing requirements.

The general fund is the chief operating fund of the City of Morganton. At the end of the current fiscal year, the City of Morganton's fund balance available in the General Fund was \$1,709,911, while total fund balance was \$12,038,708. The Governing Body of the City of Morganton has determined that the City should maintain an available fund balance of 15% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the City. The City currently has an available fund balance of 9.58% of general fund expenditures, while total fund balance represents 67.44% of the same amount.

At June 30, 2012, the governmental funds of the City of Morganton reported a combined fund balance of \$12,397,898 with a net increase in fund balance of \$1,032,718. Included in this changes in fund balance are increases in fund balance in the General Fund, Entitlement Fund and Permanent Fund.

General Fund Budgetary Highlights: During the fiscal year, there was an 1,173,719 increase in appropriations between the original and final amended budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

During the year there were several increases in appropriations between the original budget and the final amended budget. The most significant reason for the budget amendments was incomplete projects at the end of the previous year-end which required transferring prior year budget into the current fiscal year. Other budget amendments reflected new projects and programs which occurred throughout the fiscal year.

Proprietary Funds. The City of Morganton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary funds amounted to \$17,958,568. The increase in the net position is directly related to rate increases.

Capital Asset and Debt Administration

Capital assets. The City of Morganton’s investment in capital assets for its governmental and business-type activities as of June 30, 2013 totals \$93,498,575 (net of accumulated depreciation). These assets include land, buildings, plant and system, equipment and infrastructure.

There were not any major capital asset transactions during the year. There were not significant demolitions or disposals.

**City of Morganton’s Capital Assets
(Net of accumulated depreciation)**

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land and Buildings	\$17,692,486	\$18,329,584	\$21,391,920	\$21,761,616	\$39,084,406	\$40,091,200
Plant and system			28,676,848	26,875,918	28,676,848	26,875,918
Equipment	7,671,799	8,404,743	6,298,433	6,523,331	13,970,232	14,928,074
Infrastructure	10,509,345	11,603,383			10,509,345	11,603,383
Construciton in Progress			6,215,602		6,215,602	
Total assets	<u>\$35,873,630</u>	<u>\$38,337,710</u>	<u>\$62,582,803</u>	<u>\$55,160,865</u>	<u>\$98,456,433</u>	<u>\$93,498,575</u>

Additional information on the City’s capital assets can be found in the notes to the Basic Financial Statements; specifically, in Section IV, Detail notes on all funds, Capital Assets section.

Long-term Debt. As of June 30, 2013 the City of Morganton had total bonded debt outstanding of \$1,650,000 all of which is backed by the full faith and credit of the City.

**City of Morganton’s Outstanding Debt
General Obligation Bonds**

	<u>Business-type Activities</u>	
	<u>2013</u>	<u>2012</u>
G O Bonds	<u>\$1,650,000</u>	<u>\$2,895,000</u>

As mentioned in the financial highlights section of this document, the City of Morganton maintained its bond ratings after being reviewed by Moody’s Investors Service in 2003 and Standard and Poors in 2011. The City’s ratings of A2/A+ are a clear indication of the sound financial condition of the City of Morganton.

North Carolina general statutes limit the amount of general obligation debt a unit of government can issue to 8 percent of total assessed value of taxable property located within that government’s boundaries. The legal debt margin for the City of Morganton is \$131,736,040.

See the notes to the financial statements for additional information regarding the City of Morganton’s long-term debt; specifically, in Section IV, Detail notes on all funds, Long-Term Obligations section.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- As is indicative of this part of the country, the local economic environment is experiencing some difficulties. The Hickory-Morganton-Lenoir MSA's unemployment rate of 10.0% is higher than the State's rate of 8.7% and the national rate of 7.0%. The MSA's labor force of 168,404 has decreased. High unemployment can be directly attributed to industry slow-downs and plant closings throughout the MSA.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: All revenues, for all funds, are projected based on trend analysis, estimates provided by the North Carolina League of Municipalities and assumed increases or decreases in usage. The City of Morganton responsibly and conservatively budgets its revenues. Assumptions used in budgeting major revenues are as follows:

Ad Valorem taxes are based on current valuations, as provided by the Burke County tax office, adjusted for anticipated annexations, discoveries and releases.

Other taxes and licenses such as privilege licenses are forecasted based on past trends and future predictions.

Unrestricted Intergovernmental Revenues, such as Franchise Tax and Sales Tax reimbursements are budgeted based on past amounts received, adjusted for growth and local economic influences.

Restricted Intergovernmental Revenues are primarily grant-related. Budgets are based on anticipated grant awards.

Sales and Service revenues vary in nature. The largest of these revenues, in the General Fund, are commercial solid waste user fees, City of Morganton Municipal Auditorium ticket sales and recreation program fees. The basis for budgeting these revenues is a factor of the number of participants (or users) multiplied by the appropriate rate or fee.

Overall the City of Morganton's governmental funds budget for 2013-2014 represents a increase of 2% or \$417,182 over the 2012-2013 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2013-2014 business-type activities budget overall is 17% or \$10,917,753 lower than the 2012-2013 budget.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, City of Morganton, P O Box 3448, Morganton, NC 28655.

CITY OF MORGANTON
STATEMENT OF NET POSITION
JUNE 30, 2013

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
ASSETS					
Cash and cash equivalents	\$12,563,671	\$15,224,286	\$27,787,957	\$170,202	\$42,512
Taxes receivable (net)	105,149		105,149		
Accrued interest receivable-taxes	5,343		5,343		
Interest receivable-investments	4,879	9,277	14,156		
Accounts receivable (net)	1,541,930	7,415,951	8,957,881		
Inventories	846,498		846,498	184,281	
Restricted cash	1,407,005	503,328	1,910,333		20,200
Net Capital assets					
Land	11,810,650	15,040,621	26,851,271	11,000	
Buildings	5,881,836	6,351,299	12,233,135	664	1,067,840
Plant and system		28,676,848	28,676,848		
Equipment	7,671,799	6,298,433	13,970,232	28,056	
Infrastructure	10,509,345		10,509,345		
Construction in progress		6,215,602	6,215,602		
Total assets	<u>52,348,105</u>	<u>85,735,645</u>	<u>138,083,750</u>	<u>394,203</u>	<u>1,130,552</u>
DEFERRED OUTFLOWS OF RESOURCES					
Charge on refunding		77,372	77,372		
Total deferred outflows of resources		<u>77,372</u>	<u>77,372</u>		
LIABILITIES					
Accounts payable and current liabilities	2,151,697	3,803,382	5,955,079	199,203	20,200
Customer deposits		503,328	503,328		
Accrued interest payable	43,528		43,528		
Noncurrent liabilities:					
Current:					
Installment purchases payable	797,410	448,831	1,246,241		
Bonds payable		1,225,000	1,225,000		
Notes payable					34,989
Compensated absences payable	398,998	116,873	515,871		
Due in more than one year:					
Installment purchases payable	3,267,749	2,281,815	5,549,564		
Bonds payable		425,000	425,000		
Revolving loan payable		6,215,602	6,215,602		
Compensated absences payable	364,600	150,118	514,718		
Net pension obligation	614,577		614,577		
OPEB	1,651,017	697,945	2,348,962		
Total liabilities	<u>9,289,576</u>	<u>15,867,894</u>	<u>25,157,470</u>	<u>199,203</u>	<u>55,189</u>
DEFERRED INFLOWS OF RESOURCES					
Prepaid ticket sales	158,213		158,213		
Prepaid taxes	30,012		30,012		
Total deferred inflows of resources	<u>188,225</u>		<u>188,225</u>		
NET POSITION					
Net investment in capital assets	31,808,471	51,986,555	83,795,026	39,720	1,032,851
Restricted for:					
Perpetual Maintenance	340,959		340,959		
Stabilization by State Statue	1,543,805		1,543,805		
Transportation	1,066,332		1,066,332		
Canteen operations	4,625		4,625		
Public safety	91,472		91,472		
Capital improvements	3,173,780		3,173,780	80,230	
Economic development	1,474,780		1,474,780		
Unrestricted	3,366,080	17,958,568	21,324,648	75,050	42,512
Total net position	<u>\$42,870,304</u>	<u>\$69,945,123</u>	<u>\$112,815,427</u>	<u>\$195,000</u>	<u>\$1,075,363</u>

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

CITY OF MORGANTON
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities				
General government	\$3,912,009	\$561,709	\$17,894	
Public safety	7,416,835	33,898	78,813	863,938
Transportation	2,277,238		485,409	
Economic and physical development	119,035		123,686	
Environmental protection	1,155,375	1,211,551	10,624	
Culture and recreation	4,724,850	1,032,610		
Interest on long-term debt	127,653			
Total governmental activities	<u>19,732,995</u>	<u>2,839,768</u>	<u>716,426</u>	<u>863,938</u>
Business-type activities:				
Water	4,803,191	5,020,919		
Wastewater	3,723,556	4,988,894		
Electric	32,061,280	32,808,535		
Cable	4,433,307	4,259,270		
Total business-type activities	<u>45,021,334</u>	<u>47,077,618</u>		
Total primary government	<u>\$64,754,329</u>	<u>\$49,917,386</u>	<u>\$716,426</u>	<u>\$863,938</u>
Component units:				
Morganton ABC board	2,708,908	2,708,820		
Morganton redevelopment commission	<u>3,129</u>			
Total component units	<u>2,712,037</u>	<u>2,708,820</u>		
General revenues:				
Ad valorem taxes				
Other taxes				
Unrestricted intergovernmental revenues				
Investment earnings				
Other revenues				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning				
Prior year adjustment				
Net position, ending				

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

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CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$11,731,353	\$15,722		\$11,747,075
Restricted cash	\$1,066,332		\$340,673	1,407,005
Taxes receivable (net)	105,149			105,149
Accounts receivable (net)	1,539,212	2,706		1,541,918
Interest receivable	4,593		286	4,879
Total assets	<u>\$14,446,639</u>	<u>\$18,428</u>	<u>\$340,959</u>	<u>\$14,806,026</u>
LIABILITIES				
Accounts payable and accrued liabilities	2,114,557	197		2,114,754
Total liabilities	<u>2,114,557</u>	<u>197</u>		<u>2,114,754</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	105,149			105,149
Prepaid taxes	30,012			30,012
Ticket sales	158,213			158,213
Total deferred inflows of resources	<u>293,374</u>			<u>293,374</u>
FUND BALANCES				
Nonspendable				
Perpetual Maintenance			340,959	340,959
Restricted				
Stabilization by State Statue	1,543,805			1,543,805
Streets - Powell Bill	1,066,332			1,066,332
Committed				
Canteen operations	4,625			4,625
Drug enforcement	91,472			91,472
Capital projects	3,173,780			3,173,780
Economic development	1,455,866	18,231		1,474,097
Unassigned	4,702,828			4,702,828
Total fund balances	<u>\$12,038,708</u>	<u>\$18,231</u>	<u>\$340,959</u>	<u>\$12,397,898</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$14,446,639</u>	<u>\$18,428</u>	<u>\$340,959</u>	
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 funds				35,441,440
Other long-term assets are not available to pay for current-period expenditures and, therefore, are are inflows of resources in the funds				5,343
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets				1,942,994
Liabilities of earned revenues considered deferred inflows of resources in fund statements				105,149
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds				(6,978,992)
Other liabilities not reported in the funds				(43,528)
Net position of governmental activities				<u>42,870,304</u>

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

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CITY OF MORGANTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$7,936,870			\$7,936,870
Other taxes and licenses	3,460,242			3,460,242
Unrestricted intergovernmental revenues	1,957,471			1,957,471
Restricted intergovernmental revenues	1,416,160	\$123,686		1,539,846
Other restricted revenues	17,894			17,894
Permits and fees	252,293			252,293
Sales and services	2,397,293		\$13,596	2,410,889
Investment earnings	30,968		1,574	32,542
Other revenues	118,481			118,481
Total revenues	<u>17,587,672</u>	<u>123,686</u>	<u>15,170</u>	<u>17,726,528</u>
EXPENDITURES				
Current				
General government	3,699,428		10,000	3,709,428
Public safety	7,052,196			7,052,196
Transportation	1,255,466			1,255,466
Environmental protection	987,112			987,112
Cultural and recreational	4,010,149			4,010,149
Economic and physical development		119,035		119,035
Debt service				
Principal retirement	708,746			708,746
Interest and fees	136,978			136,978
Total expenditures	<u>17,850,075</u>	<u>119,035</u>	<u>10,000</u>	<u>17,979,110</u>
Revenues over (under) expenditures	<u>(262,403)</u>	<u>4,651</u>	<u>5,170</u>	<u>(252,582)</u>
OTHER FINANCING SOURCES (USES)				
Transfers - in	891,775			891,775
Transfers - out	(96,075)			(96,075)
Installment purchase debt issued	489,600			489,600
Total other financing sources (uses)	<u>1,285,300</u>			<u>1,285,300</u>
Net change in fund balances	1,022,897	4,651	5,170	1,032,718
Fund balances - beginning (consolidated)	<u>11,015,811</u>	<u>13,580</u>	<u>335,789</u>	<u>11,365,180</u>
Fund balances - ending	<u>\$12,038,708</u>	<u>\$18,231</u>	<u>\$340,959</u>	<u>\$12,397,898</u>

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

CITY OF MORGANTON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Net change in fund balances - total governmental funds	\$1,032,718
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(2,516,025)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	7,646
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items	219,146
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(129,289)
The net revenue of certain activities of the internal service fund is reported with governmental activities	<u>108,373</u>
Total changes in net position of governmental activities	<u><u>(\$1,277,431)</u></u>

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

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes				
Current year	\$7,797,922	\$7,840,322	\$7,793,041	(\$47,281)
Prior years	50,000	50,000	94,836	44,836
Special tax - Main Street	114,262	114,262	115,118	856
Interest	35,700	35,700	28,780	(6,920)
Discounts	(85,000)	(85,000)	(94,905)	(9,905)
Total	<u>7,912,884</u>	<u>7,955,284</u>	<u>7,936,870</u>	<u>(18,414)</u>
Other taxes and licenses				
Privilege licenses	268,000	315,600	314,892	(708)
Carbon city fire tax	8,435	8,435	8,014	(421)
Occupancy tax	73,000	73,000	66,527	(6,473)
One-half cent sales tax	2,064,248	2,064,248	1,998,564	(65,684)
One cent sales tax	950,311	950,311	1,072,245	121,934
Total	<u>3,363,994</u>	<u>3,411,594</u>	<u>3,460,242</u>	<u>48,648</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	27,950	27,950	32,754	4,804
Section eight in lieu of taxes	2,671	2,671	2,541	(130)
Electric/Cable in lieu of taxes	161,670	161,670	161,670	
Franchise tax	1,587,794	1,587,794	1,488,104	(99,690)
Beer and wine	75,950	75,950	68,144	(7,806)
Solid waste disposal	12,541	12,541	10,624	(1,917)
Alcohol Beverage Commission	185,435	185,435	193,634	8,199
Total	<u>2,054,011</u>	<u>2,054,011</u>	<u>1,957,471</u>	<u>(96,540)</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	75,833	75,833	66,813	(9,020)
Drug restitution	2,500	2,500		(2,500)
ABC restitution	1,500	1,500		(1,500)
State and Federal grants	9,735	320,416	863,938	543,522
Powell bill street aid allocation	478,275	478,275	485,409	7,134
Total	<u>567,843</u>	<u>878,524</u>	<u>1,416,160</u>	<u>537,636</u>

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Other restricted revenues				
Shared cost of curb and gutter	\$5,000	\$5,000		(\$5,000)
Restricted contributions	185,900	203,900	\$17,894	(186,006)
Total	<u>190,900</u>	<u>208,900</u>	<u>17,894</u>	<u>(191,006)</u>
Permits and fees				
Building permits	100,000	100,000	111,972	11,972
Plumbing permits	32,000	32,000	38,025	6,025
Electric permits	100,000	100,000	97,236	(2,764)
Variance request	1,000	1,000	5,060	4,060
Total	<u>233,000</u>	<u>233,000</u>	<u>252,293</u>	<u>19,293</u>
Sales and services				
Parking revenue	3,000	3,000	9,646	6,646
Reimbursement for services	5,000	21,821	6,547	(15,274)
Solid waste user fees	1,186,480	1,186,480	1,185,097	(1,383)
Solid waste late charges	15,000	15,000	12,858	(2,142)
Curb cuts	8,000	8,000	3,505	(4,495)
Civil citations	500	500	1,610	1,110
Engineering inspections	7,500	7,500	4,007	(3,493)
Rent	250	250	600	350
Fire protection	500	500	50	(450)
False alarm violations	31,150	31,150	21,725	(9,425)
Recreation revenue	638,600	638,600	556,018	(82,582)
Food sales and services	184,787	184,787	217,133	32,346
Bad check charges	4,500	4,500	8,295	3,795
Canteen sales	1,480	1,480	1,037	(443)
Main street revenue	24,000	24,000	28,348	4,348
Façade loan program	350	350	4,618	4,268
DARE program	7,500	7,500	1,479	(6,021)
Municipal auditorium ticket sales	300,000	300,000	259,459	(40,541)
Surplus sale	25,500	48,100	64,550	16,450
Reimbursements				
Morganton/Lenoir airport	900	900	67	(833)
Court cost and fees	19,000	19,000	10,644	(8,356)
Total	<u>2,463,997</u>	<u>2,503,418</u>	<u>2,397,293</u>	<u>(106,125)</u>

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Investment earnings	\$26,726	\$26,726	\$29,554	\$2,828
Other revenue				
Revolving loan principal			10,600	10,600
Revolving loan interest			7,367	7,367
Miscellaneous	41,000	47,000	73,589	26,589
Contributions	500	500	26,925	26,425
Total	41,500	47,500	118,481	70,981
Total revenue	16,854,855	17,318,957	17,586,258	267,301
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			62,561	
Operating expenditures			111,064	
Donations/economic development			1,324,801	
Pro rata administrative services			(392,583)	
Total	378,168	1,216,061	1,105,843	110,218
Legal				
Salaries and employee benefits			170,503	
Operating expenditures			58,355	
Pro rata administrative services			(169,635)	
Total	56,545	71,545	59,223	12,322
Executive				
Salaries and employee benefits			\$437,904	
Operating expenditures			43,267	
Pro rata administrative services			(384,975)	
Total	96,244	96,244	96,196	\$48
Human resources				
Salaries and employee benefits			251,927	
Operating expenditures			857,206	
Pro rata administrative services			(601,553)	
Total	601,553	601,553	507,580	\$93,973

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Accounting				
Salaries and employee benefits			\$256,280	
Operating expenditures			282,866	
Pro rata administrative services			(448,043)	
Total	\$112,011	\$112,011	91,103	\$20,908
Main street				
Salaries and employee benefits			137,861	
Operating expenditures			191,383	
Capital outlay			46,763	
Total	362,752	427,352	376,007	51,345
Canteen operations				
Operating expenditures	2,125	2,125	953	1,172
Business office/tax				
Salaries and employee benefits			315,201	
Operating expenditures			141,897	
Pro rata administrative services			(435,234)	
Total	42,405	42,405	21,864	20,541
Development				
Salaries and employee benefits			437,860	
Operating expenditures			89,140	
Capital outlay			23,000	
Total	572,440	582,440	550,000	32,440
Municipal buildings				
Operating expenditures			150,532	
Pro rata administrative services			(143,048)	
Capital outlay			10,000	
Total	21,442	46,442	17,484	28,958

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
General government (continued)				
Design				
Salaries and employee benefits			\$377,935	
Operating expenditures			62,018	
Pro rata administrative services			(275,800)	
Total	\$183,867	\$183,867	164,153	\$19,714
Public works				
Salaries and employee benefits			128,922	
Operating expenditures			16,038	
Total	168,124	168,124	144,960	23,164
Cemetery and grounds				
Salaries and employee benefits			488,464	
Operating expenditures			66,525	
Pro rata reimbursement			(10,000)	
Capital outlay			19,073	
Total	570,323	570,323	564,062	6,261
Total general government	3,167,999	4,120,492	3,699,428	421,064
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,644,145	
Operating expenditures			1,013,267	
Pro rata administrative services			(19,200)	
Capital outlay			413,984	
Total public safety	7,839,202	7,936,347	7,052,196	884,151
Transportation				
Street department				
Salaries and employee benefits			557,965	
Operating expenditures			89,469	
Total	\$967,548	\$971,848	647,434	\$324,414

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Powell bill				
Salaries and employee benefits			291,804	
Operating expenditures			75,127	
Capital outlay			241,101	
Total	521,000	521,000	608,032	(87,032)
Total transportation	1,488,548	1,492,848	1,255,466	237,382
Environmental protection - sanitation				
Salaries and employee benefits			\$575,333	
Operating expenditures			363,674	
Capital outlay			48,105	
Total environmental protection	\$1,008,864	\$1,021,045	987,112	\$33,933
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			281,812	
Operating expenditures			485,277	
Capital outlay			30,688	
Total	1,063,235	1,064,435	797,777	266,658
Recreation				
Salaries and employee benefits			1,436,422	
Operating expenditures			1,309,311	
Pro rata administrative services			(22,080)	
Capital outlay			80,493	
Total	3,118,092	3,135,692	2,804,146	331,546
Community House				
Salaries and employee benefits			172,217	
Operating expenditures			218,042	
Capital outlay			17,967	
Total	334,327	400,527	408,226	(7,699)
Total cultural and recreational	4,515,654	4,600,654	4,010,149	590,505

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$637,554	\$637,554	\$708,746	(71,192)
Interest	143,842	143,842	136,978	6,864
Total debt service	<u>781,396</u>	<u>781,396</u>	<u>845,724</u>	<u>(64,328)</u>
Total expenditures	<u>18,801,663</u>	<u>19,952,782</u>	<u>17,850,075</u>	<u>2,102,707</u>
Revenues over (under) expenditures	<u>(1,946,808)</u>	<u>(2,633,825)</u>	<u>(263,817)</u>	<u>2,370,008</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	\$517,433	\$1,227,050		(\$1,227,050)
Installment purchase debt issued	537,600	537,600	\$489,600	(\$48,000)
Transfers in	891,775	891,775	\$891,775	
Transfers out		(22,600)	(22,600)	
Total other financing sources	<u>1,946,808</u>	<u>2,633,825</u>	<u>1,358,775</u>	<u>(1,275,050)</u>
Revenues and other sources over (under) expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>1,094,958</u>	<u>\$1,094,958</u>
Net change in fund balances			1,094,958	
Fund balances - beginning			<u>9,487,884</u>	
Fund balances - ending			\$10,582,842	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			1,414	
Transfers			(73,475)	
Fund balances - beginning			<u>1,527,927</u>	
Fund balances - ending			<u>\$12,038,708</u>	

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

CITY OF MORGANTON
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2013	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
<u>ASSETS</u>						
<u>CURRENT ASSETS :</u>						
Cash and cash equivalents	\$5,594,949	\$1,941,295	\$188,129		\$7,724,373	\$816,596
Investments	2,869,162	914,266	3,716,485		7,499,913	
Accounts receivable (net)	619,936	1,980,163	4,410,811	\$405,041	7,415,951	
Interest receivable	3,527	1,200	4,550		9,277	
Inventories						846,498
Due from other funds			2,701,282		2,701,282	
Restricted Cash	67,498	52,223	383,607		503,328	
Total current assets	<u>9,155,072</u>	<u>4,889,147</u>	<u>11,404,864</u>	<u>405,041</u>	<u>25,854,124</u>	<u>1,663,094</u>
<u>NONCURRENT ASSETS :</u>						
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	16,231,004	12,087,406	9,510,179	3,497,991	41,326,580	398,873
Construction in progress		6,215,602			6,215,602	
Capital assets (net)	<u>17,143,021</u>	<u>32,370,076</u>	<u>9,566,129</u>	<u>3,503,577</u>	<u>62,582,803</u>	<u>432,190</u>
Total noncurrent assets	<u>17,143,021</u>	<u>32,370,076</u>	<u>9,566,129</u>	<u>3,503,577</u>	<u>62,582,803</u>	<u>432,190</u>
TOTAL ASSETS	<u><u>\$26,298,093</u></u>	<u><u>\$37,259,223</u></u>	<u><u>\$20,970,993</u></u>	<u><u>\$3,908,618</u></u>	<u><u>\$88,436,927</u></u>	<u><u>\$2,095,284</u></u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Deferred charge on refunding	\$16,252	\$61,120			\$77,372	
Total deferred outflows of resources	<u>\$16,252</u>	<u>\$61,120</u>			<u>\$77,372</u>	
<u>LIABILITIES</u>						
<u>CURRENT LIABILITIES :</u>						
Accounts payable and accrued liabilities	164,751	720,490	2,761,815	156,326	3,803,382	36,931
Due to other funds				2,701,282	2,701,282	
Customer deposits	67,498	52,223	383,607		503,328	
Compensated absences-current	26,194	30,266	43,367	17,046	116,873	17,166
G O Bonds payable - current	257,250	967,750			1,225,000	
Installment purchase - current	347,719	70,995	30,117		448,831	
Total current liabilities	<u>863,412</u>	<u>1,841,724</u>	<u>3,218,906</u>	<u>2,874,654</u>	<u>8,798,696</u>	<u>54,097</u>
<u>NONCURRENT LIABILITIES :</u>						
Other postemployment benefits	234,896	187,917	234,896	40,236	697,945	77,212
Compensated absences-noncurrent	39,291	36,991	53,003	20,833	150,118	20,981
G O Bonds payable - noncurrent	89,200	335,800			425,000	
Installment purchase - noncurrent	2,202,281		79,534		2,281,815	
Revolving loan payable - noncurrent		6,215,602			6,215,602	
Total noncurrent liabilities	<u>2,565,668</u>	<u>6,776,310</u>	<u>367,433</u>	<u>61,069</u>	<u>9,770,480</u>	<u>98,193</u>
TOTAL LIABILITIES	<u><u>3,429,080</u></u>	<u><u>8,618,034</u></u>	<u><u>3,586,339</u></u>	<u><u>2,935,723</u></u>	<u><u>18,569,176</u></u>	<u><u>152,290</u></u>
<u>NET POSITION</u>						
Net Investment in capital assets	14,246,571	24,779,929	9,456,478	3,503,577	51,986,555	432,190
Unrestricted	8,638,694	3,922,380	7,928,176	(2,530,682)	17,958,568	1,510,804
TOTAL NET POSITION	<u><u>\$22,885,265</u></u>	<u><u>\$28,702,309</u></u>	<u><u>\$17,384,654</u></u>	<u><u>\$972,895</u></u>	<u><u>\$69,945,123</u></u>	<u><u>\$1,942,994</u></u>

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

CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2013	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
OPERATING REVENUES :						
Charges for services	\$5,020,919	\$4,988,894	\$32,808,535	\$4,259,270	\$47,077,618	\$2,073,228
OPERATING EXPENSES :						
Water treatment and maintenance	3,800,518				3,800,518	
Wastewater treatment and maintenance		2,438,530			2,438,530	
Operations and construction			31,322,366		31,322,366	
Operations and maintenance				4,095,265	4,095,265	
MIS, Garage and Warehouse operations						1,908,446
Depreciation	945,640	1,126,835	706,998	338,042	3,117,515	60,309
Total	4,746,158	3,565,365	32,029,364	4,433,307	44,774,194	1,968,755
OPERATING INCOME (LOSS)	274,761	1,423,529	779,171	(174,037)	2,303,424	104,473
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	18,887	6,906	20,370		46,163	
Sale of materials						3,900
Interest expense	(24,268)	(97,066)	(3,894)		(125,228)	
Loss on asset disposition	(16,517)		(28,022)		(44,539)	
Amortization of deferred charge on refundings	(16,248)	(61,125)			(77,373)	
Miscellaneous	9,260	2,159	4,661	199,705	215,785	
Total	(28,886)	(149,126)	(6,885)	199,705	14,808	3,900
INCOME (LOSS) BEFORE TRANSFERS	245,875	1,274,403	772,286	25,668	2,318,232	108,373
TRANSFERS :						
In			147,953		147,953	
Out	(20,000)		(668,562)	(255,091)	(943,653)	
Total	(20,000)		(520,609)	(255,091)	(795,700)	
Change in net position	225,875	1,274,403	251,677	(229,423)	1,522,532	108,373
TOTAL NET POSITION - beginning	22,659,390	26,190,655	17,132,977	1,202,318		1,834,621
Prior year adjustment		1,237,251				
TOTAL NET POSITION - ending	<u>\$22,885,265</u>	<u>\$28,702,309</u>	<u>\$17,384,654</u>	<u>\$972,895</u>		<u>\$1,942,994</u>
Change in net position of business-type activities					<u>1,522,532</u>	

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

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds				Totals June 30, 2013	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
CASH FLOWS FROM OPERATING ACTIVITIES :						
Receipts from customers	\$5,020,919	\$4,988,894	\$32,808,535	\$4,259,270	\$47,077,618	\$2,073,228
Payments to suppliers	(2,718,799)	(1,850,334)	(30,844,011)	(3,710,658)	(39,123,802)	(1,250,748)
Payments to employees	(982,384)	(1,169,005)	(1,265,087)	(452,265)	(3,868,741)	(621,333)
Net cash provided (used) by operating activities	<u>1,319,736</u>	<u>1,969,555</u>	<u>699,437</u>	<u>96,347</u>	<u>4,085,075</u>	<u>201,147</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES :						
Transfers - in			147,953		147,953	
Transfers - (out)	(20,000)		(668,562)	(255,091)	(943,653)	
Interfund borrowings			(79,351)	79,351		
Noncapital contributions received (used)	9,260	2,159	4,661	199,705	215,785	3,900
Net cash provided (used) by noncapital financing activities	<u>(10,740)</u>	<u>2,159</u>	<u>(595,299)</u>	<u>23,965</u>	<u>(579,915)</u>	<u>3,900</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(2,402,163)	(5,791,817)	(1,032,448)	(120,312)	(9,346,740)	(112,253)
Proceeds from capital debt	850,000					
Loan proceeds - CIP		6,215,602				
Principal paid on capital debt	(261,500)	(1,122,011)	(29,680)		(1,413,191)	
Interest paid on capital debt	(24,268)	(97,066)	(3,894)		(125,228)	
Net cash provided (used) by capital and related financing activities	<u>(1,837,931)</u>	<u>(795,292)</u>	<u>(1,066,022)</u>	<u>(120,312)</u>	<u>(3,819,557)</u>	<u>(112,253)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :						
Proceeds from sales and maturities of investments	3,261,077	1,555,056	4,074,080		8,890,213	
Purchases of investments	(2,869,162)	(914,266)	(3,716,485)		(7,499,913)	
Interest on investments	19,625	8,916	21,486		50,027	
Net cash provided (used) by investing activities	<u>411,540</u>	<u>649,706</u>	<u>379,081</u>		<u>1,440,327</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	(117,395)	1,826,128	(582,803)	Nil	1,125,930	92,794
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
	<u>5,779,842</u>	<u>167,390</u>	<u>1,154,539</u>	<u>Nil</u>	<u>7,101,771</u>	<u>723,802</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR						
	<u>\$5,662,447</u>	<u>\$1,993,518</u>	<u>\$571,736</u>	<u>Nil</u>	<u>8,227,701</u>	<u>\$816,596</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds				Totals June 30, 2013	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED)						
BY OPERATING ACTIVITIES:						
Operating income (loss)	\$274,811	\$1,423,529	\$779,171	(\$174,037)	2,303,474	\$104,473
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	945,640	1,126,835	706,998	338,042	3,117,515	60,309
Changes in assets and liabilities :						
(Increase) decrease in accounts receivable	(111,697)	(1,320,562)	(1,013,174)	(49,029)	(2,494,462)	
(Increase) decrease in inventories						46,120
Increase (decrease) in accounts payable and accrued liabilities	126,373	688,638	95,088	(24,388)	885,711	(5,608)
Increase (decrease) in customer deposits	7,595	8,932	43,972		60,499	
Increase (decrease) in OPEB	73,953	47,092	73,953		194,998	(3,259)
Increase (decrease) in accrued vacation pay	3,061	(4,909)	13,429	5,759	17,340	(888)
Net cash provided (used) by operating activities	<u>\$1,319,736</u>	<u>\$1,969,555</u>	<u>\$699,437</u>	<u>\$96,347</u>	<u>\$4,085,075</u>	<u>\$201,147</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Loss on asset disposition	\$16,517		\$28,022		44,539	
Amortization of deferred charges on refunding	16,248	61,125			77,373	
Total noncash investing, capital and financing activities	<u>\$32,765</u>	<u>\$61,125</u>	<u>\$28,022</u>		<u>\$121,912</u>	

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

I. Summary of significant accounting policies

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

A. Reporting entity

The City of Morganton is a municipal corporation governed by an elected mayor and four-member council. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

City of Morganton ABC Board

The City appoints the members of the ABC Board's governing board. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were an enterprise fund type. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Morganton ABC Board, 228 W. Fleming Drive, Morganton, NC 28655.

City of Morganton Redevelopment Commission

The members of the Redevelopment Commission are appointed by the City Council. The purpose of the Commission is to revitalize blighted areas in the City, as designated. The City has the ability to impose its will on the commission by removing appointed board members or management at will. Also, the commission may not secure lending arrangements without the City's intervention; therefore, the commission is reported as a discrete component unit and is presented as a general governmental fund. The commission has a June 30 year-end. Complete financial statements may be obtained at 305 E. Union Street, Suite A-100, Morganton, NC 28655.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Ad valorem tax receivable is not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Burke County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Morganton. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Burke County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred inflows.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as deferred inflows.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for public safety, streets and highways, sanitation, parks and recreation and general government services. Additionally, the City has legally adopted an Economic Development Fund. Under GASB 54 guidance the Economic Development Fund is consolidated in the General Fund. The budgetary comparison for the Economic Development Fund has been included in the supplemental information.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City has one special revenue fund, the CDBG Entitlement Fund. The CDBG Entitlement Fund accounts for federal funds used to benefit low and moderate-income individuals.

The permanent fund is used to account for transactions related to the City Cemetery.

The government reports the following major proprietary funds:

The water fund is used to account for the City's water operation.

The wastewater fund is used to account for the City's wastewater operation.

The electric fund is used to account for the City's electric distribution operation.

The cable fund is used to account for the City's cable operation.

Additionally, the City reports the following fund type:

The internal service fund accounts for the Warehouse, Garage and Information Resource Management Services functions. Services are provided to City departments by this fund.

D. Budgetary data

As required by the Local Government Budget and Fiscal Control Act (G.S. 159, Article 3), the governing board must adopt by July 1 an annual balanced budget ordinance for all funds except for those funds which operate under project ordinances. The City has adopted project ordinances for the CDBG Entitlement Fund. The annual budget is prepared on the modified accrual basis of accounting to be compatible with the accounting system in recording transactions, as required by G.S. 159-26(c).

Appropriations are made at the departmental level and are amended as necessary by the governing board. All appropriations (other than funds with multiyear budgets) lapse at year-end. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at

the object level for project ordinances. The City Manager is authorized to transfer appropriations within a fund; however the governing board must approve any revisions that alter total expenditures of any fund. Both the original and the amended budget ordinances as of June 30, 2013 are included in the financial statements.

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity

Deposits and investments

All deposits of the City, the ABC Board and the Redevelopment Commission are made in board-designated official depositories and are secured as required by G.S. 159-31. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the City and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law (G.S. 159-39(c)) authorizes the City, the ABC Board and the Redevelopment Commission to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The City, the ABC Board and the Redevelopment Commission's investments with a maturity of one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost. In accordance with State law, the City has invested in securities, which are callable, and which provide for periodic interest rate increases in specific increments until maturity. These investments are stated at fair value as determined by quoted market prices.

Cash and cash equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The City, the ABC Board and the Redevelopment Commission consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Ad valorem taxes receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on July 1, the beginning of the fiscal year. The taxes are due on September 1; however, interest does not accrue until the following January 6 (the lien date). These taxes are based on the assessed values as of January 1, 2012. As allowed by State law, the City has established a schedule of discounts that apply to taxes, which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowances for doubtful accounts

Allowances for doubtful accounts are maintained on all types of receivables, which historically experience uncollectible accounts.

Inventories

The internal service fund maintains all inventories unless it has been charged out to enterprise fund trucks. All inventories are valued at the lower of average cost or market. Governmental fund type inventories are charged to expenditures when purchased. The ABC Board values inventory at the lower of FIFO cost or market. The Redevelopment Commission maintains no inventory.

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used

Restricted Assets

Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Permanent fund restricted cash represents the nonspendable portion of the permanent fund. Utility customer deposits are also shown as restricted cash.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Purchased or constructed capital assets are recorded at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the donation date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	50
Buildings	30
Land Improvements	15
Vehicles	10
Equipment	5

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Assets</u>	<u>Years</u>
Buildings	35
Improvements	15
Equipment	5

The Morganton Redevelopment Commission has capital assets consisting of land only.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criterion, an unamortized loss on a bond defeasance for Water and Sewer Refunding bonds previously reported as a contra-liability. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has only two items that meet the criterion for this category – prepaid taxes and prepaid ticket sales.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the reporting period in which they are incurred. Prepaid insurance cost are expensed over the life of the debt.

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

Compensated absences

The vacation policy of the City and the ABC Board provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary related payments are recorded as the leave is earned.

Both the City and the ABC Board's sick leave policy provide for an unlimited accumulation of earned sick leave. Sick leave does not vest but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the City nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of four classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

Perpetual maintenance – Cemetery resources that are required to be retained in perpetuity for maintenance of the City's Cemetery.

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

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

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Morganton's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body. The formal action (a vote at a City Council meeting) the governing board would take to establish, modify or rescind a fund balance commitment would result in a change in City ordinance.

Committed for Canteen operations - portion of fund balance available for appropriation but segregated for canteen operations. It represents the balance of the total unexpended canteen funds.

Committed for Drug enforcement - portion of fund balance available for appropriation but segregated for drug enforcement. It represents the balance of total unexpended confiscated drug money.

Committed for Capital projects - portion of total fund balance available for appropriation which has been assigned by the governing board for future capital improvements.

Committed for Economic development - portion of fund balance assigned by the governing board for economic development.

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

It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The City of Morganton has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 15% of budgeted expenditures. Any portion of the general fund balance in excess of 15% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

I. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable are not due and payable in the current and therefore are not reported in the funds." The details of this \$6,978,992 difference are as follows:

Installment purchase payable	\$4,065,159
Other post employment benefits	1,573,805
Net pension obligation	614,577
Compensated absences	<u>725,451</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$6,978,992</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$2,516,025 difference are as follows:

Capital outlay	\$3,506,975
Depreciation expense	<u>(6,023,000)</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net position of governmental activities	<u>\$(2,516,025)</u>

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The details of this \$219,146 difference are as follows:

Debt issuance	(489,600)
Principal repayments:	
Installment purchase	<u>708,746</u>

Net adjustment to net changes in fund balances - total
Governmental funds to arrive at changes in net position of
Governmental activities \$219,146

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$129,289 difference are as follows:

Compensated Absences, Pension Obligation and OPEB	\$(138,614)
Accrued Interest	<u>9,325</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net position of Governmental activities	<u>\$(129,289)</u>

Another element of that reconciliation states that revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements. The details of this \$7,646 are as follows:

Recording of tax receipts deferred in the fund statements	<u>\$7,646</u>
Net adjustment to revenues	<u>\$7,646</u>

Another element of that reconciliation states that "The net revenue of certain activities of the internal service fund is reported with governmental activities."

Net adjustment to increase net changes in fund balances – total governmental funds to
arrive at changes in net position of governmental activities \$108,373

IV. Detail notes on all funds

A. Assets

Deposits

All of the City's, the ABC Board's and the Redevelopment Commission's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's, the ABC Board's or the Redevelopment Commission's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, the ABC Board and the Redevelopment Commission, these deposits are considered to be held by the City's, the ABC Board's and the Redevelopment Commission's

agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Unit or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board or the Redevelopment Commission under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City, ABC Board and Redevelopment Commission have no policy regarding outstanding risk for deposits.

At June 30, 2013, the City's deposits had a carrying amount of \$4,291,269 and a bank balance of \$5,655,964. Of the bank balance, \$250,000 was insured by federal depository insurance and \$5,405,964 was collateralized with securities held by the pledging financial institution in an escrow account in the name of the State Treasurer under the Pooling method of collateralization. The carrying amount of deposits for the ABC Board was \$170,202 and the bank balance was \$204,902. The bank balance was covered by an institution using the Pooling Method. The carrying amount of deposits for the Redevelopment Commission was \$62,712 and the bank balance was \$62,712. All of the bank balance was covered by Federal depository insurance.

Investments

At June 30, 2013 the City's investments were as follows:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1-3 Years
Commercial Paper	\$6,976,956	\$5,979,989	\$996,967	
US Government Agencies	4,005,195	4,005,195		
NC Capital Management Trust - Cash Portfolio	9,409,301	9,409,301		
NC Capital Management Trust- Term Portfolio	5,013,074	5,013,074		
Total:	\$25,404,526	\$24,407,559	\$996,967	

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy sets forth the following guidelines as part of its investment strategy.

Percent of portfolio under 270 days	up to 50%
Percent of portfolio under 1 year	up to 75%
Percent of portfolio under 3 years	up to 100%

The City's purchases securities with staggered maturity dates to compliment its cash flow strategy.

Credit Risk - The City's credit risk policy is imbedded in its investment policy. The City diversifies its investment portfolio to avoid incurring unreasonable risk inherent in over-investing in specific instruments, individual financial institutions or maturities. The City of Morganton has no other formal policy relating to the credit risk of investments and deposits.

Diversification by Instrument:	Percent of Portfolio
US Treasuries	up to 100%
US Government Agencies	up to 100%
Bankers Acceptances/Commercial Paper	up to 40%
Repurchase Agreements	up to 25%
Certificates of Deposit – Commercial Banks	up to 100%
Certificates of Deposit – Savings Banks	up to 25%
North Carolina Capital Management Trust	up to 50%

The City’s investment in the North Carolina Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor’s as of June 30, 2013. The City is authorized to invest in obligations of the US Government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Concentration of Credit Risk – The City places the following limits on the percentage that the City may invest in any one issuer:

Bankers Acceptances - No more than 25% of the total portfolio with any one institution.

Commercial Paper – No more than 25% of the total portfolio with any one issuer.

Repurchase Agreements – No more than 15% of the total portfolio with any one institution.

Certificates of Deposit–Commercial Banks – No more than 50% of the total portfolio with one institution.

Certificates of Deposit-Savings Banks – No more than 25% of the total portfolio with one institution.

North Carolina Capital Management Trust – No more than 50% of the total portfolio.

Other than stated above, the City of Morganton has no other formal policy relating to the credit risk of investments and deposits.

Receivables - allowance for doubtful accounts

The amount presented in the Balance Sheet and the Statement of Net Position is net of the following allowance for doubtful accounts:

General Fund:	
Allowance for uncollectible property taxes	\$155,831
Allowance for notes receivable	34,989
Allowance for revolving loans	198,971
Enterprise Funds:	
Allowance for uncollectible charges	<u>205,000</u>
Total	<u>\$594,791</u>

Receivables – net of allowances

Accounts receivable at June 30, 2013 was as follows at the government wide level:

<u>Accounts</u>	<u>Customers</u>	<u>Taxes</u>	<u>Total</u>
\$596,790	\$7,415,951	\$945,140	\$8,957,881

Capital assets

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

Primary Government:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$11,838,568		61,235	\$11,777,333
Capital assets being depreciated:				
Buildings	22,500,865	74,706	113,680	22,461,891
Equipment	22,634,667	856,468	2,475,196	21,015,939
Infrastructure	44,242,622			44,242,622
Total capital assets being depreciated	89,378,154	931,174	2,588,876	87,720,452
Less accumulated depreciation for:				
Buildings	16,201,354	632,613	111,172	16,722,795
Equipment	14,418,665	1,646,239	2,464,630	13,600,274
Infrastructure	32,639,239	1,094,037		33,733,276
Total accumulated depreciation	63,259,258	3,372,889	2,575,802	64,056,345
Total capital assets being depreciated, net	26,118,896	(2,441,715)	13,074	23,664,107
Governmental activity capital assets, net	\$37,957,464	(\$2,441,715)	\$74,309	\$35,441,440

Internal Service Fund:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$33,318			\$33,318
Capital assets being depreciated:				
Buildings	662,917			662,917
Equipment	871,070	112,253	129,412	853,911
Total capital assets being depreciated	1,533,987	112,253	129,412	1,516,828
Less accumulated depreciation for:				
Buildings	504,730	15,447		520,177
Equipment	682,329	44,862	129,412	597,779
Total accumulated depreciation	1,187,059	60,309	129,412	1,117,956
Total capital assets being depreciated, net	346,928	51,944		398,872
Internal service fund capital assets, net	\$380,246	\$51,944		\$432,190

Depreciation expense for governmental activities was charged to functions/programs as follows:

General Government	\$388,545
Public Safety	679,280
Transportation	1,263,991
Environmental Protection	194,063
Culture and Recreational	<u>847,010</u>
Total depreciation expense	<u>\$3,372,889</u>

Business-type activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Water Fund:				
Capital assets not being depreciated:				
Land	\$912,017			\$912,017
Capital assets being depreciated:				
Buildings	10,143,543		37,177	10,106,366
Plant and System	17,471,034	1,491,802		18,962,836
Equipment	2,580,311	910,361	75,558	3,415,114
Total capital assets being depreciated	<u>30,194,888</u>	<u>2,402,163</u>	<u>112,735</u>	<u>32,484,316</u>
Less accumulated depreciation for:				
Buildings	5,943,073	194,172	20,660	6,116,585
Plant and System	7,730,698	478,869		8,209,567
Equipment	1,730,117	272,600	75,558	1,927,159
Total accumulated depreciation	<u>15,403,888</u>	<u>945,641</u>	<u>96,218</u>	<u>16,253,311</u>
Total capital assets being depreciated, net	<u>14,791,000</u>	<u>1,456,522</u>	<u>16,517</u>	<u>16,231,005</u>
Water fund capital assets, net	<u>\$15,703,017</u>	<u>\$1,456,522</u>	<u>\$16,517</u>	<u>\$17,143,022</u>
Wastewater Fund:				
Capital assets not being depreciated:				
Land	\$14,067,068			\$14,067,068
Construction in Progress	1,237,252	4,978,351		6,215,603
Capital assets being depreciated:				
Buildings	4,072,991		173,582	4,246,573
Plant and System	18,357,111	795,100		19,152,211
Equipment	6,667,211	18,366	279,172	6,964,749
Total capital assets being depreciated	<u>29,097,313</u>	<u>813,466</u>	<u>452,754</u>	<u>29,458,025</u>
Less accumulated depreciation for:				
Buildings	2,960,682	73,364	173,582	2,860,464
Plant and System	10,383,618	473,851		10,857,469
Equipment	3,352,238	579,621	279,172	3,652,687
Total accumulated depreciation	<u>16,696,538</u>	<u>1,126,836</u>	<u>452,754</u>	<u>17,370,620</u>
Total capital assets being depreciated, net	<u>12,400,775</u>	<u>(313,370)</u>		<u>12,087,405</u>
Wastewater fund capital assets, net	<u>\$27,705,095</u>	<u>\$4,664,981</u>		<u>\$32,370,076</u>

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Electric Fund:				
Capital assets not being depreciated:				
Land	\$55,950			\$55,950
Capital assets being depreciated:				
Buildings	2,731,417			2,731,417
Plant and System	14,899,266	1,017,426	1,687,430	14,229,262
Equipment	5,040,079	15,022	657,012	4,398,089
Total capital assets being depreciated	22,670,762	1,032,448	2,344,442	21,358,768
Less accumulated depreciation for:				
Buildings	1,712,954	65,041		1,777,995
Plant and System	8,814,587	416,111	1,659,409	7,571,289
Equipment	2,930,471	225,846	657,011	2,499,306
Total accumulated depreciation	13,458,012	706,998	2,316,420	11,848,590
Total capital assets being depreciated, net	9,212,750	325,450	28,022	9,510,178
Electric fund capital assets, net	\$9,268,700	\$325,450	\$28,022	\$9,566,128

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Cable Fund:				
Capital assets not being depreciated:				
Land	\$5,586			\$5,586
Capital assets being depreciated:				
Buildings	793,076			793,076
Plant and System	11,277,684	120,313		11,397,997
Equipment	822,682		46,799	775,883
Total capital assets being depreciated	12,893,442	120,313	46,799	12,966,956
Less accumulated depreciation for:				
Buildings	403,321	20,604		423,925
Plant and System	8,200,276	226,856		8,427,132
Equipment	574,125	90,582	46,799	617,908
Total accumulated depreciation	9,177,722	338,042	46,799	9,468,965
Total capital assets being depreciated, net	3,715,720	(217,729)		3,497,991
Cable fund capital assets, net	\$3,721,306	(\$217,729)		\$3,503,577

Depreciation expense in the amount of \$3,117,515 was charged to business type activities.

Construction commitments

The City has one active construction project in the Wastewater fund. At year-end, the City's commitments with contractors are as follows:

<u>Vendor</u>	<u>Contract Price</u>	<u>Paid to Date</u>	<u>Remaining</u>
Wharton - Smith	\$8,747,000	\$4,321,709	\$4,425,291

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2013, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$11,000			\$11,000
Capital assets being depreciated:				
Buildings	77,980			77,980
Improvements	151,153			151,153
Equipment	150,819			150,819
Total capital assets being depreciated	<u>379,952</u>			<u>379,952</u>
Less accumulated Depreciation for:				
Buildings	77,980			77,980
Improvements	142,843	7,646		150,489
Equipment	120,563	2,200		122,763
Total accumulated depreciation	<u>341,386</u>	<u>9,846</u>		<u>351,232</u>
Total capital assets being depreciated, net	<u>38,566</u>	<u>(9,846)</u>		<u>28,720</u>
ABC Board capital assets, net	<u>\$49,566</u>	<u>\$(9,846)</u>		<u>\$39,720</u>

Activity for the Morganton Redevelopment Commission for the year ended June 30, 2013, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$1,067,840			\$1,067,840

B. Liabilities

Pension plan obligations

1. Local Government Employees' Retirement System

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

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement and law enforcement officers is 6.74% and 6.77% of annual covered payroll. The contribution requirements of members and of the City of Morganton and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2013, 2012 and 2011 were \$553,287, \$548,104, and \$560,543 respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$12,235, \$13,167, and \$11,683 respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

2. Law Enforcement Officers Special Separation Allowance

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

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	11
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>61</u>
Total	<u>72</u>

As the plan is not funded, a separate report was not issued.

Summary of Significant Accounting Policies -

BASIS OF ACCOUNTING - The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

METHOD USED TO VALUE INVESTMENTS - No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions - The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2012 was 18 years.

ANNUAL PENSION COST AND NET PENSION OBLIGATION - The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 152,718
Interest on net pension obligation	(1,993)
Adjustment to annual required contribution	<u>2,480</u>
Annual pension cost	153,205
Contributions made for fiscal year ended	
6-30-13	<u>158,261</u>
Increase (decrease) in net pension	(5,056)
Obligation	
Net pension obligation beginning of year	<u>619,633</u>
Net pension obligation end of year	<u>\$614,577</u>

3 YEAR TREND INFORMATION

<u>Fiscal</u>	<u>Annual Pension</u>	<u>Percentage of</u>	<u>Net Pension</u>
<u>Year Ended</u>	<u>Cost (APC)</u>	<u>APC Contributed</u>	<u>Obligation</u>
6/30/11	\$171,846	121.58%	\$627,438
6/30/12	\$153,117	105.10%	\$619,633
6/30/13	\$153,205	103.30%	\$614,577

Funding Status and Funding Progress

As if December 31, 2012, the most recent actuarial valuation dates, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$1,544,433. The covered payroll (annual payroll of active employees covered by the plan) was \$2,552,762, and the ratio of the UAAL to the covered payroll was 60.50 percent.

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

3. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description - The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees.

The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or calling (919) 981-5454.

Funding Policy - Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$334,233, which consisted of \$177,434 from the City and \$156,799 from the law enforcement officers.

Deferred Compensation Plan

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are administered by Nationwide Retirement Solutions and the International City Management Association, respectively. The Plans, available to all City employees, permit them to defer a portion of their salary until future years.

The City has complied with changes in the laws which govern the City's Deferred Compensation Plan, requiring all assets of the plan to be held in trust for the exclusive benefit of the participants and their beneficiaries. Formerly, the undistributed amounts, which had been deferred by the plan participants, were required to be reported as assets of the City. In accordance with GASB Statement No. 32, the City's deferred compensation plan is no longer reported within the City's agency funds.

Other Post-Employment Health Care Benefits

Per a 1998 City Council approved policy; the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of the City. How much the City will pay for basic medical insurance for all retirees is based on years of service. The City's contributions are financed on a pay-as-you-go basis. The policy provides for termination of this benefit upon thirty days notice. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation.

Retirees and dependents receiving benefits	55
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	
Law Enforcement Officers	59
Firefighters	17
General Employees	<u>198</u>
Total	<u>329</u>

The following schedule became effective July 1, 1997:

<u>Years of service with the City of Morganton</u>	<u>% of Retiree Health Insurance the City Pays</u>
20 or more years of service	100%
10 to 19.99 years of service	50%
5 to 9.99 years of service	0%
Disability retirement	100%

The City's contribution will cease when the retiree reaches age 65.

Postemployment expenditures are made from the general fund as well as the enterprise funds, all of which are maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. For the year ended June 30, 2013, the alternative measurement method was used to calculate the annual required contribution. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 988,517
Interest on net OPEB obligation	80,472
Adjustment to annual required contribution	<u>76,875</u>
Annual OPEB cost (expense)	\$ 992,114
Contributions made for year ended 6/30/13	<u>654,940</u>
Increase (decrease) in net OPEB obligation	\$ 337,174
Net OPEB obligation, beginning of year	<u>2,011,788</u>
Net OPEB obligation, end of year	<u>\$2,348,962</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$1,172,305	50%	1,502,456
2012	\$1,213,190	58%	2,011,788
2013	\$992,114	66%	2,348,962

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and thus, the unfunded actuarial liability (UAAL) was \$11,915,941. The covered payroll (annual payroll of active employees covered by the plan) was \$10,602,247 and the ratio of the UAAL to the covered payroll was 112.4%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions.

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

In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 8.50 to 5.00 percent annually. The investment rate included at 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012, was 30 years.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources is the deferred amount for loss on defeasance of debt \$77,372.

Deferred inflows of resources at year-end is comprised of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable (net)	\$105,149	
Advance ticket sales	\$158,213	\$158,213
Prepaid taxes	<u>\$30,012</u>	<u>\$30,012</u>
Total	<u>\$293,374</u>	<u>\$188,225</u>

Risk Management

The City and the ABC Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits.

The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The City carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. With the recent occurrences of flooding in various parts of North Carolina, flood risk management is a concern. To mitigate this concern the City of Morganton has obtained flood insurance coverage.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000 each.

The City of Morganton and ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage's. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years and there has been no significant reduction in insurance coverage in the prior year.

Claims, Judgments and Contingent Liabilities

At June 30, 2013, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

Long-Term Obligations

Construction loan – The City has received approval for a \$11,428,456 clean water revolving loan. To date the City has borrowed \$6,215,602 as a construction loan. No principal payments are due until completion of the project. The interest rate is 2.0%. The amount borrowed to date of \$6,215,602 is shown as a non-current liability in the financial statements. Since the completion date of the project is uncertain the annual debt service requirements is not being presented.

The City's general obligation bonds serviced by the governmental funds were issued to finance the construction of facilities utilized in the operations of the water and wastewater systems and which are being retired by its resources are reported as long-term debt in the Water and Wastewater Funds. All installment purchase notes payable issued are being retired by their resources and are reported as long-term debt in the Water, Wastewater, Electric and General Funds. All bonds are collateralized by the faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Installment Purchase Obligations

In November 2007, the City entered into an installment purchase contract to finance the purchase of the City Hall Building. The agreement was to borrow \$3,339,700 for 16 years at an interest rate of 3.93%. The loan was refinanced during fiscal year 2010-2011; the new interest rate is 3.49%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$415,626 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	222,647	80,938
2015	222,647	72,188
2016	222,647	63,438
2017	222,647	54,688
2018	222,647	45,937
2019-2023	<u>1,001,908</u>	<u>98,437</u>
Present value of the minimum Lease payments	<u>\$2,115,143</u>	
Total interest payments		<u>\$415,626</u>

In July 2008, the City entered into an installment purchase contract to finance Catawba Meadows park improvements. \$1,390,000 was borrowed for 10 years at an interest rate of 3.55%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$103,998 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	139,000	29,714
2015-2019	<u>695,000</u>	<u>74,284</u>
Present value of the minimum Lease payments	<u>\$834,000</u>	
Total interest payments		<u>\$103,998</u>

In November 2008, the City entered into an installment purchase contract to finance a fire truck. \$382,147 was borrowed for 7 years at an interest rate of 3.45%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$7,660 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	62,132	4,702
2015	64,303	2,531
2016	<u>32,989</u>	<u>427</u>
Present value of the minimum Lease payments	<u>\$159,424</u>	
Total interest payments		<u>\$7,660</u>

In November 2008, the City entered into an installment purchase contract to finance a rescue and light apparatus (air van). \$267,853 was borrowed for 7 years at an interest rate of 3.45%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$5,369 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	43,549	3,296
2015	45,071	1,774
2016	<u>23,123</u>	<u>299</u>
Present value of the minimum		
Lease payments	<u>\$111,743</u>	
Total interest payments		<u>\$5,369</u>

In December 2010, the City entered into an installment purchase contract to finance Public Safety vehicles. \$196,540 was borrowed for 3 years at an interest rate of 2.03%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$538 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	<u>55,594</u>	<u>538</u>
Present value of the minimum		
Lease payments	<u>\$55,594</u>	
Total interest payments		<u>\$538</u>

In January 2012, the City entered into an installment purchase contract to finance Public Safety vehicles. \$220,540 was borrowed for 3 years at an interest rate of 1.77%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$2,982 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	73,842	2,149
2015	<u>75,157</u>	<u>833</u>
Present value of the minimum		
Lease payments	<u>\$148,999</u>	
Total interest payments		<u>\$2,982</u>

In January 2012, the City entered into an installment purchase contract to finance a garbage truck. \$224,000 was borrowed for 3 years at an interest rate of 1.74%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$2,975 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	74,947	2,144
2015	<u>76,259</u>	<u>831</u>
Present value of the minimum		
Lease payments	<u>\$151,206</u>	
Total interest payments		<u>\$2,975</u>

In February 2013, the City entered into an installment purchase contract to finance a HVAC system upgrade for the CoMMA. \$255,000 was borrowed for 5 years at an interest rate of 1.54%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$11,173 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	48,872	4,363
2015	50,350	2,884
2016	51,130	2,105
2017	51,922	1,313
2018	<u>52,726</u>	<u>508</u>

Present value of the minimum

Lease payments	<u>\$255,000</u>	
Total interest payments		<u>\$11,173</u>

In February 2013, the City entered into an installment purchase contract to finance Public Safety vehicles. \$234,600 was borrowed for 3 years at an interest rate of 1.29%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$5,506 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	76,828	3,207
2015	78,378	1,657
2016	<u>79,394</u>	<u>642</u>

Present value of the minimum

Lease payments	<u>\$234,000</u>	
Total interest payments		<u>\$5,506</u>

In July 2008, the City entered into an installment purchase contract to finance Catawba Meadows electric improvements. \$110,000 was borrowed for 10 years at an interest rate of 3.55%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$7,827 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	11,000	2,236
2015-2019	<u>55,000</u>	<u>5,591</u>

Present value of the minimum

Lease payments	<u>\$66,000</u>	
Total interest payments		<u>\$7,827</u>

In December 2008, the City entered into an installment purchase contract to finance a generator for the Waste Treatment Plant. \$590,000 was borrowed for 4.5 years at an interest rate of 3.53%.

The future minimum payments of the installment purchase as of June 30, 2013 including \$1,048 of interest are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	<u>70,995</u>	<u>1,048</u>
Present value of the minimum Lease payments	<u>\$70,995</u>	
Total interest payments		<u>\$1,048</u>

In December 2010, the City entered into an installment purchase contract to finance a bucket truck for the Electric Department. \$80,000 was borrowed for 4 years at an interest rate of 2.32%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$1,269 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	19,117	847
2015	<u>24,534</u>	<u>422</u>
Present value of the minimum Lease payments	<u>\$43,651</u>	
Total interest payments		<u>\$1,269</u>

In May 2012, the City entered into an installment purchase contract to finance a water filter media project for the Water Department. \$1,700,000 was borrowed for 10 years at an interest rate of 2.08%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$201,198 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	170,000	42,078
2015	170,000	31,824
2016	170,000	28,288
2017	170,000	24,752
2018-2022	850,000	7,072
2023	<u>170,000</u>	<u>3,536</u>
Present value of the minimum Lease payments	<u>\$1,700,000</u>	
Total interest payments		<u>\$201,198</u>

In October 2012, the City entered into an installment purchase contract to finance a generator for the Water Department. \$850,000 was borrowed for 4 ½ years at an interest rate of 1.67%.

The future minimum payments of the installment purchase as of June 30, 2013, including \$41,651 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	177,719	20,426
2015	188,092	10,053
2016	191,252	6,892
2017	194,466	3,679
2018	<u>98,471</u>	<u>601</u>
Present value of the minimum Lease payments	<u>\$850,000</u>	
Total interest payments		<u>\$41,651</u>

General obligation bonds

The City's general obligation bonds serviced by business type activities were issued to finance the construction of facilities utilized in the operations of the water and sewer systems and which are being retired by their resources are reported as long-term debt in the Water and Sewer Funds. All general obligation bonds are collateralized by the full faith, and credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2013 is comprised of the following individual issue:
 \$11,995,000, 2003 water and sewer refunding bonds due in annual installments ranging from \$425,000 to \$1,365,000 through June 1, 2015; interest at 2.0% to 4.0%.

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2014	1,225,000	66,000
2015	425,000	17,000
Total	<u>\$1,650,000</u>	<u>\$83,000</u>

Debt Margin

At June 30, 2013, the City of Morganton had a legal debt margin of \$131,736,040.

Changes in long-term liabilities:

	Balance			Balance 30-Jun-13	Current
	30-Jun-12	Increases	Decreases		Portion of Balance
Governmental activities:					
Installment purchase	\$4,284,305	\$489,600	\$708,746	\$4,065,159	\$797,410
Compensated absences	766,251	412,482	415,135	763,598	398,998
Other postemployment benefits	1,508,841	142,176		1,651,017	
Net pension obligation	619,633		5,056	614,577	
Governmental activity long-term liabilities	<u>7,179,030</u>	<u>1,044,258</u>	<u>1,128,937</u>	<u>7,094,351</u>	<u>1,196,408</u>
Business-type activities:					
General obligation bonds	\$2,895,000		\$1,245,000	\$1,650,000	\$1,225,000
Installment purchase	2,048,836	850,000	168,190	2,730,646	448,831
Clean Water Revolving loan		6,215,602		6,215,602	
Other postemployment benefits	502,947	194,998		697,945	
Compensated absences	249,651	172,903	155,563	266,991	116,873
Business-type activity long-term liabilities	<u>5,696,434</u>	<u>7,433,503</u>	<u>1,568,753</u>	<u>11,561,184</u>	<u>1,790,704</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$38,147 of internal service funds compensated absences are included in the above amounts. At year-end \$77,212 of internal service funds OPEB obligations are included in the above amounts. Also, for governmental activities, compensated absences, net pension obligations and net other postemployment benefit obligations are generally liquidated by the general fund.

C. Interfund Balances (Due to/Due from) and Activity

Interfund receivables and payables (due to's and due from's) in the fund financial statements at June 30, 2013 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from Cable fund	\$2,701,282	
Cable fund - payable to Electric fund		<u>\$2,701,282</u>
Total interfund receivables and payables	<u>\$2,701,282</u>	<u>\$2,701,282</u>

The outstanding balances between funds result mainly from working capital loans made to other funds which are expected to be reimbursed in the subsequent year.

Transfers are used for various reasons. In the year ended June 30, 2013 transfers were used to:

- Subsidize the general fund to forestall a significant property tax increase:
- Reimburse inter-departmental costs shared by more than one enterprise

A summary of interfund transfers by fund for the year ended June 30, 2013 is as follows:

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$668,562	
From Water Fund	20,000	
From Economic Development Fund	167,500	
From Cable Fund	35,713	
To Economic Development Fund		<u>22,600</u>
Total	<u>891,775</u>	<u>22,600</u>
Economic Development Fund:		
From Cable Fund	71,425	
From General Fund	22,600	
To General Fund		<u>167,500</u>
Total	<u>94,025</u>	<u>167,500</u>

Water Fund :		
To General Fund	_____	<u>20,000</u>
Total	_____	<u>20,000</u>
Cable Fund:		
To Electric Fund		147,953
To Economic Development Fund		71,425
To General Fund	_____	<u>35,713</u>
Total	_____	<u>255,091</u>
Electric Fund :		
From Cable Fund	147,953	
To General Fund	_____	<u>668,562</u>
Total	<u>147,953</u>	<u>668,562</u>
Grand Totals	<u>\$1,133,753</u>	<u>\$1,133,753</u>

Prior Period Adjustment

The U.S. Environmental Protection Agency determined that \$1,237,251 of prior year costs could be charged to the grant. The effect was to change beginning net position and construction in progress in the Wastewater fund.

Fund Balance

The following schedule provides management and citizens with information on the portion of general fund balance that is available for appropriation:

Total fund balance – general fund	\$12,038,708
Less:	
Stabilization by state statue	(1,543,805)
Streets – Powell bill	(1,066,332)
Economic development	(1,455,866)
Capital projects	(3,173,780)
Canteen operations	(4,625)
Drug enforcement	(91,472)
Working capital/fund balance policy	<u>(2,992,917)</u>
Remaining fund balance	<u>\$1,709,911</u>

The City of Morganton has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to or greater than 15% of budgeted expenditures.

Subsequent Events

Subsequent events have been evaluated through October 15, 2013 which is the date the financial statements

Stewardship, Compliance and Accountability:

Excess Expenditures

For the year ended June 30, 2013 expenditures exceeded appropriations as follows:

General Fund:		
	Community House	\$ 7,699
	Debt Service	64,328
Cable Fund:		
	Budgetary Appropriations	27,245
Wastewater:		
	Budgetary Appropriations	293,735

These over expenditures were not material to the financial statements and were approved subsequent to year-end.

Federal and State Assisted Programs

The City has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies.

Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

I. Jointly Governed Organization

The City, in conjunction with twenty other local governments, is a member of the North Carolina Municipal Power Agency #1 (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The twenty-one members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2013 were \$28,316,201.

The City, in conjunction with twenty-six other local governments, established the Western Piedmont Council of Governments (WPCOG). The participating governments established the WPCOG to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the WPCOG'S governing board. The City paid membership fees of \$16,140 to WPCOG during the fiscal year ended June 30, 2013.

II. Joint Ventures:

The City, in conjunction with the City of Lenoir, Burke County and Caldwell County, participates in a regional airport. Each participating government appoints members to the board. The Airport is a joint venture established to facilitate economic expansion within the area and improve the quality of life for its citizens. The Airport has been in existence for fifty years, but it is not self-sustaining. The City has an ongoing financial responsibility for the Airport because it and the County are legally obligated under the intergovernmental agreement that created the Airport to honor any deficiencies in the event that proceeds from other default remedies are insufficient. The City contributed \$27,491 to

the Airport during the fiscal year ended June 30, 2013. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2013. Complete financial statements for the Airport can be obtained from the Airport's administrative offices at 305 East Union Street, City of Morganton, NC. 28655.

VI. Related Organization

The mayor of the City of Morganton appoints the five-member board of the City of Morganton Housing Authority. The City is accountable for the Housing Authority because it appoints the governing board; however, the City is not financially accountable for the Housing Authority. The City makes no financial contributions to the Authority. The City of Morganton is also disclosed as a related organization in the notes to the financial statements for the Morganton Housing Authority.

VII. Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
LAW ENFORCEMENT OFFICERS SPECIAL SEPARATION ALLOWANCE
SCHEDULE OF FUNDING PROGRESS

	Actuarial Accrued Liability (AAL)						
Actuarial Valuation Date	Value of Assets (a)	Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b - a) / c)	
12-31-12	\$- 0 -	\$1,544,433	\$1,544,433	0.00%	\$2,552,762	60.50%	
12-31-11	- 0 -	1,510,264	1,510,264	0.00%	2,582,327	58.48%	
12-31-10	- 0 -	1,560,115	1,560,115	0.00%	2,707,611	57.62%	
12-31-09	- 0 -	1,863,956	1,863,956	0.00%	2,690,412	69.28%	
12-31-08	- 0 -	1,639,390	1,639,390	0.00%	3,014,309	54.39%	
12-31-07	- 0 -	1,556,859	1,556,859	0.00%	2,558,119	60.87%	

CITY OF MORGANTON
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2011	171,846	121.58%
2012	153,117	105.10%
2013	153,205	103.30%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/12
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.25% - 7.85%
Includes inflation at	3.00%
Cost-of-living adjustments	None

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

	Actuarial Accrued Liability (AAL)		Unfunded	Funded	Covered	UAAL as a % of Covered Payroll
Actuarial Valuation Date	Value of Assets (a)	Projected Unit Credit (b)	AAL (UAAL) (b - a)	Ratio (a / b)	Payroll (c)	(b - a) / c
12-31-05	- 0 -	8,573,522	8,573,522	0.00%	9,843,896	87.1%
12-31-07	- 0 -	10,919,744	10,919,744	0.00%	10,858,443	100.6%
12-31-10	- 0 -	14,022,125	14,022,125	0.00%	11,160,151	125.6%
12-31-12	- 0 -	11,915,941	11,915,941	0.00%	10,602,247	112.4%

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended <u>June 30.</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2011	1,172,305	50.00%
2012	1,213,190	58.00%
2013	992,114	66.00%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/12
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	4.0%
Medical cost trend rate	8.50% - 5.00%
Year of Ultimate trend rate	2018
Includes inflation at	3.00%

CITY OF MORGANTON
ECONOMIC DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>			Variance Favorable (Unfavorable)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest earned			\$1,414	\$1,414
Total revenues			<u>1,414</u>	<u>1,414</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	190,100	190,100		(190,100)
Transfers	<u>190,100</u>	<u>190,100</u>	<u>(73,475)</u>	
Total other financing sources (uses)	<u>Nil</u>	<u>Nil</u>	<u>(73,475)</u>	<u>(190,100)</u>
Net change in fund balance		<u>Nil</u>	<u>(72,061)</u>	<u>(188,686)</u>
Fund balances - beginning			<u>1,527,927</u>	
Fund balances - ending			<u><u>\$1,455,866</u></u>	

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

CITY OF MORGANTON
CDBG ENTITLEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Years</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total To</u> <u>Date</u>
REVENUES				
Restricted intergovernmental revenues - community development block grants	\$3,253,395	\$3,049,131	\$87,700	\$3,136,831
Program income	295,330	99,071	35,986	135,057
Total revenues	<u>3,548,725</u>	<u>3,148,202</u>	<u>123,686</u>	<u>3,271,888</u>
EXPENDITURES				
Economic and physical development				
Land acquisition	304,673	171,423		171,423
Rehabilitation	309,423	525,117		525,117
Construction	230,629	501,087		501,087
Administration	565,550	500,324	29,335	529,659
Credit counseling	32,253	32,253		32,253
Deposit assistance	19,162	19,162		19,162
Grant assistance	370,450	318,796	19,700	338,496
Interest expense	133,109	119,500		119,500
Small business loan	518,916	215,045	70,000	285,045
Section 108 loan repayment	380,000	375,000		375,000
Total expenditures	<u>2,761,040</u>	<u>2,777,707</u>	<u>119,035</u>	<u>2,896,742</u>
Excess of revenues over (under) expenditures	<u>360,078</u>	<u>370,495</u>	<u>4,651</u>	<u>375,146</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds - Section 108	375,000	375,000		375,000
Paid to State of North Carolina	(49,989)	(49,989)		0
Transfers from general fund	3,439	3,439		3,439
Transfer to electric fund	(8,331)	(8,331)		0
Transfer to cable fund	(16,960)	(16,960)		0
Transfer to component unit				
Redevelopment commission	(663,237)	(663,237)		(663,237)
Total other financing sources (uses)	<u>(360,078)</u>	<u>(\$360,078)</u>		<u>(\$284,798)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	<u>\$4,651</u>	<u>Nil</u>
Fund balances - beginning			<u>\$13,580</u>	
Fund balances - ending			<u>\$18,231</u>	

CITY OF MORGANTON
CEMETARY PERPETUAL CARE PERMANENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013			Variance Favorable (Unfavorable)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales and services:				
New cemetery lot sales	\$10,000	\$10,000	\$11,750	\$1,750
Cemetery lot marker service	200	200	1,846	1,646
Total	<u>10,200</u>	<u>10,200</u>	<u>13,596</u>	<u>3,396</u>
Investment earnings - interest earned	2,625	2,625	1,574	(1,051)
Total revenues	<u>12,825</u>	<u>12,825</u>	<u>15,170</u>	<u>2,345</u>
EXPENDITURES				
Cemetery improvements and reimbursement	<u>12,825</u>	<u>12,825</u>		<u>12,825</u>
Excess of revenues over expenditures			<u>15,170</u>	<u>15,170</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	10,000	10,000		(10,000)
Transfer to general fund	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>
Total other financing sources (uses)			<u>(10,000)</u>	<u>(10,000)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	5,170	<u>5,170</u>
Fund balances - beginning			<u>\$335,789</u>	
Fund balances - ending			<u>\$340,959</u>	

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	5,500	20,842	15,342
Water rents	4,389,000	4,624,283	235,283
Penalties	58,645	54,663	(3,982)
Water taps	44,000	41,570	(2,430)
Reconnect fees	12,000	12,725	725
Rental income	243,000	266,836	23,836
Total	<u>4,752,145</u>	<u>5,020,919</u>	<u>268,774</u>
Nonoperating revenues (expenditures) :			
Interest on investments	27,915	18,887	(9,028)
Miscellaneous	5,400	9,260	3,860
Interest expenditures	(24,318)	(24,268)	50
Total	<u>8,997</u>	<u>3,879</u>	<u>(5,118)</u>
Total revenues	<u>4,761,142</u>	<u>5,024,798</u>	<u>263,656</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		982,394	
Operating expenditures		2,723,907	
Total	<u>3,871,713</u>	<u>3,706,301</u>	<u>165,412</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$261,450	\$261,500	(\$50)
Capital outlay	3,174,860	2,402,213	772,647
Total budgetary appropriations	<u>3,436,310</u>	<u>2,663,713</u>	<u>772,597</u>
Total expenditures	<u>7,308,023</u>	<u>6,370,014</u>	<u>938,009</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,546,881)</u>	<u>(1,345,216)</u>	<u>1,201,665</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	1,666,881		(1,666,881)
Installment purchase proceeds	900,000	850,000	(50,000)
Operating transfers - in (out) :			
To General Fund	(20,000)	(20,000)	
Total other financing sources (uses)	<u>2,546,881</u>	<u>830,000</u>	<u>(1,716,881)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$515,216)</u>	<u>(\$515,216)</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

RECONCILIATION FROM BUDGETARY BASIS
(MODIFIED ACCRUAL) TO FULL ACCRUAL:

Revenues and Other Sources Over (Under)	
Expenditures and Other Uses	(\$515,216)

Reconciling items:

Capital outlays	2,402,163	
Debt principal	261,500	
Increase in accrued vacation pay	(3,061)	
Increase in OPEB	(73,953)	
Depreciation	(945,640)	
Loss on sale of assets	(16,517)	
Amortization of deferred charge on refunding	(16,248)	
Installment purchase proceeds	(850,000)	
Bad debts	(17,153)	741,091
	<u> </u>	<u> </u>

Change in Net Position	<u><u>\$225,875</u></u>
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CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$6,500	\$7,149	\$649
Sewer rents	4,419,100	4,902,510	483,410
Late payment penalties	48,540	40,720	(7,820)
Sewer taps	13,000	8,500	(4,500)
Septage revenue	21,100	21,500	400
Sale of sludge	10,000	8,515	(1,485)
	<u>4,518,240</u>	<u>4,988,894</u>	<u>470,654</u>
Nonoperating revenues (expenditures) :			
Interest earned	18,506	6,906	(11,600)
Miscellaneous	12,200	2,159	(10,041)
Interest expenditures	(97,057)	(97,066)	(9)
	<u>(66,351)</u>	<u>(88,001)</u>	<u>(21,650)</u>
Total revenues	<u>4,451,889</u>	<u>4,900,893</u>	<u>449,004</u>
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,169,005	
Operating expenditures		1,215,004	
		<u>2,384,009</u>	
Total wastewater treatment	<u>2,810,147</u>	<u>2,384,009</u>	<u>426,138</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$1,122,061	\$1,122,011	\$50
Capital outlay	519,681	813,466	(293,785)
Total budgetary appropriations	<u>1,641,742</u>	<u>1,935,477</u>	<u>(293,735)</u>
Total expenditures	<u>4,451,889</u>	<u>4,319,486</u>	<u>132,403</u>
REVENUES OVER (UNDER) EXPENDITURES		<u>581,407</u>	<u>581,407</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	1,533,507		(1,533,507)
Operating transfers - in (out) :			
To Economic Development Fund	<u>(1,533,507)</u>		<u>1,533,507</u>
Total other financing sources (uses)			
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$581,407</u>	<u>\$581,407</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

RECONCILIATION FROM BUDGETARY BASIS
(MODIFIED ACCRUAL) TO FULL ACCRUAL:

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$581,407
Reconciling items:		
Capital outlays	813,466	
Debt principal	1,122,011	
Decrease in accrued vacation pay	4,909	
Increase in OPEB	(47,092)	
Depreciation	(1,126,835)	
Amortization of deferred charge on refunding	(61,125)	
Bad debts	(12,338)	692,996
Change in Net Position (before prior period adjustment)		<u>1,274,403</u>

CITY OF MORGANTON
WASTEWATER CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual			Variance
		Prior Years	Current Year	Total To Date	
EXPENDITURES					
Administration	40,000		22,592	22,592	17,408
Engineering	2,641,456	1,237,251	493,096	1,730,347	911,109
Construction	8,747,000		4,462,663	4,462,663	4,284,337
Total expenditures	<u>11,428,456</u>	<u>1,237,251</u>	<u>4,978,351</u>	<u>6,215,602</u>	<u>5,212,854</u>
Revenues over (under) expenditures	<u>(11,428,456)</u>	<u>(1,237,251)</u>	<u>(4,978,351)</u>	<u>(6,215,602)</u>	<u>5,212,854</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds - NC Clean Water	<u>11,428,456</u>		<u>6,215,602</u>	<u>6,215,602</u>	<u>(5,212,854)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>(1,237,251)</u>	<u>\$1,237,251</u>		

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$858,371	\$476,737	(\$381,634)
Sale of power	31,147,198	31,404,601	257,403
Late payment penalties	310,000	280,521	(29,479)
Security light rental	512,400	524,147	11,747
Street lighting	74,000	74,000	
Reconnection fees	45,000	37,625	(7,375)
Pole rental	15,000	10,904	(4,096)
Total	<u>32,961,969</u>	<u>32,808,535</u>	<u>(153,434)</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(3,893)	(3,894)	(1)
Interest earned	26,088	20,370	(5,718)
Cash over (short)		(216)	(216)
Miscellaneous	27,500	4,877	(22,623)
Total	<u>49,695</u>	<u>21,137</u>	<u>(28,558)</u>
Total revenues	<u>33,011,664</u>	<u>32,829,672</u>	<u>(181,992)</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,265,087	
Operating expenditures		1,569,372	
Purchases of power		28,316,201	
Total	<u>31,318,794</u>	<u>31,150,660</u>	<u>168,134</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$29,680	\$29,680	
Capital Outlay	<u>1,172,125</u>	<u>1,032,448</u>	<u>\$139,677</u>
Total budgetary appropriations	<u>1,201,805</u>	<u>1,062,128</u>	<u>139,677</u>
Total expenditures	<u>32,520,599</u>	<u>32,212,788</u>	<u>307,811</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>491,065</u>	<u>616,884</u>	<u>125,819</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	29,544		(29,544)
Operating transfers - in (out) :			
From Cable Fund	147,953	147,953	
To General Fund	<u>(668,562)</u>	<u>(668,562)</u>	
Total other financing sources (uses)	<u>(491,065)</u>	<u>(520,609)</u>	<u>(29,544)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$96,275</u>	<u>\$96,275</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

RECONCILIATION FROM BUDGETARY BASIS
(MODIFIED ACCRUAL) TO FULL ACCRUAL:

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$96,275
Reconciling items:		
Capital outlays	1,032,448	
Debt principal	29,680	
Decrease in accrued vacation pay	(13,429)	
Increase in OPEB	(73,953)	
Depreciation	(706,998)	
Loss on sale of assets	(28,022)	
Bad debts	(84,324)	155,402
Change in Net Position		\$251,677

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$50,000	\$28,176	(\$21,824)
Studio revenues	1,800	1,795	(\$5)
Telephone revenues	293,840	321,625	\$27,785
Internet revenues	935,000	966,872	\$31,872
Cable rents	<u>3,030,000</u>	<u>2,940,802</u>	<u>(\$89,198)</u>
Total	<u>4,310,640</u>	<u>4,259,270</u>	<u>(51,370)</u>
Nonoperating revenues (expenditures) :			
Penalties	75,000	77,204	2,204
Reconnect fees	20,000	18,855	(1,145)
Ad sales	72,000	69,097	(2,903)
Bad check charges	2,500	1,760	(740)
Miscellaneous revenue	<u>15,000</u>	<u>32,789</u>	<u>17,789</u>
Total	<u>184,500</u>	<u>199,705</u>	<u>15,205</u>
Total revenues	<u>4,495,140</u>	<u>4,458,975</u>	<u>(36,165)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		452,265	
Operating expenditures		<u>3,615,619</u>	
Total cable operations and maintenance	<u>4,146,982</u>	<u>4,067,884</u>	<u>79,098</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Capital outlay	<u>\$93,067</u>	<u>\$120,312</u>	<u>(\$27,245)</u>
Total budgetary appropriations	<u>93,067</u>	<u>120,312</u>	<u>(27,245)</u>
Total expenditures	<u>4,240,049</u>	<u>4,188,196</u>	<u>51,853</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>255,091</u>	<u>270,779</u>	<u>15,688</u>
OTHER FINANCING SOURCES (USES) :			
Operating transfers - in (out) :			
To General Fund	(35,713)	(35,713)	
To Economic Development Fund	(71,425)	(71,425)	
To Electric Fund	<u>(147,953)</u>	<u>(147,953)</u>	
Total other financing sources (uses)	<u>(255,091)</u>	<u>(255,091)</u>	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$15,688</u>	<u>\$15,688</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

RECONCILIATION FROM BUDGETARY BASIS
(MODIFIED ACCRUAL) TO FULL ACCRUAL:

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$15,688
Reconciling items:		
Capital outlays	120,312	
Increase in accrued vacation pay	(5,759)	
Depreciation	(338,042)	
Bad debts	(21,622)	(245,111)
	<u> </u>	<u> </u>
Change in Net Position		<u><u>(\$229,423)</u></u>

CITY OF MORGANTON
IRMS, WAREHOUSE AND GARAGE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES - FINANCIAL PLAN AND ACTUAL
(NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013		
	Financial Plan	Actual	Variance
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	482,295	482,295	
Electric Fund	82,258	82,258	
Water Fund	58,465	58,465	
Wastewater Fund	39,271	39,271	
Cable Fund	89,711	89,711	
Total	<u>752,000</u>	<u>752,000</u>	
Warehouse :			
General Fund sales	30,000	24,856	(5,144)
Electric Fund sales	200,000	496,733	296,733
Water Fund sales	35,000	63,519	28,519
Wastewater Fund sales	2,000	1,104	(896)
Cable Fund sales	20,000	23,024	3,024
Total	<u>287,000</u>	<u>609,236</u>	<u>322,236</u>
Garage :			
General Fund sales	171,000	171,882	882
Electric Fund sales	17,000	20,939	3,939
Water Fund sales	6,500	10,644	4,144
Wastewater Fund sales	10,000	8,366	(1,634)
Cable Fund sales	6,500	8,518	2,018
IRMS sales	500		(500)
Sale of fuel	580,000	491,643	(88,357)
Total	<u>791,500</u>	<u>711,992</u>	<u>(79,508)</u>
Total operating revenues	<u>1,830,500</u>	<u>2,073,228</u>	<u>242,728</u>
Nonoperating revenues :			
Sale of materials		3,900	3,900
Total revenues	<u>1,830,500</u>	<u>2,077,128</u>	<u>246,628</u>

CITY OF MORGANTON
IRMS, WAREHOUSE AND GARAGE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES - FINANCIAL PLAN AND ACTUAL
(NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>2013</u>		
	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$296,164	
Operating expenditures		322,930	
		<hr/>	
Total IRMS	808,000	619,094	188,906
		<hr/>	
Warehouse :			
Salaries and employee benefits		118,071	
Operating expenditures		37,425	
Purchases of inventory		537,306	
Pro rata administrative services		(158,572)	
		<hr/>	
Total warehouse	562,000	534,230	27,770
		<hr/>	
Garage :			
Salaries and employee benefits		207,098	
Operating expenditures		70,016	
Purchases of inventory		205,959	
Purchases of fuel		501,993	
Pro rata administrative services		(285,933)	
		<hr/>	
Total garage	791,500	699,133	92,367
		<hr/>	
Budgetary appropriations :			
Appropriated retained earnings	(537,856)		(537,856)
Capital outlay	206,856	112,253	94,603
		<hr/>	
Total budgetary appropriations	(331,000)	112,253	(443,253)
		<hr/>	
Total expenditures	1,830,500	1,964,710	(134,210)
		<hr/>	

CITY OF MORGANTON
IRMS, WAREHOUSE AND GARAGE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES - FINANCIAL PLAN AND ACTUAL
(NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013		
	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>Nil</u>	<u>\$112,418</u>	<u>\$112,418</u>
RECONCILIATION FROM FINANCIAL PLAN (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Reconciling items:			
Capital outlays		112,253	
Decrease in accrued vacation pay		888	
Decrease in OPEB		3,259	
Depreciation		(60,309)	
Decrease in inventory		<u>(60,136)</u>	<u>(4,045)</u>
Change in Net Position			<u>\$108,373</u>

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2013

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013		\$8,041,336	\$7,907,768	\$133,568
2011-2012	\$107,894		69,302	38,592
2010-2011	32,613		14,328	18,285
2009-2010	18,465		5,704	12,761
2008-2009	13,817		1,698	12,119
2007-2008	10,172		1,280	8,892
2006-2007	11,625		1,645	9,980
2005-2006	9,971		943	9,028
2004-2005	8,891		607	8,284
2003-2004	10,117		646	9,471
2002-2003	<u>11,068</u>		<u>11,068</u>	
TOTAL	<u><u>\$234,633</u></u>	<u><u>\$8,041,336</u></u>	<u><u>\$8,014,989</u></u>	<u>\$260,980</u>
Less Allowance for Doubtful Accounts				<u>155,831</u>
Net Property Tax Receivable (Exhibit 1)				<u><u>\$105,149</u></u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$7,936,870		
Less interest collected		<u>(28,780)</u>	\$ 7,908,090	
Discounts			94,905	
Releases - Prior years			1,770	
Amount written off for tax year 2002-2003 per statute of limitations			<u>10,224</u>	
TOTAL COLLECTIONS AND CREDITS			<u><u>\$ 8,014,989</u></u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2013

	<u>Total Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Excluding Vehicles</u>	<u>Motor Vehicles</u>
TAX LEVY :					
City-wide	\$1,524,219,583	0.48	\$7,316,254	\$7,316,254	
Special district	84,027,143	0.14	117,638	117,638	
Vehicle Taxes	96,235,000	0.48	461,928		\$461,928
 PENALTIES			153,155	153,155	
 ADD DISCOVERIES :					
Current year	1,396,042	0.48	6,701	5,555	1,146
Prior year	1,194,167	0.46	5,732	5,732	
 LESS RELEASES	<u>(4,181,167)</u>		<u>(20,072)</u>	<u>(10,949)</u>	<u>(9,123)</u>
 TOTAL	<u>\$1,702,890,768</u>		<u>\$8,041,336</u>	<u>\$7,587,385</u>	<u>\$453,951</u>
 LESS UNCOLLECTED TAXES AT June 30, 2013			<u>133,568</u>	<u>73,457</u>	<u>60,111</u>
 CURRENT YEAR'S TAXES COLLECTED			<u>\$7,907,768</u>	<u>\$7,513,928</u>	<u>\$393,840</u>
 PERCENT CURRENT YEAR COLLECTED			<u>98.34%</u>	<u>99.03%</u>	<u>86.76%</u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$668,562	
From Water Fund	20,000	
From Economic Development Fund	167,500	
From Cable Fund	35,713	
To Economic Development Fund		22,600
	<u>891,775</u>	<u>22,600</u>
Economic Development Fund:		
From Cable Fund	71,425	
From General Fund	22,600	
To General Fund		167,500
	<u>94,025</u>	<u>167,500</u>
Water Fund :		
To General Fund		20,000
		<u>20,000</u>
Cable Fund:		
To Electric Fund		147,953
To Economic Development Fund		71,425
To General Fund		35,713
		<u>255,091</u>
Electric Fund :		
From Cable Fund	147,953	
To General Fund		668,562
	<u>147,953</u>	<u>668,562</u>
Grand Totals	<u><u>\$1,133,753</u></u>	<u><u>\$1,133,753</u></u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2013

	<u>Carrying Value</u>	<u>Cost Value</u>	<u>Fair Value</u>
CASH :			
On hand	2,495	2,495	2,495
In time deposits - NOW, SuperNOW, money market and certificates of deposit	<u>4,291,269</u>	<u>4,291,269</u>	<u>4,291,269</u>
Total cash	<u>4,919,703</u>	<u>4,919,703</u>	<u>4,919,703</u>
INVESTMENTS :			
North Carolina Capital Management Trust	14,422,375	14,422,375	14,422,375
Commercial paper	6,976,956	6,976,956	6,976,956
US Government agencies	<u>4,005,195</u>	<u>4,005,195</u>	<u>4,005,195</u>
Total investments (including cash equivalents)	<u>25,404,526</u>	<u>25,404,526</u>	<u>25,404,526</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$29,698,290</u></u>	 <u><u>\$29,698,290</u></u>	 <u><u>\$29,698,290</u></u>

CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2013

This part of the City of Morganton's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the government's overall financial health

<u>Contents</u>	<u>Pages</u>
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being has changed over time.	85-94
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	95-98
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	99-102
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	103-104
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	105-107

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Morganton
Net Position by Component,
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Governmental activities				
Invested in capital assets, net of related debt	\$42,270,377	\$42,225,042	\$41,695,614	\$41,831,482
Restricted	1,428,875	716,926	1,260,371	745,287
Unrestricted	12,219,489	12,207,920	12,339,129	14,704,160
Total governmental activities net assets	<u>\$55,918,741</u>	<u>\$55,149,888</u>	<u>\$55,295,114</u>	<u>\$57,280,929</u>
Business-type activities				
Invested in capital assets, net of related debt	\$42,251,982	\$46,132,330	\$45,875,917	\$56,874,381
Unrestricted	26,916,570	22,771,585	23,181,717	11,302,071
Total business-type activities net assets	<u>\$69,168,552</u>	<u>\$68,903,915</u>	<u>\$69,057,634</u>	<u>\$68,176,452</u>
Primary government				
Net investment in capital assets	\$84,522,359	\$88,357,372	\$87,571,531	\$98,705,863
Restricted	1,428,875	716,926	1,260,371	745,287
Unrestricted	39,136,059	34,979,505	35,520,846	26,006,231
Total primary government net assets	<u>\$125,087,293</u>	<u>\$124,053,803</u>	<u>\$124,352,748</u>	<u>\$125,457,381</u>

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$40,439,879	\$39,304,208	\$37,897,550	\$36,335,474	\$33,673,160	\$31,808,471
1,404,040	1,134,780	1,315,433	5,549,775	6,255,232	7,590,604
15,287,650	13,048,121	11,272,201	4,231,094	4,219,343	3,471,229
\$57,131,569	\$53,487,109	\$50,485,184	\$46,116,343	\$44,147,735	\$42,870,304
\$48,204,805	\$49,218,328	\$50,256,119	\$51,016,008	\$50,371,775	\$51,986,555
17,210,171	13,890,105	13,075,437	14,737,059	16,813,565	17,958,568
\$65,414,976	\$63,108,433	\$63,331,556	\$65,753,067	\$67,185,340	\$69,945,123
\$88,644,684	\$88,522,536	\$88,153,669	\$87,351,482	\$84,044,935	\$83,795,026
1,404,040	1,134,780	1,315,433	9,780,869	10,474,575	7,695,753
32,497,821	26,938,226	24,347,638	18,968,153	16,813,565	21,324,648
\$122,546,545	\$116,595,542	\$113,816,740	\$116,100,504	\$111,333,075	\$112,815,427

City of Morganton
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Expenses				
Governmental activities:				
General government	\$2,783,081	\$3,391,972	\$2,759,135	\$2,742,806
Public Safety	5,445,610	6,448,234	6,613,948	6,590,390
Transportation	2,058,883	2,375,152	2,209,624	2,244,130
Economic and physical development	161,712	146,743	121,415	10,308
Environmental protection	938,734	1,075,471	1,114,664	1,123,568
Culture and recreation	2,481,282	2,826,391	3,276,853	3,637,977
Interest on long-term debt	71,323	58,467	47,554	44,385
Total governmental activities expenses	13,940,625	16,322,430	16,143,193	16,393,564
Business-type activities:				
Water	2,627,701	2,739,467	2,864,899	3,169,593
Wastewater	3,466,183	3,307,399	3,401,640	3,380,132
Electric	22,175,865	22,871,668	24,664,921	25,241,193
Cable	2,886,460	3,511,824	3,874,683	4,001,462
Community house	278,758	312,556	296,857	323,251
Total business-type activities expenses	31,434,967	32,742,914	35,103,000	36,115,631
Total primary government expenses	45,375,592	49,065,344	51,246,193	52,509,195
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$346,075	\$193,064	\$387,459	\$283,089
Public Safety	46,307	53,167	37,253	24,793
Transportation	348,430	340,468	4,796	4,797
Environmental protection	133,820	200,736	351,808	1,093,367
Culture and recreation	498,904	577,595	638,779	628,181
Operating Grants and Contributions	819,867	654,103	873,196	998,104
Capital Grants and Contributions	1,468,175	983,972	709,313	
Total governmental activities program rev's	3,661,578	3,003,105	3,002,604	3,032,331
Business-type activities:				
Charges for services:				
Water	3,276,066	3,616,616	4,078,099	3,945,198
Wastewater	3,347,854	3,889,286	4,309,576	4,353,978
Electric	22,549,633	22,227,843	23,116,052	23,094,949
Cable	2,438,572	2,691,868	3,046,581	3,367,112
Community house	208,498	211,852	199,688	241,420
Operating Grants and Contributions	31,437	22,202	19,415	21,016
Total business-type activities program rev's	31,852,060	32,659,667	34,769,411	35,023,673
Total primary government program rev's	\$35,513,638	\$35,662,772	\$37,772,015	\$38,056,004

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$2,853,101	\$3,607,537	\$3,630,766	\$3,609,198	\$3,982,814	\$3,912,009
7,094,187	8,483,992	7,408,112	8,020,152	7,331,704	7,416,835
2,476,434	2,468,048	2,412,047	2,275,232	2,396,894	2,277,238
117,668	96,570	218,656	216,413	200,710	119,035
1,216,620	1,307,076	1,176,135	1,210,998	1,105,025	1,155,375
4,236,367	4,655,871	4,183,063	4,765,491	4,680,010	4,724,850
103,428	212,829	201,570	177,894	132,767	127,653
18,097,805	20,831,923	19,230,349	20,275,378	19,829,924	19,732,995
3,634,869	4,075,486	3,719,723	4,428,054	4,626,908	4,803,191
4,077,418	4,113,272	3,739,629	3,791,743	3,465,124	3,723,556
26,505,211	26,798,280	27,380,632	29,042,901	30,455,928	32,061,280
4,015,776	4,009,621	4,173,224	4,200,613	4,201,231	4,433,307
312,634	345,256	300,521			
38,545,908	39,341,915	39,313,729	41,463,311	42,749,191	45,021,334
56,643,713	60,173,838	58,544,078	61,738,689	62,579,115	64,754,329
\$232,411	\$46,347	\$354,433	\$401,366	\$474,238	\$561,709
46,702	472,980	214,043	49,184	38,273	33,898
7,656	529,095		468,136		
1,062,990	1,035,070	1,024,768	1,094,518	1,085,405	1,211,551
677,243	888,946	861,029	970,297	988,922	1,032,610
1,100,958	286,720	724,637	425,492	797,030	716,426
258,646	12,291	323,177	934,725	775,628	863,938
3,386,606	3,271,449	3,502,087	4,343,718	4,159,496	4,420,132
4,011,287	4,662,378	4,894,472	4,643,110	4,854,787	5,020,919
4,138,754	4,288,210	4,274,993	4,677,572	4,891,791	4,988,894
23,422,320	23,925,934	26,192,614	29,170,119	30,854,838	32,808,535
3,496,493	3,823,539	3,973,907	4,087,798	4,115,024	4,259,270
223,929	215,865	175,332			
21,734	20,980	19,392			
35,314,517	36,936,906	39,530,710	42,578,599	44,716,440	47,077,618
\$38,701,123	\$40,208,355	\$43,032,797	\$46,922,317	\$48,875,936	\$51,497,750

Net (Expense)/Revenue

Governmental activities	(\$10,279,047)	(\$13,319,325)	(\$13,140,589)	(\$13,361,233)
Business-type activities	417,093	(83,247)	(333,589)	(1,091,958)
Total primary government net expense	<u>(\$9,861,954)</u>	<u>(\$13,402,572)</u>	<u>(\$13,474,178)</u>	<u>(\$14,453,191)</u>

**General Revenues and Other
Changes in Net Position**

Governmental activities:				
Ad valorem taxes	\$6,045,738	\$6,628,096	\$6,815,478	\$7,298,421
Other taxes	2,765,497	2,898,950	2,980,248	4,938,519
Unrestricted intergovernmental revenues	1,534,419	1,554,802	1,624,417	827,704
Restricted intergovernmental revenues				
Investment earnings	218,499	314,002	677,091	519,912
Other revenues	9,786	251,180	334,576	744,259
Transfers	503,750	903,442	706,054	620,527
Total governmental activities	<u>11,077,689</u>	<u>12,550,472</u>	<u>13,137,864</u>	<u>14,949,342</u>
Business-type activities:				
Investment earnings	319,671	530,398	988,043	862,651
Other revenues	101,484	191,654	205,319	325,647
Transfers	(503,750)	(903,442)	(706,054)	(744,259)
Total business-type activities	<u>(82,595)</u>	<u>(181,390)</u>	<u>487,308</u>	<u>444,039</u>
Total primary government	<u>\$10,995,094</u>	<u>\$12,369,082</u>	<u>\$13,625,172</u>	<u>\$15,393,381</u>

Change in Net Position

Governmental activities	\$798,642	(\$768,853)	(\$2,725)	\$1,588,109
Business-type activities	334,498	(264,637)	153,719	(647,919)
Total primary government	<u>1,133,140</u>	<u>(1,033,490)</u>	<u>150,994</u>	<u>940,190</u>

(\$14,711,199)	(\$17,560,474)	(\$15,728,262)	(\$15,931,660)	(\$15,670,428)	(\$15,312,863)
(3,231,391)	(2,405,009)	216,981	1,115,288	1,967,249	2,056,284
(\$17,942,590)	(\$19,965,483)	(\$15,511,281)	(\$14,816,372)	(\$13,703,179)	(\$13,256,579)

7,769,020	7,862,442	7,820,692	7,708,574	7,623,645	7,944,516
3,353,209	2,976,369	2,641,496	3,064,831	3,517,569	3,460,242
1,936,451	1,993,844	1,713,894	1,719,297	1,751,859	1,737,882
			24,701		
861,266	526,467	137,801	37,993	21,939	32,542
245,750	95,722	64,690	74,362		64,550
585,795	461,170	337,467	(858,831)	786,808	795,700
14,751,491	13,916,014	12,716,040	11,770,927	13,701,820	14,035,432

815,522	373,351	105,723	32,730	31,769	46,163
240,188	186,285	237,886	206,554	220,063	215,785
(585,795)	(461,170)	(337,467)	858,831	(786,808)	(795,700)
469,915	98,466	6,142	1,098,115	(534,976)	(533,752)
\$15,221,406	\$14,014,480	\$12,722,182	\$12,869,042	\$13,166,844	\$13,501,680

\$40,292	(\$3,644,460)	(\$3,012,222)	(\$4,160,733)	(\$1,968,608)	(\$1,277,431)
(2,761,476)	(2,306,543)	223,123	2,213,403	1,432,273	1,522,532
(2,721,184)	(5,951,003)	(2,789,099)	(1,947,330)	(536,335)	245,101

City of Morganton
Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2004	2005	2006	2007	2008
General Fund					
Reserved	\$5,998,550	\$4,756,325	\$5,910,316	\$5,327,266	\$4,465,357
Unreserved	3,765,739	4,434,814	3,779,653	5,067,584	7,321,962
Restricted					
Committed					
Unassigned					
	\$9,764,289	\$9,191,139	\$9,689,969	\$10,394,850	\$11,787,319
Total general fund					
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	\$3,402,321	\$3,254,095	\$3,141,226	\$3,592,720	\$3,607,527
Permanent fund	305,451	320,799	340,995	363,816	390,615
Nonspendable					
Perpetual Maintenance					
Unassigned					
Total all other governmental funds	\$3,707,772	\$3,574,894	\$3,482,221	\$3,956,536	\$3,998,142

2009	2010	2011	2012	2013
\$2,894,718	\$1,872,310			
7,062,954	7,115,736			
		\$2,104,203	\$1,965,729	\$2,610,137
		3,066,228	3,953,714	4,725,743
		5,203,732	5,096,368	4,702,828
\$9,957,672	\$8,988,046	\$10,374,163	\$11,015,811	\$12,038,708

\$3,266,897	\$2,985,427			
415,774	431,933			
		\$379,344	\$335,789	\$340,959
		3,163	13,580	18,231
\$3,682,671	\$3,417,360	\$382,507	\$349,369	\$359,190

City of Morganton
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Revenues				
Ad valorem taxes	\$6,040,286	\$6,663,201	\$6,797,506	\$7,136,147
Other taxes and licenses	2,775,661	2,906,817	2,988,551	3,111,379
Unrestricted intergovernmental revenues	1,534,419	1,554,802	1,624,417	1,827,140
Restricted intergovernmental revenues	2,284,280	1,780,311	1,532,197	897,398
Other restricted revenues	126,584	52,415	42,009	61,109
Permits and fees	224,614	139,672	267,267	208,590
Sales and services	1,015,936	1,022,840	1,152,828	1,865,234
Investment earnings	218,499	314,002	677,091	827,704
Other revenues	9,786	251,180	334,576	557,160
Total revenues	<u>14,230,065</u>	<u>14,685,240</u>	<u>15,416,442</u>	<u>16,491,861</u>
Expenditures				
General government	3,040,850	4,069,987	2,892,163	2,712,591
Public safety	5,513,212	6,589,215	6,857,152	6,590,915
Transportation	1,026,053	1,194,636	1,068,305	1,122,564
Environmental protection	1,123,085	1,110,305	962,287	1,186,814
Cultural and recreational	2,547,194	2,852,031	3,805,386	4,386,677
Economic and physical development	116,972	186,743	121,415	50,308
Debt service				
Principal	505,267	521,106	603,254	577,181
Interest	61,441	48,963	47,554	50,401
Total expenditures	<u>13,934,074</u>	<u>16,572,986</u>	<u>16,357,516</u>	<u>16,677,451</u>
Other Financing Sources (Uses)				
Installment purchase debt issued	278,352	292,269	641,177	620,527
Transfers in	603,750	1,243,442	987,754	1,020,959
Transfers out	(184,740)	(340,000)	(281,700)	(276,700)
Total other financing sources (uses)	<u>697,362</u>	<u>1,195,711</u>	<u>1,347,231</u>	<u>1,364,786</u>
Net change in fund balances	<u>\$993,353</u>	<u>(\$692,035)</u>	<u>\$406,157</u>	<u>\$1,179,196</u>
Debt service as a percentage of noncapital expenditures	4.60%	3.87%	4.48%	4.42%

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$7,787,684	\$7,811,407	\$7,786,282	\$7,707,971	\$7,630,208	\$7,936,870
3,353,209	2,984,770	2,649,525	3,064,831	3,517,569	3,460,242
1,936,451	1,996,276	1,851,812	1,863,644	1,891,276	1,957,471
1,304,340	993,723	1,164,160	1,708,071	1,528,865	1,539,846
163,289	15,408	58,557	128,474	34,098	17,894
176,939	235,419	168,853	219,976	168,538	252,293
1,850,063	2,045,014	1,964,570	2,167,551	2,215,061	2,410,889
861,266	526,467	137,801	37,993	21,939	32,542
137,725	212,665	64,690	74,362	73,517	118,481
17,570,966	16,821,149	15,846,250	16,972,873	17,081,071	17,726,528
5,741,643	3,922,209	3,266,881	3,126,601	3,479,442	3,709,428
7,032,648	8,477,428	6,693,223	7,221,357	6,908,659	7,052,196
1,601,674	1,243,638	1,160,742	1,183,133	1,230,622	1,255,466
1,344,758	1,208,846	1,005,097	1,044,297	1,168,448	987,112
3,935,811	6,102,022	4,171,791	3,917,534	3,882,803	4,010,149
117,668	96,570	233,656	216,413	200,710	119,035
452,798	499,283	672,392	693,644	682,564	708,746
89,346	147,452	214,872	180,022	150,661	136,978
20,316,346	21,697,448	17,418,654	17,583,001	17,703,909	17,979,110
3,593,660	2,320,000		196,540	836,808	489,600
1,141,940	1,015,561	749,167	724,676	(50,000)	891,775
(556,145)	(554,391)	(411,700)	(1,583,507)	444,540	(96,075)
4,179,455	2,781,170	337,467	(662,291)	1,231,348	1,285,300
\$1,434,075	(\$2,095,129)	(\$1,234,937)	(\$1,272,419)	\$608,510	\$1,032,718
3.53%	3.73%	5.37%	5.23%	4.93%	4.70%

**City of Morganton
Assessed Value of Taxable Property,
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Utilities</u>	<u>Taxable Value</u>	<u>Tax Rate</u>
2003-04	912,047,348	375,130,039	26,160,554	1,313,337,941	0.46
2004-05	923,771,236	378,698,392	25,680,434	1,328,150,062	0.50
2005-06	932,615,658	408,756,364	22,733,688	1,364,105,710	0.50
2006-07	941,205,056	442,488,854	24,582,696	1,408,276,606	0.50
2007-08	1,189,002,621	453,196,142	29,826,794	1,672,025,557	0.46
2008-09	1,194,632,016	465,372,265	29,418,770	1,689,423,051	0.46
2009-10	1,199,128,762	474,848,368	29,824,993	1,703,802,123	0.46
2010-11	1,198,791,908	438,159,444	31,728,145	1,668,679,497	0.46
2011-12	1,202,411,351	418,982,896	28,712,849	1,650,107,096	0.46
2012-13	1,198,554,851	423,036,719	28,996,222	1,650,587,792	0.48

Notes: Revenue is not broken into different types of rate payers as the information is not available from Burke County in that format.

**City of Morganton
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$100 dollar valuation)**

<u>Fiscal Year</u>	<u>City Direct Rates</u>	<u>Overlapping Rates (*)</u>	
	<u>Basic Tax Rate</u>	<u>Special Tax District</u>	<u>Burke County</u>
2003-04	0.46	0.14	0.59
2004-05	0.50	0.14	0.59
2005-06	0.50	0.14	0.59
2006-07	0.50	0.14	0.59
2007-08	0.46	0.14	0.52
2008-09	0.46	0.14	0.52
2009-10	0.46	0.14	0.52
2010-11	0.46	0.14	0.52
2011-12	0.46	0.14	0.52
2012-13	0.48	0.14	0.52

Notes: *Overlapping rates are those of local and county governments that apply to property owners within the City of Morganton. Not all overlapping rates apply to all Morganton property owners; for example, although Burke County property tax rates apply to all Morganton property owners, Morganton Downtown District rates apply only to the Morganton property owners whose property is located within that district's geographical boundaries.

Components of the total direct rate are not included as individual components are not identifiable throughout the State of North Carolina.

**City of Morganton
Principal Property Tax Payers,
Current Year and Ten Years Ago**

<u>Taxpayer</u>	<u>Fiscal Year 2012-2013</u>			<u>Fiscal Year 2003-2004</u>		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Continental Teves Inc.	\$57,599,667	1	3.49%	39,407,740	1	2.94%
SGL Carbon Corp	36,190,575	2	2.19%	39,290,191	2	2.93%
Sypris	28,086,907	3	1.70%			
Viscotec	27,409,819	4	1.66%	20,578,974	5	1.53%
Case Farms Processing	23,129,961	5	1.40%			
Caterpillar Inc.	22,633,332	6	1.37%	13,416,882	10	1.00%
Gerresheimer Glass	20,365,666	7	1.23%	27,754,398	3	2.07%
Leviton MFG Co Inc.	19,970,194	8	1.21%	15,364,299	6	1.14%
Grace Properties Inc.	12,887,925	9	0.78%	14,149,287	8	1.05%
HDM Furniture	11,985,776	10	0.73%	26,216,841	4	1.95%
BASF Corp.				14,811,762	7	1.10%
Bellsouth Telephone						
Dana Corp.				25,565,802	5	1.90%
James Kirkpatrick Trust				13,121,096		
Rexnord Corp.				13,695,513	9	1.02%
Total	\$260,259,822		15.76%	\$263,372,785		18.63%

Source: City of Morganton Tax Division

**City of Morganton
Property Tax Levies and Collections,
Last Ten Fiscal Years**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003-04	6,084,089	5,925,246	97.39%	149,372	6,074,618	99.84%
2004-05	6,713,167	6,583,691	98.07%	121,192	6,704,883	99.88%
2005-06	6,838,043	6,702,794	98.02%	126,221	6,829,015	99.87%
2006-07	7,123,752	7,003,027	98.31%	110,745	7,113,772	99.86%
2007-08	7,768,135	7,660,009	98.61%	99,234	7,759,243	99.89%
2008-09	7,893,702	7,776,653	98.52%	104,930	7,881,583	99.85%
2009-10	7,860,584	7,744,751	98.53%	103,072	7,847,823	99.84%
2010-11	7,778,447	7,660,545	98.48%	99,617	7,760,162	99.76%
2011-12	7,695,934	7,588,040	98.60%	69,302	7,657,342	99.49%
2012-13	8,041,336	7,907,768	98.34%	N/A	7,907,768	98.34%

Source: City of Morganton Tax Division

Notes: Taxes levied include general taxes, special district taxes, and motor vehicle taxes.

**City of Morganton
Ratios of Outstanding Debt by Type,
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities		Business-type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Installment Purchases	General Obligation Bonds	Installment Purchases			
2003-04	\$258,400	\$1,080,037	\$13,431,600	\$6,994,023	\$21,764,060	4.99%	\$1,274
2004-05	187,150	922,450	12,102,850	5,872,652	19,085,102	4.43%	1,117
2005-06	117,800	1,069,723	10,782,200	4,708,929	16,678,652	3.72%	978
2006-07	49,400	575,819	9,495,600	4,584,937	14,705,756	3.25%	854
2007-08		3,831,159	8,175,000	3,383,319	15,389,478	3.26%	889
2008-09		5,691,876	6,810,000	2,856,295	15,358,171	3.39%	900
2009-10		5,019,440	5,475,000	1,493,332	11,987,772	Not available	702
2010-11		4,522,329	4,170,000	714,560	9,406,889	Not available	555
2011-12		4,284,305	2,895,000	2,048,835	9,228,140	Not available	545
2012-13		4,065,159	1,572,628	2,730,646	8,368,433	Not available	494

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

**City of Morganton
Ratios of General Bonded Debt Outstanding,
Last Ten Fiscal Years**

Fiscal Year	Bonded Debt Outstanding	Percentage of Assessed Value	Per Capita
2003-04	13,690,000	1.04%	802
2004-05	12,290,000	0.93%	720
2005-06	10,900,000	0.80%	640
2006-07	9,545,000	0.07%	554
2007-08	8,175,000	0.05%	472
2008-09	6,810,000	0.04%	398
2009-10	5,475,000	0.03%	321
2010-11	4,170,000	0.02%	246
2011-12	2,895,000	0.02%	171
2012-13	1,572,628	0.00%	93

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

**City of Morganton
Direct and Overlapping Debt
As of June 30, 2013**

Governmental Unit	Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$50,223,237	25.36%	\$12,736,613
City of Morganton	<u>4,065,159</u>	100.00%	<u>\$4,065,159</u>
Total direct and overlapping debt	\$54,288,396		\$16,801,772

Sources: Assessed value data used to estimate applicable percentages provided by the Burke County assessor. Debt outstanding provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Morganton. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident - and, therefore, responsible for repaying the debt - of each overlapping government. For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

City of Morganton
 Legal Debt Margin Information
 As of June 30, 2013

Legal Debt Margin Calculation for Fiscal Year 2012-13	
Assessed Value	\$1,731,648,059
Debt Limit 8% of Assessed Value	138,531,845
Debt Applicable to Debt Limit:	
Total bonded debt and notes payable	8,368,433
Less: Other Deductions Allowed by Law (Water and Wastewater bonds)	<u>(1,572,628)</u>
Total Amount of Debt Applicable to Debt Limit	<u>6,795,805</u>
Legal Debt Margin	<u>131,736,040</u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2003-04	105,067,035	544,694	104,522,341	0.52%
2004-05	110,378,644	7,157,252	103,221,392	6.48%
2005-06	112,174,107	252,800	111,921,307	0.23%
2006-07	116,943,013	49,400	116,893,613	0.04%
2007-08	139,362,012	0	139,362,012	0.00%
2008-09	141,336,740	0	141,336,740	0.00%
2009-10	140,840,693	5,641,654	135,199,039	4.01%
2010-11	139,500,944	5,236,889	134,264,055	3.75%
2011-12	132,224,565	6,333,140	125,891,425	4.79%
2012-13	138,531,845	6,798,805	131,736,040	4.91%

**City of Morganton
Demographic and Economic Statistics
Last Ten Calendar Years**

Calendar Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate
2004	17,080	435,659,560	25,507	7.6%
2005	17,080	430,757,600	25,220	8.3%
2006	17,041	429,774,020	25,220	5.9%
2007	17,224	453,060,096	26,304	6.1%
2008	17,310	472,476,450	27,295	8.6%
2009	17,108	452,848,760	26,470	14.9%
2010	17,035	465,430,270	27,322	13.0%
2011	16,935	Not available	Not available	12.5%
2012	16,917	Not available	Not available	10.9%
2013	16,861	Not available	Not available	10.4%

Sources: Information provided by the U.S. Census, N.C. Office of State Planning, City of Morganton Development and Design, US Department of Commerce, and Bureau of Economic Analysis.

Per capital source: Bureau of Economic Analysis/Burke County Analysis.

Per capital source: Bureau of Economic Analysis/Burke County

**City of Morganton
Principal Employers,
Current Year**

Fiscal Year 2012 - 2013

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
State of North Carolina	2,500	1	6.30%
Burke Public Schools	2,200	2	5.54%
Blue Ridge Healthcare / Grace Hosp.	1,400	3	3.53%
Turning Point Services	1,000	4	2.52%
Case Farms	725	5	1.83%
Western Piedmont College	614	6	1.55%
Leviton	520	7	1.31%
City of Morganton	516	8	1.30%
Burke County	486	9	1.22%
Continental Teves Inc.	350	10	0.88%
Total	<u>10,311</u>		<u>25.99%</u>

Sources: Burke Partnership for Economic Development and North Carolina Employment Security

Note: Ten years of data is not available. Only current year data is shown.

City of Morganton
Full-time-Equivalent City Government Employees by Function
Last ten years

Full-time Equivalent Employees as of June 30

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	57	57	57	57	62	51	51	48	48	48
Public Safety	102.5	101.5	102	103	104	100	97.58	92	91	87
Transportation/Garage	31	31	31	31	31	24	22	23	22	22
Environmental Protection	13	13	13	13	13	17	16	13	13	13
Cultural & Recreation	23	25.3	26.25	26.25	26.25	26.5	26.2	23.5	22.5	19.5
IRMS	5	5	5	5	6	6	6	5	5	5
Electric	26	26	26	26	26	25	26	24	22	22
Cable	8	8	8	8	8	8	8	8	8	8
Water	21	22	22	22	22	22	22	21	20	20
Wastewater	27	27	27	27	27	24	23	21	21	23
Total	313.5	315.8	317.25	318.25	325.25	303.5	297.8	278.5	272.5	267.5

Source: City Human Resource Department

Notes: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick). Full-time-equivalent employment is calculated by dividing total labor hours by 2,080.

City of Morganton
Operating Indicators by Function / Program
Fiscal Year Ended June 30, 2013

Fiscal Year 2012-13

General Government

Building Permits Issued	1,750
Building Inspections Conducted	5,200
Total City Employees - Full-time	271.75
Total City Employees - Part-time	365.00

Police

Physical Arrests (18 years and over) (annual)	1,572
Parking Violations	128
Number of Police Employees - Officers	62
Number of Police Employees - Civilians	16
Number of Police Employees - Reserves	4
Number of Calls Responded	23,008
Number of Traffic Accidents	1,200

Fire Protection

Fire Calls	533
Number of Fire Personnel - Paid	17
Number of Fire Personnel - Volunteer	11
Fire Inspections	632

Electric

Customers	8,200
-----------	-------

Public Works

Refuse Collection (tons per day)	33.49
Recyclables Collected (tons per day)	1.83
Residential Collection Trucks	3

Water Treatment Facility

Customers	10,342
Consumptions	2,400,000,000

Wastewater

Customers	6,838
Average Daily Sewage Treatment	5.20

Cable Television

Subscribers / Customers	4,303
Basic Channels	78
Premium Channels	65

Sources: Various City Departments.

Note: Ten years of data is not available. Only current year data is shown.

City of Morganton
Capital Asset Statistics by Function / Program
Fiscal Year Ended June 30, 2013

Fiscal Year 2012-13

Police	
Stations	1
Patrol units	77
Fire Protection	
Fire Stations	3
Electric	
Miles of Service	270
Public Works	
Miles of Streets	87.88
Primary Streets	86.79
Secondary Streets	1.09
Streetlights	3,420
Traffic Signals	58
Water Treatment Facility	
Plants	1
Miles of Distribution Lines	328
Fire Hydrants	1,504
Storage Capacity (millions of gallons)	8.15
Wastewater	
Plants	1
Miles of Collection Lines	202
Cable Television	
Miles of plant	165
Parks and Recreation	
Acreage	680
Playgrounds	9
Parks	12
Baseball fields	15
Soccer fields	4
Community Centers	2
Aquatic Facilities	2

Sources: Various City of Morganton Departments.

Note: Ten years of data is not available. Only current year data is shown.

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

403 South Green Street
P.O. Box 1476
Morganton, NC 28680-1476
Telephone (828) 438-1065
Fax (828) 438-9117

Report On Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed In Accordance With
Government Auditing Standards

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprises the City of Morganton's basic financial statements, and have issued our report thereon dated October 15, 2013. Our report includes a reference to other auditors who audited the financial statements of the City of Morganton ABC Board, as described in our report on the City of Morganton's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the City of Morganton ABC Board were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Morganton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morganton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Morganton's internal control.

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

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

A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2013-1 and 2013-2 that we consider to be significant deficiencies.

Compliance and Other Matters

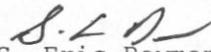
As part of obtaining reasonable assurance about whether the City of Morganton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

City of Morganton's Response to Findings

City of Morganton's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


S. Eric Bowman, P.A.
Certified Public Accountant

Morganton, North Carolina
October 15, 2013

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

403 South Green Street
P.O. Box 1476
Morganton, NC 28680-1476
Telephone (828) 438-1065
Fax (828) 438-9117

Report On Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance;
In Accordance With OMB Circular A-133;
and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Morganton, North Carolina, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Morganton's major federal programs for the year ended June 30, 2013. The City of Morganton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Morganton's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Morganton's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Morganton's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the City of Morganton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


S. Eric Bowman, P.A.
Certified Public Accountant

Morganton, North Carolina
October 15, 2013

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

403 South Green Street
P.O. Box 1476
Morganton, NC 28680-1476
Telephone (828) 438-1065
Fax (828) 438-9117

Report On Compliance For Its Major State Program;
Report on Internal Control Over Compliance;
In Accordance With OMB Circular A-133; and the
State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Its Major State Program

We have audited the City of Morganton, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the City of Morganton's major state program for the year ended June 30, 2013. The City of Morganton's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Morganton's major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City of Morganton's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major state program. However, our audit does not provide a legal determination on the City of Morganton's compliance.

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

Opinion on Its Major State Program

In our opinion, the City of Morganton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2013.

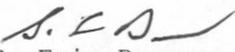
Report on Internal Control Over Compliance

Management of the City of Morganton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Morganton's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


S. Eric Bowman, P.A.
Certified Public Accountant

Morganton, North Carolina
October 15, 2013

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Section I. Summary of Auditor's Results

Dollar threshold used to distinguish between
Type A and Type B Programs

\$300,000

Auditee qualified as low-risk auditee?

X yes ___ no

State Awards

Internal control over major State programs:

* Material weaknesses identified?

___ yes X no

* Significant deficiencies identified
that are not considered to be
material weaknesses

___ yes X none reported

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

Any audit findings disclosed that are required
to be reported in accordance with the State
Single Audit Implementation Act

___ yes X no

Identification of major State program:

Program Name

Building Reuse and Restoration

CITY OF MORGANTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

Section II.

Findings Related to the Audit of the Basic
Financial Statements of City of Morganton:

2013-1

Condition: The City does not incorporate an internal audit function (person).

Criteria: Due to the complexity and diverse type of financial transactions an internal audit function is needed.

Effect: Internal controls are less effective without an internal audit function.

Cause: Due to the size of the municipality it has not been considered cost effective.

Recommendation: Hire an additional employee familiar with governmental accounting transactions to provide this service.

Management Response: It is not economically feasible to hire additional staff at this time.

2013-2

Condition: All Local Governments are to adopt a balanced budget and make necessary amendments to the original budget as conditions dictate.

Criteria: The City overexpended several departments in the General Fund totaling \$72 027. Also overexpenditures of \$27 245 and \$293 735 were made in the Cable and Wastewater funds respectively.

Effect: Funds were expended out of several departments before the appropriate budget amendments were made.

Cause: The Board failed to adopt the budget amendments prior to fiscal year end.

Recommendation: City of Morganton should not expend any funds unless there is adequate amounts in the particular department budget.

Management Response: The City agrees with this finding.

Section III. Findings and Questioned Costs Related to Federal Awards:

None Reported.

Section IV. Findings and Questioned Costs Related to State Awards:

None Reported

CITY OF MORGANTON, NORTH CAROLINA

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2013

Finding: 2013-1

- A. Name of Contact Person: Karen Duncan, Finance Officer
- B. Corrective Action: It is not economically feasible to hire additional staff at this time.
- C. Proposed Completion Date: N/A

Finding: 2013-2

- A. Name of Contact Person: Karen Duncan, Finance Officer
- B. Corrective Action: Budget amendments will continue to be made timely.
- C. Proposed Completion Date: The Board will implement the above procedure immediately.

CITY OF MORGANTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Prior year audit finding 2012-1 has not been corrected because it is not feasible to hire additional staff.

Prior year audit finding 2012-2 has not been corrected. Budget amendments were made timely but overexpenditures were still noted in several departments.

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

<u>Grantor Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-Through Grantor's Number</u>
Federal Awards:		
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Direct Program:		
CDBG Grant	14.218	
<u>U.S. Department of Justice</u>		
Passed through N.C. Department of Crime Control and Public Safety:		
JAG – Camera Security	16.803	J008696
JAG -Mobile Equipment-Viper Radios	16.803	J008501
Total U.S. Department of Justice		
<u>U.S. Department of Transportation</u>		
Passed through N.C. Department of Transportation:		
Governor's Highway Safety Program	20.601	K2-13-07-02
<u>U.S. Department of Homeland Security</u>		
Passed through N.C. Department of Commerce:		
Assistance to Fire Fighters	97.036	ENW-2011-05725
<u>U.S. Department of the Interior</u>		
Direct Program:		
National Parks Service		
OVI Study	15.954	
<u>U.S. Environmental Protection Agency</u>		
Passed through N.C. Department of Environmental and Natural Resources:		
Clean Water Revolving Loan	66.458	CS370725-02
Total Federal Cash Awards		

<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>\$ 87 700</u>	<u>\$</u>	<u>\$</u>
52 425		
<u>8 886</u>	<u></u>	<u>2 962</u>
<u>61 311</u>	<u></u>	<u>2 962</u>
<u>6 925</u>	<u></u>	<u></u>
<u>34 408</u>	<u></u>	<u>1 789</u>
<u>6 000</u>	<u></u>	<u></u>
<u>6 215 602</u>	<u></u>	<u></u>
<u>\$ 6 411 946</u>	<u>\$</u>	<u>\$ 4 751</u>

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

State Awards:

Cash Programs:

N.C. Department of Transportation

Powell Bill

N.C. General Assembly

N.C. Rural Center

Building Reuse and Renovation

Total State Cash Awards

Total Federal and State Awards

Note 1 – Basis of Presentation:

The accompanying schedule of Federal and State awards includes the Federal and State grant activity of the City of Morganton and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Loans Outstanding:

The City of Morganton had the following loan balances outstanding at June 30, 2013:

<u>Program Title</u>	<u>Federal CFDA</u>	<u>Amount Outstanding</u>
Clean Water Revolving Loan	66.458	<u>\$6,215,602</u>

<u>Federal</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Local</u> <u>Expenditures</u>
\$ _____	\$ 634 328	\$ _____
_____	755 294	39 600
_____	1 389 622	39 600
<u>\$ 6 411 946</u>	<u>\$ 1 389 622</u>	<u>\$ 44 351</u>