

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2014**



**City of Morganton
North Carolina**

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2014

City Council

**Mel L. Cohen, Mayor
John H. Cantrell, Jr.
Forrest A. Fleming
S. Sidney Simmons
Ronnie M. Thompson**

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 15, 2014

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, 2014.

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, 2014. 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 16,807. 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.

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, 2013. 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**

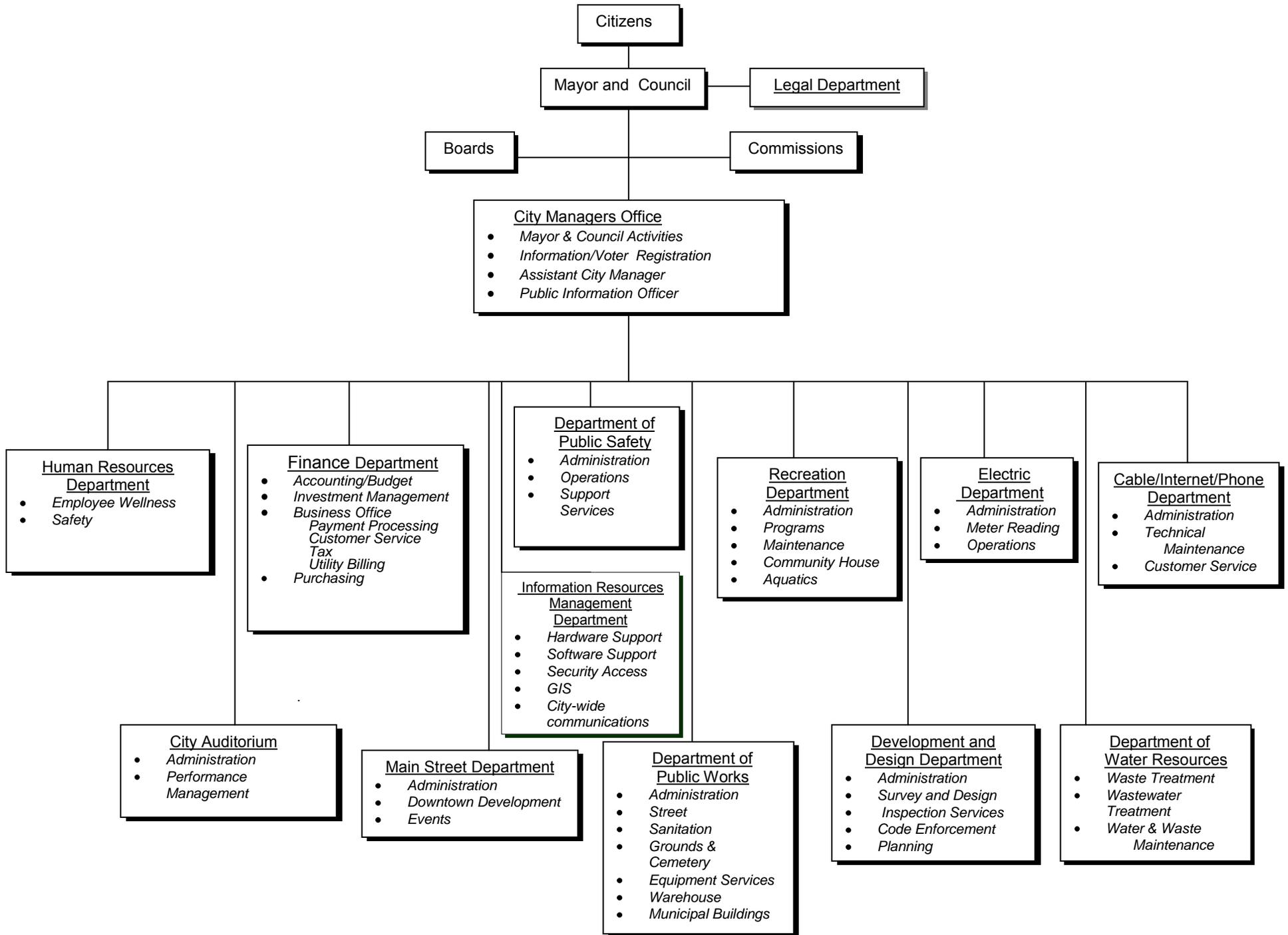
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, which appears to read "Jeffrey R. Emer".

Executive Director/CEO

CITY OF MORGANTON ORGANIZATION CHART



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Morganton, NC 28680-1476
Telephone (828) 438-1065
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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, 2014, 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 .30 percent, .17 percent and 3.9 percent, respectively, of the assets, net position and revenues of the component unit. Those statements were audited by another auditor whose report thereon has 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 report of another auditor. 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, 2014, 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 11 and 61 through 62 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, 2014 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, 2014



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, 2014. 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.

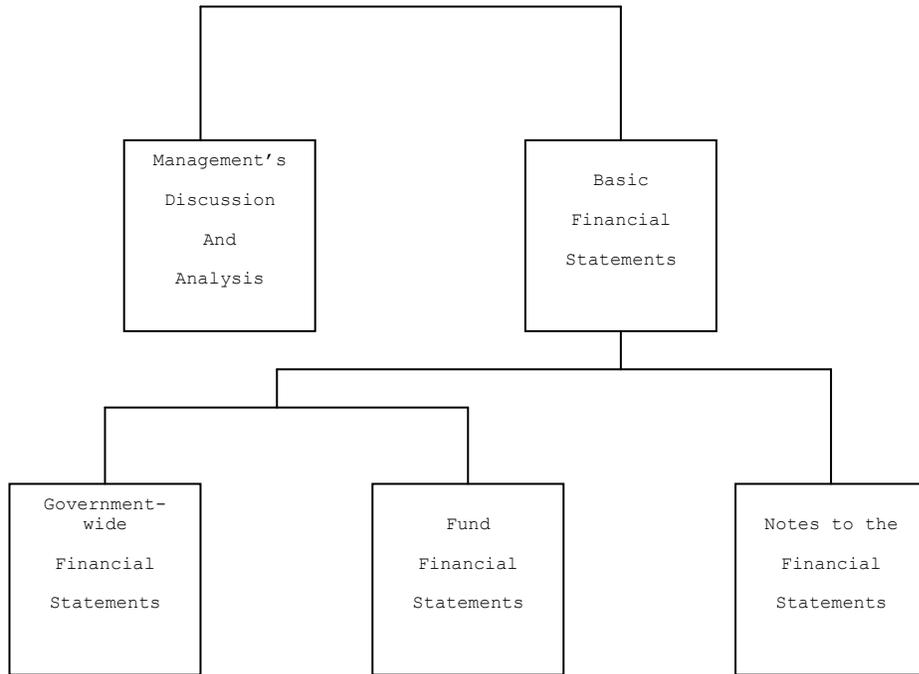
Financial Highlights

- 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 \$113,523,629.
- The government's total net position increased by \$708,202 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 \$12,431,959, an increase of \$34,061 in comparison with the prior year. Approximately 82 percent of this amount, or \$10,246,055, is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,951,951, or 31 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt increased by \$3,363,090 (23%) during the current fiscal year.
- Moody's Investors Service reviewed the City of Morganton bond ratings in 2003 at which time the City maintained its rating of A2. Standard and Poors reviewed the City in 2014. The City's rating increased by 2 steps to a new rating of AA.

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 City of Morganton’s Net Position
(net of depreciation)**

	Governmental-type		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Current and other assets	\$16,214,876	\$16,474,475	\$22,305,916	\$23,152,842	\$38,520,792	\$39,627,317
Capital assets	34,848,848	35,873,630	68,121,946	62,582,803	102,970,794	98,456,433
Deferred outflows of resources				77,372		77,372
Total assets	51,063,724	52,348,105	90,427,862	85,813,017	141,491,586	138,161,122
L T liabilities outstanding	4,358,453	4,065,159	13,666,044	10,596,248	18,024,497	14,661,407
Other liabilities	4,873,062		4,957,736	5,271,646	9,830,798	5,271,646
Deferred inflows of resources	112,662	188,225			112,662	188,225
Total liabilities	9,344,177	4,253,384	18,623,780	15,867,894	27,967,957	20,121,278
Net position:						
Net investment in capital assets	30,490,395	31,808,471	54,455,902	51,986,555	84,946,297	83,795,026
Restricted	6,480,008	7,695,753			6,480,008	7,695,753
Unrestricted	4,749,144	3,366,080	17,348,180	17,958,568	22,097,324	21,324,648
Total net position	\$41,719,547	\$42,870,304	\$71,804,082	\$69,945,123	\$113,523,629	\$112,815,427

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 \$113,523,629 as of June 30, 2014. 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, \$6,480,008 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$22,097,324 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
- Continued low cost of debt due to the City's bond rating

City of Morganton's Changes in Net Position

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$3,086,823	\$2,839,768	\$49,192,513	\$47,077,618	\$52,279,336	\$49,917,386
Operating grants and Contributions	843,004	716,426			843,004	716,426
Capital grants and Contributions		863,938				863,938
General revenues:						
Ad valorem taxes	8,746,988	7,944,516			8,746,988	7,944,516
Other taxes	3,339,080	3,460,242			3,339,080	3,460,242
Unrestricted Intergovernmental	1,796,345	1,737,882			1,796,345	1,737,882
Investment earnings	20,640	32,542	34,987	46,163	55,627	78,705
Other	130,903	64,550	509,308	215,785	640,211	280,335
Total revenues	<u>17,963,783</u>	<u>17,659,864</u>	<u>49,736,808</u>	<u>47,339,566</u>	<u>67,700,591</u>	<u>64,999,430</u>
Expenses:						
General government	3,440,468	3,912,009			3,440,468	3,912,009
Public safety	7,660,604	7,416,835			7,660,604	7,416,835
Transportation	2,576,293	2,277,238			2,576,293	2,277,238
Economic and physical development	136,785	119,035			136,785	119,035
Environmental protection	1,047,375	1,155,375			1,047,375	1,155,375
Culture and recreation	4,811,792	4,724,850			4,811,792	4,724,850
Interest on long-term debt	122,825	127,653			122,825	127,653
Water			4,949,707	4,803,191	4,949,707	4,803,191
Wastewater			4,091,744	3,723,556	4,091,744	3,723,556
Electric			33,682,364	32,061,280	33,682,364	32,061,280

Cable			4,472,432	4,433,307	4,472,432	4,433,307
Total expenses	19,796,142	19,732,995	47,196,247	45,021,334	66,992,389	64,754,329
Increase (decrease) in net assets before transfers	(1,832,359)	(2,073,131)	2,540,561	2,318,232	708,202	245,101
Transfers	681,602	795,700	(681,602)	(795,700)		
Increase(decrease) in net assets	(1,150,757)	(1,277,431)	1,858,959	1,522,532	708,202	245,101
Net assets, July 1	42,870,304	44,147,735	69,945,123	67,185,340	112,815,427	111,333,075
Prior year adjustment				1,237,251		1,237,251
Net assets, June 30	\$41,719,547	\$42,870,304	\$71,804,082	\$69,945,123	\$113,523,629	\$112,815,427

Governmental activities: Governmental activities decreased the City's net position by \$1,150,757, 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 \$1,858,959.

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 \$2,704,497, while total fund balance was \$12,134,484. 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 13.88% of general fund expenditures, while total fund balance represents 62.27% of the same amount.

At June 30, 2014, the governmental funds of the City of Morganton reported a combined fund balance of \$12,431,959 with a net increase in fund balance of \$34,061. Included in this change in fund balance are increases in fund balance in the General Fund and decreases in fund balance in the Entitlement Fund and Permanent Fund.

General Fund Budgetary Highlights: During the fiscal year, there was an 1,347,130 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 \$17,348,180. 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, 2014 totals \$102,970,794 (net of accumulated depreciation). These assets include land, buildings, plant and system, equipment and infrastructure.

The most significant/ major capital asset transaction during the year was the continued work at the Waste Treatment Plant. 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land and Buildings	\$17,415,567	\$17,692,486	\$21,069,879	\$21,391,920	\$38,485,446	\$39,084,406
Plant and system			29,659,275	28,676,848	29,659,275	28,676,848
Equipment	8,017,973	7,671,799	6,273,200	6,298,433	14,291,173	13,970,232
Infrastructure Construction in Progress	9,415,308	10,509,345			9,415,308	10,509,345
			11,119,592	6,215,602	11,119,592	6,215,602
Total assets	\$34,848,848	\$35,873,630	\$68,121,946	\$62,582,803	\$102,970,794	\$98,456,433

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, 2014 the City of Morganton had total bonded debt outstanding of \$425,000 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>2014</u>	<u>2013</u>
G O Bonds	\$425,000	\$1,650,000

As mentioned in the financial highlights section of this document, the City of Morganton was reviewed by Moody’s Investors Service in 2003 at which time the City maintained its rating of A2. Standard and Poors reviewed the City in 2014. The City’s rating increased by 2 steps to a new rating of AA. The City’s ratings 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 \$124,761,123.

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 7.3% is higher than the State's rate of 6.8% and the national rate of 6.1%. The MSA's labor force of 163,600 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, 2015

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 2014-2015 represents a decrease of 4% or \$825,919 over the 2013-2014 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2014-2015 business-type activities budget overall is 9% or \$6,961,098 lower than the 2013-2014 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, 2014

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
ASSETS					
Cash and cash equivalents	\$13,018,626	\$14,139,646	\$27,158,272	\$174,147	\$39,370
Taxes receivable (net)	119,425		119,425		
Accrued interest receivable-taxes	5,074		5,074		
Interest receivable-investments	2,602	5,218	7,820		
Accounts receivable (net)	1,211,272	7,515,890	8,727,162		
Inventories	878,852		878,852	213,343	
Restricted cash	979,025	645,162	1,624,187		20,200
Net capital assets					
Land	11,810,650	15,040,621	26,851,271	11,000	1,067,840
Buildings	5,604,917	6,029,258	11,634,175		
Plant and system		29,659,275	29,659,275		
Equipment	8,017,973	6,273,200	14,291,173	32,899	
Infrastructure	9,415,308		9,415,308		
Construction in progress		11,119,592	11,119,592		
Total assets	<u>51,063,724</u>	<u>90,427,862</u>	<u>141,491,586</u>	<u>431,389</u>	<u>1,127,410</u>
LIABILITIES					
Accounts payable and current liabilities	1,874,383	3,434,223	5,308,606	181,989	
Customer deposits		645,162	645,162		20,200
Accrued interest payable	44,425		44,425		
Noncurrent liabilities:					
Current:					
Installment purchases payable	953,035	578,169	1,531,204		34,989
Bonds payable		425,000	425,000		
Revolving loan payable		571,423	571,423		
Compensated absences payable	433,335	114,565	547,900		
Due in more than one year:					
Installment purchases payable	3,405,418	2,310,765	5,716,183		
Revolving loan payable		9,780,687	9,780,687		
Compensated absences payable	369,137	171,848	540,985		
Net pension obligation	629,654		629,654		
OPEB	1,522,128	591,938	2,114,066		
Total liabilities	<u>9,231,515</u>	<u>18,623,780</u>	<u>27,855,295</u>	<u>181,989</u>	<u>55,189</u>
DEFERRED INFLOWS OF RESOURCES					
Prepaid ticket sales	105,309		105,309		
Prepaid taxes	7,353		7,353		
Total deferred inflows of resources	<u>112,662</u>		<u>112,662</u>		
NET POSITION					
Net investment in capital assets	30,490,395	54,455,902	84,946,297	43,899	1,032,851
Restricted for:					
Perpetual Maintenance	290,480		290,480		
Stabilization by State Statue	1,206,708		1,206,708		
Transportation	688,716		688,716		
Canteen operations	5,764		5,764		
Community house	14,400		14,400		
Public safety	71,472		71,472		
Capital improvements	2,738,956		2,738,956	83,049	
Economic development	1,463,512		1,463,512		
Unrestricted	4,749,144	17,348,180	22,097,324	68,052	39,370
Total net position	<u>\$41,719,547</u>	<u>\$71,804,082</u>	<u>\$113,523,629</u>	<u>\$195,000</u>	<u>\$1,072,221</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, 2014

<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	\$3,440,468	\$624,519	\$29,808	
Public safety	7,660,604	38,499	316,049	
Transportation	2,576,293	7,557	487,722	
Economic and physical development	136,785	125,549		
Environmental protection	1,047,375	1,189,156	9,425	
Culture and recreation	4,811,792	1,101,543		
Interest on long-term debt	122,825			
Total governmental activities	<u>19,796,142</u>	<u>3,086,823</u>	<u>843,004</u>	
Business-type activities:				
Water	4,949,707	5,480,781		
Wastewater	4,091,744	5,045,826		
Electric	33,682,364	34,537,320		
Cable	4,472,432	4,128,586		
Total business-type activities	<u>47,196,247</u>	<u>49,192,513</u>		
Total primary government	<u>66,992,389</u>	<u>52,279,336</u>	<u>843,004</u>	
Component units:				
Morganton ABC board	2,802,911	2,802,911		
Morganton redevelopment commission	3,142			
Total component units	<u>2,806,053</u>	<u>2,802,911</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				
Net position, ending				

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

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Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
(\$2,786,141)		(\$2,786,141)		
(7,306,056)		(7,306,056)		
(2,081,014)		(2,081,014)		
(11,236)		(11,236)		
151,206		151,206		
(3,710,249)		(3,710,249)		
(122,825)		(122,825)		
<u>(15,866,315)</u>		<u>(15,866,315)</u>		
	531,074	531,074		
	954,082	954,082		
	854,956	854,956		
	<u>(343,846)</u>	<u>(343,846)</u>		
	1,996,266	1,996,266		
	<u>1,996,266</u>	<u>(13,870,049)</u>		
				<u>(\$3,142)</u>
				<u>(3,142)</u>
8,746,988		8,746,988		
3,339,080		3,339,080		
1,796,345		1,796,345		
20,640	34,987	55,627		
130,903	509,308	640,211		
681,602	<u>(681,602)</u>			
<u>14,715,558</u>	<u>(137,307)</u>	<u>14,578,251</u>		
(1,150,757)	1,858,959	708,202		(3,142)
<u>42,870,304</u>	<u>69,945,123</u>	<u>112,815,427</u>	<u>195,000</u>	<u>1,075,363</u>
<u>\$41,719,547</u>	<u>\$71,804,082</u>	<u>\$113,523,629</u>	<u>\$195,000</u>	<u>\$1,072,221</u>

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CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$12,161,906			\$12,161,906
Restricted cash	688,716		\$290,309	979,025
Taxes receivable (net)	119,425			119,425
Accounts receivable (net)	1,204,277	\$6,995		1,211,272
Interest receivable	2,431		171	2,602
Total assets	<u>\$14,176,755</u>	<u>\$6,995</u>	<u>\$290,480</u>	<u>\$14,474,230</u>
LIABILITIES				
Accounts payable and accrued liabilities	1,810,184			1,810,184
Total liabilities	<u>1,810,184</u>			<u>1,810,184</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	119,425			119,425
Prepaid taxes	7,353			7,353
Ticket sales	105,309			105,309
Total deferred inflows of resources	<u>232,087</u>			<u>232,087</u>
FUND BALANCES				
Nonspendable				
Perpetual Maintenance			290,480	290,480
Restricted				
Stabilization by State Statue	1,206,708			1,206,708
Streets - Powell Bill	688,716			688,716
Committed				
Canteen operations	5,764			5,764
Community House	14,400			14,400
Drug Enforcement	71,472			71,472
Capital Projects	2,738,956			2,738,956
Economic Development	1,456,517	6,995		1,463,512
Unassigned	5,951,951			5,951,951
Total fund balances	<u>\$12,134,484</u>	<u>\$6,995</u>	<u>\$290,480</u>	<u>\$12,431,959</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$14,176,755</u>	<u>\$6,995</u>	<u>\$290,480</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				34,363,841
Other long-term assets are not available to pay for current-period expenditures and, therefore, are are inflows of rsources in the funds				5,074
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets				2,025,931
Liabilities of earned revenues considered deferred inflows of resources in fund statements				119,425
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds				(7,182,258)
Other liabilities not reported in the funds				(44,425)
Net position of governmental activities				<u>41,719,547</u>

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

CITY OF MORGANTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$8,732,981			\$8,732,981
Other taxes and licenses	3,339,080			3,339,080
Unrestricted intergovernmental revenues	2,045,038			2,045,038
Restricted intergovernmental revenues	789,043	\$125,549		914,592
Other restricted revenues	29,808			29,808
Permits and fees	143,282			143,282
Sales and services	2,584,827		\$8,625	2,593,452
Investment earnings	19,744		896	20,640
Other revenues	130,903			130,903
Total revenues	<u>17,814,706</u>	<u>125,549</u>	<u>9,521</u>	<u>17,949,776</u>
EXPENDITURES				
Current				
General government	3,262,629		60,000	3,322,629
Public safety	8,123,787			8,123,787
Transportation	1,546,120			1,546,120
Environmental protection	1,081,299			1,081,299
Cultural and recreational	4,558,063			4,558,063
Economic and physical development		136,785		136,785
Debt service				
Principal retirement	796,859			796,859
Interest and fees	121,928			121,928
Total expenditures	<u>19,490,685</u>	<u>136,785</u>	<u>60,000</u>	<u>19,687,470</u>
Revenues over (under) expenditures	<u>(1,675,979)</u>	<u>(11,236)</u>	<u>(50,479)</u>	<u>(1,737,694)</u>
OTHER FINANCING SOURCES (USES)				
Transfers - in	681,602			681,602
Proceeds from capital debt	1,090,153			1,090,153
Total other financing sources (uses)	<u>1,771,755</u>			<u>1,771,755</u>
Net change in fund balances	95,776	(11,236)	(50,479)	34,061
Fund balances - beginning (consolidated)	12,038,708	18,231	340,959	12,397,898
Fund balances - ending	<u>\$12,134,484</u>	<u>\$6,995</u>	<u>\$290,480</u>	<u>\$12,431,959</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, 2014

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

Net change in fund balances - total governmental funds	\$34,061
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	(1,077,599)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	14,007
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 of these differences in the treatment of long-term debt and related items	(293,294)
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	89,131
The net revenue of certain activities of the internal service fund is reported with governmental activities	<u>82,937</u>
Total changes in net position of governmental activities	<u><u>(\$1,150,757)</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, 2014

	2014			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes				
Current year	\$8,002,204	\$8,389,233	\$8,540,489	\$151,256
Prior years	40,000	40,000	121,800	81,800
Special tax - Main Street	114,291	114,291	116,866	2,575
Interest	34,700	34,700	56,838	22,138
Discounts	(94,905)	(94,905)	(103,012)	(8,107)
Total	<u>8,096,290</u>	<u>8,483,319</u>	<u>8,732,981</u>	<u>249,662</u>
Other taxes and licenses				
Privilege licenses	210,435	210,435	211,974	1,539
Carbon city fire tax	6,207	6,207	8,774	2,567
Occupancy tax	73,000	73,000	79,775	6,775
One-half cent sales tax	2,069,520	2,069,520	2,067,838	(1,682)
One cent sales tax	1,013,352	1,013,352	970,719	(42,633)
Total	<u>3,372,514</u>	<u>3,372,514</u>	<u>3,339,080</u>	<u>(33,434)</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	32,754	32,754	28,529	(4,225)
Section eight in lieu of taxes	2,541	2,541	2,568	27
Electric/Cable in lieu of taxes	193,907	193,907	193,443	(464)
Franchise tax	1,553,610	1,553,610	1,530,670	(22,940)
Beer and wine	79,793	79,793	73,239	(6,554)
Solid waste disposal	11,210	11,210	9,425	(1,785)
Alcohol Beverage Commission	189,162	189,162	207,164	18,002
Total	<u>2,062,977</u>	<u>2,062,977</u>	<u>2,045,038</u>	<u>(17,939)</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	66,813	66,813	65,867	(946)
Drug restitution	2,500	2,500		(2,500)
ABC restitution	1,500	1,500		(1,500)
State and Federal grants	190,500	190,500	235,454	44,954
Powell bill street aid allocation	479,900	479,900	487,722	7,822
Total	<u>741,213</u>	<u>741,213</u>	<u>789,043</u>	<u>47,830</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, 2014

	2014			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	17,900	17,900	\$29,808	11,908
Total	<u>22,900</u>	<u>22,900</u>	<u>29,808</u>	<u>6,908</u>
Permits and fees				
Building permits	80,000	80,000	44,708	(35,292)
Plumbing permits	25,000	25,000	23,459	(1,541)
Electric permits	55,000	55,000	42,189	(12,811)
HVAC permits	30,000	30,000	29,301	(699)
Variance/planning/zoning requests	4,000	4,000	3,625	(375)
Total	<u>194,000</u>	<u>194,000</u>	<u>143,282</u>	<u>(50,718)</u>
Sales and services				
Parking revenue	9,400	9,400	16,002	6,602
Reimbursement for services	110,713	142,713	156,968	14,255
Solid waste user fees	1,186,480	1,186,480	1,165,935	(20,545)
Solid waste late charges	12,000	12,000	14,596	2,596
Curb cuts	8,000	8,000	7,557	(443)
Civil citations	500	500	377	(123)
Engineering inspections	5,000	5,000	8,014	3,014
Rent	600	600	750	150
Fire protection	500	500	1,425	925
False alarm violations	25,000	25,000	20,675	(4,325)
Recreation revenue	643,150	643,150	639,091	(4,059)
Food sales and services	267,500	267,500	195,945	(71,555)
Bad check charges	9,500	9,500	7,050	(2,450)
Canteen sales	1,540	1,540	1,830	290
Main street revenue	24,000	24,000	27,603	3,603
Façade loan program	5,000	5,000	3,631	(1,369)
Election fees			1,106	1,106
DARE program	2,000	2,000	20	(1,980)
Municipal auditorium ticket sales	300,000	300,000	266,507	(33,493)
Surplus sale	25,500	25,500	41,447	15,947
Reimbursements				
Morganton/Lenoir airport	1,200	1,200		(1,200)
Court cost and fees	12,000	12,000	8,298	(3,702)
Total	<u>2,649,583</u>	<u>2,681,583</u>	<u>2,584,827</u>	<u>(96,756)</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, 2014

	2014			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Investment earnings	\$17,000	\$17,000	\$19,093	\$2,093
Other revenue				
Revolving loan principal			6,873	6,873
Revolving loan interest			4,410	4,410
Miscellaneous	56,000	56,000	119,620	63,620
Contributions	500	500		(500)
Total	56,500	56,500	130,903	74,403
Total revenue	17,212,977	17,632,006	17,814,055	182,049
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			64,097	
Operating expenditures			114,976	
Elections			15,854	
Donations/economic development			754,430	
Pro rata administrative services			(373,690)	
Total	479,599	579,153	575,667	3,486
Legal				
Salaries and employee benefits			176,590	
Operating expenditures			61,442	
Pro rata administrative services			(190,219)	
Total	63,407	63,407	47,813	15,594
Executive				
Salaries and employee benefits			\$450,306	
Operating expenditures			51,485	
Pro rata administrative services			(400,845)	
Total	100,211	114,586	100,946	\$13,640
Human resources				
Salaries and employee benefits			248,793	
Operating expenditures			889,736	
Pro rata administrative services			(610,010)	
Total	610,010	615,543	528,519	\$87,024

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Accounting				
Salaries and employee benefits			\$264,786	
Operating expenditures			311,543	
Pro rata administrative services			(469,597)	
Total	\$117,399	\$134,049	106,732	\$27,317
Main street				
Salaries and employee benefits			151,702	
Operating expenditures			209,141	
Capital outlay			46,755	
Total	467,169	518,933	407,598	111,335
Canteen operations				
Operating expenditures	2,135	2,135	750	1,385
Business office/tax				
Salaries and employee benefits			323,996	
Operating expenditures			170,234	
Pro rata administrative services			(484,725)	
Total	29,911	31,511	9,505	22,006
Development				
Salaries and employee benefits			458,755	
Operating expenditures			152,041	
Total	686,973	686,973	610,796	76,177
Municipal buildings				
Operating expenditures			49,651	
Pro rata administrative services			(106,463)	
Capital outlay			75,879	
Total	19,827	53,777	19,067	34,710

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
General government (continued)				
Design				
Salaries and employee benefits			\$352,095	
Operating expenditures			82,224	
Pro rata administrative services			(266,167)	
Total	\$177,445	\$177,545	168,152	\$9,393
Public works				
Salaries and employee benefits			131,295	
Operating expenditures			18,664	
Total	174,466	151,144	149,959	1,185
Cemetery and grounds				
Salaries and employee benefits			461,810	
Operating expenditures			74,691	
Pro rata reimbursement			(10,000)	
Capital outlay			10,624	
Total	635,144	639,744	537,125	102,619
Total general government	3,563,696	3,768,500	3,262,629	505,871
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,934,014	
Operating expenditures			1,209,689	
Pro rata administrative services			(19,200)	
Capital outlay			999,284	
Total public safety	8,545,867	8,673,603	8,123,787	549,816
Transportation				
Street department				
Salaries and employee benefits			551,077	
Operating expenditures			99,489	
Total	\$1,180,377	\$857,399	650,566	\$206,833

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Powell bill				
Salaries and employee benefits			291,354	
Operating expenditures			399,207	
Capital outlay			204,993	
Total	468,500	1,004,870	895,554	\$109,316
Total transportation	1,648,877	1,862,269	1,546,120	316,149
Environmental protection - sanitation				
Salaries and employee benefits			\$579,587	
Operating expenditures			323,513	
Capital outlay			178,199	
Total environmental protection	\$1,195,829	\$1,220,329	1,081,299	\$139,030
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			302,960	
Operating expenditures			533,395	
Capital outlay			237,247	
Total	830,502	1,103,509	1,073,602	\$29,907
Recreation				
Salaries and employee benefits			1,448,030	
Operating expenditures			1,391,973	
Pro rata administrative services			(22,080)	
Capital outlay			313,026	
Total	3,197,130	3,636,263	3,130,949	505,314
Community House				
Salaries and employee benefits			191,045	
Operating expenditures			162,467	
Total	392,200	456,493	353,512	102,981
Total cultural and recreational	4,419,832	5,196,265	4,558,063	638,202

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$797,411	\$797,411	\$796,859	552
Interest	131,052	131,317	121,928	9,389
Total debt service	<u>928,463</u>	<u>928,728</u>	<u>918,787</u>	<u>9,941</u>
Total expenditures	<u>20,302,564</u>	<u>21,649,694</u>	<u>19,490,685</u>	<u>2,159,009</u>
Revenues over (under) expenditures	<u>(3,089,587)</u>	<u>(4,017,688)</u>	<u>(1,676,630)</u>	<u>2,341,058</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	1,107,785	2,035,886		(2,035,886)
Proceeds from capital debt	1,300,000	1,300,000	1,090,153	(209,847)
Transfers in	681,802	681,802	681,602	(200)
Total other financing sources	<u>3,089,587</u>	<u>4,017,688</u>	<u>1,771,755</u>	<u>(2,245,933)</u>
Revenues and other sources over (under) expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>95,125</u>	<u>\$95,125</u>
Net change in fund balances			95,125	
Fund balances - beginning			<u>10,582,842</u>	
Fund balances - ending			\$10,677,967	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			651	
Fund balances - beginning			<u>1,455,866</u>	
Fund balances - ending			<u>\$12,134,484</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, 2014

	Business-type Activities - Enterprise Funds				Totals June 30, 2014	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
<u>ASSETS</u>						
CURRENT ASSETS :						
Cash and cash equivalents	\$5,836,093	\$964,657	\$2,503,249		\$9,303,999	\$856,720
Investments	1,681,101	979,048	2,175,498		4,835,647	
Accounts receivable (net)	799,248	1,952,091	4,404,359	\$360,192	7,515,890	
Interest receivable	1,644	1,319	2,255		5,218	
Inventories						878,852
Due from other funds			2,603,879		2,603,879	
Restricted Cash	83,980	82,142	479,040		645,162	
Total current assets	<u>8,402,066</u>	<u>3,979,257</u>	<u>12,168,280</u>	<u>360,192</u>	<u>24,909,795</u>	<u>1,735,572</u>
NONCURRENT ASSETS :						
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	16,693,183	11,671,451	9,651,465	3,945,634	41,961,733	451,690
Construction in progress		11,119,592			11,119,592	
Capital assets (net)	<u>17,605,200</u>	<u>36,858,111</u>	<u>9,707,415</u>	<u>3,951,220</u>	<u>68,121,946</u>	<u>485,007</u>
Total noncurrent assets	<u>17,605,200</u>	<u>36,858,111</u>	<u>9,707,415</u>	<u>3,951,220</u>	<u>68,121,946</u>	<u>485,007</u>
TOTAL ASSETS	<u>\$26,007,266</u>	<u>\$40,837,368</u>	<u>\$21,875,695</u>	<u>\$4,311,412</u>	<u>\$93,031,741</u>	<u>\$2,220,579</u>
<u>LIABILITIES</u>						
CURRENT LIABILITIES :						
Accounts payable and accrued liabilities	74,209	19,546	3,129,628	210,840	3,434,223	64,199
Due to other funds				2,603,879	2,603,879	
Customer deposits	83,980	82,142	479,040		645,162	
Compensated absences-current	28,597	27,817	40,992	17,159	114,565	18,354
G O Bonds payable - current	89,250	335,750			425,000	
Installment purchase - current	358,092		92,200	127,877	578,169	
Revolving loan payable - current		571,423			571,423	
Total current liabilities	<u>634,128</u>	<u>1,036,678</u>	<u>3,741,860</u>	<u>2,959,755</u>	<u>8,372,421</u>	<u>82,553</u>
NONCURRENT LIABILITIES :						
Other postemployment benefits	169,125	169,125	190,266	63,422	591,938	84,563
Compensated absences-noncurrent	42,895	41,726	61,489	25,738	171,848	27,532
Installment purchase - noncurrent	1,678,105		160,537	472,123	2,310,765	
Revolving loan payable - noncurrent		9,780,687			9,780,687	
Total noncurrent liabilities	<u>1,890,125</u>	<u>9,991,538</u>	<u>412,292</u>	<u>561,283</u>	<u>12,855,238</u>	<u>112,095</u>
TOTAL LIABILITIES	<u>2,524,253</u>	<u>11,028,216</u>	<u>4,154,152</u>	<u>3,521,038</u>	<u>21,227,659</u>	<u>194,648</u>
<u>NET POSITION</u>						
Net Investment in capital assets	15,479,753	26,170,251	9,454,678	3,351,220	54,455,902	485,007
Unrestricted	8,003,260	3,638,901	8,266,865	(2,560,846)	17,348,180	1,540,924
TOTAL NET POSITION	<u>\$23,483,013</u>	<u>\$29,809,152</u>	<u>\$17,721,543</u>	<u>\$790,374</u>	<u>\$71,804,082</u>	<u>\$2,025,931</u>

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

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CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2014	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
OPERATING REVENUES :						
Charges for services	\$5,480,781	\$5,045,826	\$34,537,320	\$4,128,586	\$49,192,513	\$1,942,556
OPERATING EXPENSES :						
Water treatment and maintenance	3,858,685				3,858,685	
Wastewater treatment and maintenance		2,590,344			2,590,344	
Operations and construction			32,987,673		32,987,673	
Operations and maintenance MIS, Garage and Warehouse operations				4,100,940	4,100,940	
Depreciation	999,180	1,257,671	691,607	371,492	3,319,950	1,791,055 70,058
Total	4,857,865	3,848,015	33,679,280	4,472,432	46,857,592	1,861,113
OPERATING INCOME (LOSS)	622,916	1,197,811	858,040	(343,846)	2,334,921	81,443
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	13,217	6,701	15,040	29	34,987	
Sale of materials						1,494
Grant received	51,542				51,542	
Reimbursements		144,633	147,953		292,586	
Interest expense	(75,590)	(182,609)	(3,084)		(261,283)	
Amortization of deferred charge on refundings	(16,252)	(61,120)			(77,372)	
Miscellaneous	1,915	1,427	542	161,296	165,180	
Total	(25,168)	(90,968)	160,451	161,325	205,640	1,494
INCOME (LOSS) BEFORE TRANSFERS	597,748	1,106,843	1,018,491	(182,521)	2,540,561	82,937
TRANSFERS :						
Out			(681,602)		(681,602)	
Total			(681,602)		(681,602)	
Change in net position	597,748	1,106,843	336,889	(182,521)	1,858,959	82,937
TOTAL NET POSITION - beginning	22,885,265	28,702,309	17,384,654	972,895		1,942,994
TOTAL NET POSITION - ending	<u>\$23,483,013</u>	<u>\$29,809,152</u>	<u>\$17,721,543</u>	<u>\$790,374</u>		<u>\$2,025,931</u>
Change in net position of business-type activities					<u>1,858,959</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, 2014

	Business-type Activities - Enterprise Funds				Totals June 30, 2014	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
CASH FLOWS FROM OPERATING ACTIVITIES :						
Receipts from customers	\$5,480,781	\$5,045,826	\$34,537,320	\$4,128,586	\$49,192,513	\$1,942,556
Payments to suppliers	(3,149,229)	(2,075,598)	(31,162,440)	(3,474,347)	(39,861,614)	(1,071,156)
Payments to employees	(1,022,592)	(1,174,205)	(1,394,055)	(499,026)	(4,089,878)	(709,895)
Net cash provided (used) by operating activities	<u>1,308,960</u>	<u>1,796,023</u>	<u>1,980,825</u>	<u>155,213</u>	<u>5,241,021</u>	<u>161,505</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES :						
Transfers - (out)			(681,602)		(681,602)	
Interfund borrowings			97,403	(97,403)		
Reimbursements		144,633	147,953			
Grant received	51,542					
Noncapital contributions received (used)	1,915	1,427	542	161,296	165,180	1,494
Net cash provided (used) by noncapital financing activities	<u>53,457</u>	<u>146,060</u>	<u>(435,704)</u>	<u>63,893</u>	<u>(172,294)</u>	<u>1,494</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(1,461,358)	(5,745,706)	(832,893)	(819,135)	(8,859,092)	(122,875)
Proceeds from capital debt			173,204	600,000	773,204	
Loan proceeds - CIP		4,707,931			4,707,931	
Principal paid on capital debt	(771,003)	(1,610,217)	(30,117)		(2,411,337)	
Interest paid on capital debt	(75,590)	(182,609)	(3,084)		(261,283)	
Net cash provided (used) by capital and related financing activities	<u>(2,307,951)</u>	<u>(2,830,601)</u>	<u>(692,890)</u>	<u>(219,135)</u>	<u>(6,050,577)</u>	<u>(122,875)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :						
Proceeds from sales and maturities of investments	2,869,162	914,266	3,716,485		7,499,913	
Purchases of investments	(1,681,101)	(979,048)	(2,175,498)		(4,835,647)	
Interest on investments	15,099	6,581	17,335	29	39,044	
Net cash provided (used) by investing activities	<u>1,203,160</u>	<u>(58,201)</u>	<u>1,558,322</u>	<u>29</u>	<u>2,703,310</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	257,626	(946,719)	2,410,553	Nil	1,721,460	40,124
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
	5,662,447	1,993,518	571,736	Nil	8,227,701	816,596
CASH AND CASH EQUIVALENTS AT END OF YEAR						
	<u>\$5,920,073</u>	<u>\$1,046,799</u>	<u>\$2,982,289</u>	Nil	<u>9,949,161</u>	<u>\$856,720</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds				Totals June 30, 2014	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)	\$622,916	\$1,197,811	\$858,040	(\$343,846)	2,334,921	\$81,443
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	999,180	1,257,671	691,607	371,492	3,319,950	70,058
Changes in assets and liabilities :						
(Increase) decrease in accounts receivable	(179,312)	28,072	6,452	44,849	(99,939)	
(Increase) decrease in inventories						(32,354)
Increase (decrease) in accounts payable and accrued liabilities	(90,542)	(700,944)	367,812	54,514	(369,160)	27,268
Increase (decrease) in customer deposits	16,482	29,919	95,433		141,834	
Increase (decrease) in OPEB	(65,771)	(18,792)	(44,630)	23,186	(106,007)	7,351
Increase (decrease) in accrued vacation pay	6,007	2,286	6,111	5,018	19,422	7,739
Net cash provided (used) by operating activities	<u>\$1,308,960</u>	<u>\$1,796,023</u>	<u>\$1,980,825</u>	<u>\$155,213</u>	<u>\$5,241,021</u>	<u>\$161,505</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Amortization of deferred charges on refunding	16,252	61,120			77,372	
Total noncash investing, capital and financing activities	<u>\$16,252</u>	<u>\$61,120</u>			<u>\$77,372</u>	

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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, 2014 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, 2013. 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 classified as restricted cash because they 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 non-spendable portion of the permanent fund. Utility customer deposits are also shown as restricted cash.

City of Morganton Restricted Cash

Governmental Activities:	
General Fund – Streets	\$688,716
Permanent Fund	<u>290,309</u>
Total governmental activities	<u>979,025</u>
Business-type Activities:	
Water Fund - Customer deposits	83,980
Wastewater Fund - Customer deposits	82,142
Electric Fund - Customer deposits	<u>479,040</u>
Total Business-type Activities	<u>645,162</u>
Total Restricted Cash	<u><u>\$1,624,187</u></u>

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>
Land	99
Infrastructure/ Distribution System	30
Buildings	20
Equipment	10
Vehicles	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. 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 three items that meet the criterion for this category – property tax receivable, 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 costs 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 Community House - portion of fund balance available for appropriation but segregated for community house project. It represents the balance of the total unexpended community house project funds.

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

- 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 which are not due and payable in the current and therefore are not reported in the funds." The details of this \$7,182,258 difference are as follows:

Installment purchase payable	\$4,358,453
Other post employment benefits	1,437,565
Net pension obligation	629,654
Compensated absences	<u>756,586</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$7,182,258</u>

- 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 \$(1,077,599) difference is as follows:

Capital outlay	\$2,466,877
Depreciation expense	<u>(3,544,476)</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net position of governmental activities	<u>\$(1,077,599)</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 \$(293,294) difference are as follows:

Debt issuance	\$(1,090,153)
Principal repayments:	
Installment purchase	<u>796,859</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net position of Governmental activities	<u>\$ (293,294)</u>

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 \$89,131 difference are as follows:

Compensated Absences, Pension Obligation and OPEB	\$90,028
Accrued Interest	<u>(897)</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net position of Governmental activities	<u>\$89,131</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 \$14,007 are as follows:

Recording of tax receipts deferred in the fund statements	<u>\$14,007</u>
Net adjustment to revenues	<u>\$14,007</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	<u>\$82,937</u>
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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, 2014, the City's deposits had a carrying amount of \$5,462,088 and a bank balance of \$6,113,189. Of the bank balance, \$250,000 was insured by federal depository insurance and \$5,863,189 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 \$167,491 and the bank balance was \$236,152. The bank balance was covered by an institution using the Pooling Method. The carrying amount of deposits for the Redevelopment Commission was \$59,570 and the bank balance was \$59,570. All of the bank balance was covered by Federal depository insurance.

Investments

At June 30, 2014 the City's investments were as follows:

Investment Type	Fair Value	Less Than 6 months	6-12 Months	1-3 Years
US Government Agencies	\$7,004,822		\$1,002,758	\$6,002,064
NC Capital Management Trust - Cash Portfolio	11,294,864	11,294,864		
NC Capital Management Trust - Term Portfolio	5,018,190	5,018,190		
Total:	\$23,317,876	\$16,313,054	\$1,002,758	\$6,002,064

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.

<u>Diversification by Instrument:</u>	<u>Percent of Portfolio</u>
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, 2014. 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 Statues 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	\$134,967
Allowance for notes receivable	34,989
Allowance for revolving loans	109,733

Enterprise Funds:

Allowance for uncollectible charges	<u>205,000</u>
Total	<u>\$484,689</u>

Receivables – net of allowances

Accounts receivable at June 30, 2014 was as follows at the government wide level:

<u>Accounts</u>	<u>Customers</u>	<u>Taxes</u>	<u>Total</u>
\$231,892	\$7,515,890	\$979,380	\$8,727,162

Capital assets

Capital asset activity for the year ended June 30, 2014 was as follows:

Primary Government:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$11,702,627			\$11,702,627
Capital assets being depreciated:				
Buildings	22,536,597	374,798		22,911,395
Equipment	21,015,939	1,691,209	400,871	22,306,277
Infrastructure	44,242,622			44,242,622
Total capital assets being depreciated	87,795,158	2,066,007		89,460,294
Less accumulated depreciation for:				
Buildings	16,722,795	635,487		17,358,282
Equipment	13,600,274	1,414,080	400,871	14,613,483
Infrastructure	33,733,276	1,094,039		34,827,315
Total accumulated depreciation	64,056,345	3,143,606		66,799,080
Total capital assets being depreciated, net	23,664,107	(1,077,599)		22,661,214
Governmental activity capital assets, net	\$35,441,340	(\$1,077,599)		\$34,363,841

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	853,911	122,875		976,786
Total capital assets being depreciated	1,516,828	122,875		1,639,703
Less accumulated depreciation for:				
Buildings	520,177	16,230		536,407
Equipment	597,779	53,828		651,607
Total accumulated depreciation	1,117,956	70,058		1,188,014
Total capital assets being depreciated, net	398,872	52,817		451,689
Internal service fund capital assets, net	\$432,190	\$52,817		\$485,007

Electric Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$55,950			\$55,950
Capital assets being depreciated:				
Buildings	2,731,417			2,731,417
Plant and System	14,229,262	786,586		15,015,848
Equipment	4,398,089	46,307		4,444,396
Total capital assets being depreciated	<u>21,358,768</u>	<u>832,893</u>		<u>22,191,661</u>
Less accumulated depreciation for:				
Buildings	1,777,995	65,041		1,843,036
Plant and System	7,571,289	441,639		8,012,928
Equipment	2,499,306	184,926		2,684,232
Total accumulated depreciation	<u>11,848,590</u>	<u>691,606</u>		<u>12,540,196</u>
Total capital assets being depreciated, net	<u>9,510,178</u>	<u>141,287</u>		<u>9,651,465</u>
Electric fund capital assets, net	<u>\$9,566,128</u>	<u>\$141,287</u>		<u>\$9,707,415</u>

Cable Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$5,586			\$5,586
Capital assets being depreciated:				
Buildings	793,076			793,076
Plant and System	11,397,997	819,135		12,217,132
Equipment	775,883			775,883
Total capital assets being depreciated	<u>12,966,956</u>	<u>819,135</u>		<u>13,786,091</u>
Less accumulated depreciation for:				
Buildings	423,925	20,604		444,529
Plant and System	8,427,132	279,844		8,706,976
Equipment	617,908	71,044		688,952
Total accumulated depreciation	<u>9,468,965</u>	<u>371,492</u>		<u>9,840,457</u>
Total capital assets being depreciated, net	<u>3,497,991</u>	<u>447,643</u>		<u>3,945,634</u>
Electric fund capital assets, net	<u>\$3,503,577</u>	<u>\$447,643</u>		<u>\$3,951,220</u>

Depreciation expense in the amount of \$3,319,950 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	\$9,240,079	\$9,089,116	\$150,963

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2014, 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	12,932		163,751
Total capital assets being depreciated	379,952	12,932		392,884
Less accumulated Depreciation for:				
Buildings	77,980			77,980
Improvements	150,489	664		151,153
Equipment	122,763	8,089		130,852
Total accumulated depreciation	351,232	8,753		359,985
Total capital assets being depreciated, net	28,720	4,179		32,899
ABC Board capital assets, net	\$39,720	4,179		\$43,899

Activity for the Morganton Redevelopment Commission for the year ended June 30, 2014, 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 7.07% and 7.28%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement and law enforcement officers is 7.07% and 7.28% 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, 2014, 2013 and 2012 were \$601,115, \$553,287, and \$548,104 respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$12,890, \$12,235 and \$13,167 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, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	10
Active plan members	<u>65</u>
Total	<u>75</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, 2013 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, 2013 was 17 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	\$159,942
Interest on net pension obligation	(2,246)
Adjustment to annual required contribution	<u>3,659</u>
Annual pension cost	161,355
Contributions made for fiscal year ended	
6-30-14	<u>146,278</u>
Increase (decrease) in net pension	15,077
Obligation	
Net pension obligation beginning of year	<u>614,577</u>
Net pension obligation end of year	<u>\$629,654</u>

3 YEAR TREND INFORMATION

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/12	\$153,117	105.10%	\$619,633
6/30/13	\$153,205	103.30%	\$614,577
6/30/14	\$161,355	90.66%	\$629,654

Funding Status and Funding Progress

As if December 31, 2013, 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 \$1,633,025. The covered payroll (annual payroll of active employees covered by the plan) was \$2,835,558, and the ratio of the UAAL to the covered payroll was 57.59 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, 2014 were \$376,259, which consisted of \$206,322 from the City and \$169,937 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 and applies to employees hired prior to July 1, 2012:

<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 following schedule became effective July 1, 2012 and applies to employees hired on or after July 1, 2012:

<u>Years of service with the City of Morganton</u>	<u>% of Retiree Health Insurance the City Pays</u>
25 or more years of service	100%
20 years to 24.99 years of service	75%
15 to 19.99 years of service	50%
5 to 14.99 years of service	0%
Disability retirement	100%

The City's contribution will cease when the retiree reaches age 65. The City pays most of the cost of coverage for employees' benefits through its self-insured program. Employees and retirees pay \$10 a month towards the cost of their coverage. Employees and retirees have the option of purchasing dependent coverage at the City's group rates. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees ceases when they are eligible for Medicare. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

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, 2014, 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>(728,222)</u>
Annual OPEB cost (expense)	\$ 340,767
Contributions made for year ended 6/30/14	<u>(575,663)</u>
Increase (decrease) in net OPEB obligation	\$ (234,896)
Net OPEB obligation, beginning of year	<u>2,348,962</u>
Net OPEB obligation, end of year	<u>\$2,114,066</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, 2014 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$1,213,190	58%	\$2,011,788
2013	992,114	66%	2,348,962
2014	340,767	100%	2,114,066

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 Inflows of Resources

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

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable (net)	\$119,425	
Advance ticket sales	105,309	\$105,309
Prepaid taxes	<u>7,353</u>	<u>7,353</u>
Total	<u>\$232,087</u>	<u>\$112,662</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 two 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.

Specific information on policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

Claims, Judgments and Contingent Liabilities

At June 30, 2014, 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

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, 2014, including \$334,688 of interest, are as follows:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$222,647	\$72,188
2016	222,647	63,438
2017	222,647	54,688
2018	222,647	45,937
2019	222,647	37,188
2020	222,647	28,438
2021	222,647	19,688
2022	222,647	10,938
2023	111,321	2,185
Present value of the minimum Lease payments	<u>\$1,892,497</u>	
Total interest payments		<u>\$334,688</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, 2014, including \$74,284 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$139,000	\$24,761
2016	139,000	19,809
2017	139,000	14,857
2018	139,000	9,905
2019	<u>139,000</u>	<u>4,952</u>
Present value of the minimum Lease payments	<u>\$695,000</u>	
Total interest payments		<u>\$74,284</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, 2014, including \$2,958 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$64,303	\$2,531
2016	<u>32,989</u>	<u>427</u>
Present value of the minimum Lease payments	<u>\$97,292</u>	
Total interest payments		<u>\$2,958</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, 2014, including \$2,073 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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 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, 2014, including \$833 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	<u>\$75,158</u>	<u>\$833</u>
Present value of the minimum Lease payments	<u>\$75,158</u>	
Total interest payments		<u>\$833</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, 2014, including \$831 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	<u>\$76,259</u>	<u>\$831</u>
Present value of the minimum Lease payments	<u>\$76,259</u>	
Total interest payments		<u>\$831</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, 2014, including \$6,810 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	<u>\$50,350</u>	<u>\$2,884</u>
2016	<u>51,130</u>	<u>2,105</u>
2017	<u>51,922</u>	<u>1,313</u>
2018	<u>52,726</u>	<u>508</u>
Present value of the minimum Lease payments	<u>\$206,128</u>	
Total interest payments		<u>\$6,810</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, 2014, including \$2,298 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	<u>\$78,378</u>	<u>\$1,657</u>
2016	<u>79,394</u>	<u>641</u>
Present value of the minimum Lease payments	<u>\$157,772</u>	
Total interest payments		<u>\$2,298</u>

In October 2013, the City entered into an installment purchase contract to finance a knuckleboom truck. \$150,000 was borrowed for 3 years at an interest rate of 1.48%.

The future minimum payments of the installment purchase as of June 30, 2014, including \$4,352 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	<u>\$48,894</u>	<u>\$2,557</u>
2016	<u>50,139</u>	<u>1,312</u>
2017	<u>50,967</u>	<u>482</u>
Present value of the minimum Lease payments	<u>\$150,000</u>	
Total interest payments		<u>\$4,352</u>

In December 2013, the City entered into an installment purchase contract to finance a fire truck. \$800,000 was borrowed for 7 years at an interest rate of 1.85%.

The future minimum payments of the installment purchase as of June 30, 2014, including \$57,639 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$107,017	\$15,503
2016	110,274	12,246
2017	112,312	10,208
2018	114,388	8,132
2019	116,503	6,017
2020	118,656	3,864
2021	<u>120,850</u>	<u>1,669</u>
Present value of the minimum Lease payments	<u>\$800,000</u>	
Total interest payments		<u>\$57,639</u>

In December 2013, the City entered into an installment purchase contract to finance a leaf vacuum truck. \$140,153 was borrowed for 3 years at an interest rate of 1.41%.

The future minimum payments of the installment purchase as of June 30, 2014, including \$3,636 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$45,960	\$1,970
2016	46,766	1,164
2017	<u>47,427</u>	<u>502</u>
Present value of the minimum Lease payments	<u>\$140,154</u>	
Total interest payments		<u>\$3,636</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, 2014, including \$5,591 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$11,000	\$1,864
2016	11,000	1,491
2017	11,000	1,118
2018	11,000	746
2019	<u>11,000</u>	<u>372</u>
Present value of the minimum Lease payments	<u>\$55,000</u>	
Total interest payments		<u>\$5,591</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, 2014, including \$422 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	<u>\$24,533</u>	<u>\$422</u>
Present value of the minimum Lease payments	<u>\$24,533</u>	
Total interest payments		<u>\$422</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, 2014, including \$114,396 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$170,000	\$14,736
2016	170,000	24,833
2017	170,000	21,297
2018	170,000	17,761
2019	170,000	14,225
2020	170,000	10,689
2021	170,000	7,153
2022	170,000	3,617
2023	<u>3,916</u>	<u>85</u>
Present value of the minimum Lease payments	<u>\$1,363,916</u>	
Total interest payments		<u>\$114,396</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, 2014, including \$21,225 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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>\$672,281</u>	
Total interest payments		<u>\$21,225</u>

In October 2013, the City entered into an installment purchase contract to finance a cable modem termination system for the Cable Department. \$600,000 was borrowed for 4 ½ years at an interest rate of 1.57%.

The future minimum payments of the installment purchase as of June 30, 2014, including \$26,225 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$127,877	11,284
2016	132,266	6,895
2017	134,351	4,810
2018	136,468	2,692
2019	<u>69,038</u>	<u>544</u>
Present value of the minimum Lease payments	<u>\$600,000</u>	
Total interest payments		<u>\$26,225</u>

In November 2013, the City entered into an installment purchase contract to finance a tree trimming truck for the Electric Department. \$173,204 was borrowed for 3 years at an interest rate of 1.38%

The future minimum payments of the installment purchase as of June 30, 2014, including \$4,629 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$56,666	\$2,611
2016	57,868	1,409
2017	<u>58,670</u>	<u>609</u>
Present value of the minimum Lease payments	<u>\$173,204</u>	
Total interest payments		<u>\$4,629</u>

Clean Water Revolving Loan

In October 2013, the City entered into a clean water revolving loan to finance infrastructure improvements at its waste treatment plant. \$11,428,456 was borrowed for 20 years at an interest rate of 2.00%

The future minimum payments of the installment purchase as of June 30, 2014, including \$2,171,407 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$571,423	\$217,141
2016	571,423	205,712
2017	571,423	194,284
2018	571,423	182,855
2019	571,423	171,427
2020	571,423	159,998
2021-2033	<u>6,923,572</u>	<u>1,039,990</u>
Present value of the minimum Lease payments	<u>\$10,352,110</u>	
Total interest payments		<u>\$2,171,407</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, 2014 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
2015	\$425,000	\$17,000
Total	\$425,000	\$17,000

Debt Margin

At June 30, 2014, the City of Morganton had a legal debt margin of \$124,761,123.

Changes in long-term liabilities:

	Balance			Current	
	30-Jun-13	Increases	Decreases	Balance 30-Jun-14	Portion of Balance
Governmental activities:					
Installment purchase	\$4,065,159	\$1,090,153	\$796,859	\$4,358,453	\$953,035
Compensated absences	763,598	416,252	377,378	802,472	433,335
Other postemployment benefits	1,651,017		128,889	1,522,128	
Net pension obligation	614,577	15,077		629,654	
<hr/>					
Governmental activity long-term liabilities	7,094,351	1,521,482	1,303,126	7,312,707	1,386,370
<hr/>					
Business-type activities:					
General obligation bonds	\$1,650,000		\$1,225,000	\$425,000	\$425,000
Installment purchase	2,730,646	1,863,357	1,705,069	2,888,934	578,169
Clean water revolving loan	6,215,602	4,136,508		10,352,110	571,423
Other postemployment benefits	697,945		106,007	591,938	
Compensated absences	266,991	168,227	148,805	286,413	114,565
<hr/>					
Business-type activity long-term liabilities	\$11,561,184	\$6,168,092	\$3,184,881	\$14,544,395	\$1,689,157

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 \$45,886 of internal service funds compensated absences are included in the above amounts. At year-end \$84,563 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, 2014 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from Cable fund	\$2,603,879	
Cable fund - payable to Electric fund		<u>\$2,603,879</u>
Total interfund receivables and payables	<u>\$2,603,879</u>	<u>\$2,603,879</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, 2014 transfers were used to:

- Subsidize the general fund to forestall a significant property tax increase:

A summary of interfund transfers by fund for the year ended June 30, 2014 is as follows:

	Transfers <u>From</u>	Transfers <u>To</u>
General Fund :		
From Electric Fund	<u>\$681,602</u>	
Total	<u>681,602</u>	<u> </u>
Electric Fund :		
To General Fund	<u> </u>	<u>681,602</u>
Total	<u> </u>	<u>681,602</u>
Grand Totals	<u>\$681,602</u>	<u>\$681,602</u>

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	\$12,134,484
Less:	
Stabilization by state statue	(\$1,206,708)
Streets – Powell bill	(688,716)

Economic development	(1,456,517)
Capital projects	(2,738,956)
Canteen operations	(5,764)
Community house	(14,400)
Drug enforcement	(71,472)
Working capital/fund balance policy	<u>(3,247,454)</u>
Remaining fund balance	<u>\$2,704,497</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, 2014 which is the date the financial statements were available to be issued.

Stewardship, Compliance and Accountability:

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, 2014 were \$29,094,147.

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 \$16,320 to WPCOG during the fiscal year ended June 30, 2014.

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 \$25,546 to the Airport during the fiscal year ended June 30, 2014. 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, 2014. Complete financial statements for the Airport can be obtained from the Airport's administrative offices.

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.

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)	
12-31-13	\$- 0 -	\$1,623,025	\$1,623,025	0.00%	\$2,835,558	57.59%	
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%	

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

Year Ended <u>June 30.</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2012	153,117	105.10%
2013	153,205	103.30%
2014	161,355	90.66%

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	12/31/13
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	17 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	UAAAL 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>
2012	1,213,190	58.00%
2013	992,114	66.00%
2014	340,767	100.00%

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, 2014

	<u>2014</u>			<u>Variance Favorable (Unfavorable)</u>
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest earned	\$600	\$600	\$651	\$51
Total revenues	<u>600</u>	<u>600</u>	<u>651</u>	<u>51</u>
OTHER FINANCING SOURCES (USES)				
Transfers	600	600		
Total other financing sources (uses)	<u>600</u>	<u>600</u>		
Net change in fund balance	<u>Nil</u>	<u>Nil</u>	651	51
Fund balances - beginning			<u>1,455,866</u>	
Fund balances - ending			<u>\$1,456,517</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, 2014

	<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	\$3,293,622	\$3,332,755	\$85,084	\$3,417,839
Program income	255,102	138,707	40,465	179,172
Total revenues	<u>3,548,724</u>	<u>3,471,462</u>	<u>125,549</u>	<u>3,597,011</u>
EXPENDITURES				
Economic and physical development				
Land acquisition	304,673	171,423		171,423
Rehabilitation	309,423	525,117		525,117
Construction	555,290	582,366		582,366
Administration	565,550	559,121	30,463	589,584
Credit counseling	32,253	32,253		32,253
Deposit assistance	19,162	19,162		19,162
Grant assistance	370,450	322,596	21,322	343,918
Interest expense	133,109	119,500		119,500
Small business loan	518,916	386,795	85,000	471,795
Section 108 loan repayment	380,000	375,000		375,000
Total expenditures	<u>3,188,826</u>	<u>3,093,333</u>	<u>136,785</u>	<u>3,230,118</u>
Excess of revenues over (under) expenditures	<u>359,898</u>	<u>378,129</u>	<u>(11,236)</u>	<u>366,893</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)		(49,989)
Transfers from general fund	3,439	3,439		3,439
Transfer to electric fund	(8,331)	(8,331)		(8,331)
Transfer to cable fund	(16,960)	(16,960)		(16,960)
Transfer to component unit				
Redevelopment commission	(663,057)	(663,057)		(663,057)
Total other financing sources (uses)	<u>(359,898)</u>	<u>(359,898)</u>		<u>(\$359,898)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>\$18,231</u>	<u>(\$11,236)</u>	<u>\$6,995</u>
Fund balances - beginning			<u>\$18,231</u>	
Fund balances - ending			<u>\$6,995</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, 2014

	2014			Variance Favorable (Unfavorable)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales and services:				
New cemetery lot sales	\$9,000	\$9,000	\$6,975	(\$2,025)
Cemetery lot marker service	1,000	1,000	1,650	650
Total	<u>10,000</u>	<u>10,000</u>	<u>8,625</u>	<u>(1,375)</u>
Investment earnings - interest earned	1,000	1,000	896	(104)
Total revenues	<u>11,000</u>	<u>11,000</u>	<u>9,521</u>	<u>(1,479)</u>
EXPENDITURES				
Cemetery improvements and reimbursement	<u>71,000</u>	<u>71,000</u>	<u>60,000</u>	<u>11,000</u>
Excess of revenues over expenditures	<u>(60,000)</u>	<u>(60,000)</u>	<u>(50,479)</u>	<u>9,521</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	<u>60,000</u>	<u>60,000</u>		<u>(60,000)</u>
Total other financing sources (uses)	<u>60,000</u>	<u>60,000</u>		<u>(60,000)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	<u>(50,479)</u>	<u>(50,479)</u>
Fund balances - beginning			<u>\$340,959</u>	
Fund balances - ending			<u>\$290,480</u>	

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	135,707	190,512	54,805
Water rents	4,975,000	4,854,415	(120,585)
Penalties	52,500	71,560	19,060
Water taps	45,000	47,573	2,573
Reconnect fees	13,000	20,700	7,700
Rental income	215,000	296,021	81,021
Total	<u>5,436,207</u>	<u>5,480,781</u>	<u>44,574</u>
Nonoperating revenues (expenditures) :			
Interest on investments	9,200	13,217	4,017
Miscellaneous	7,000	1,915	(5,085)
Grants received	160,495	51,542	(108,953)
Interest expenditures	(76,364)	(75,590)	774
Total	<u>100,331</u>	<u>(8,916)</u>	<u>(109,247)</u>
Total revenues	<u>5,536,538</u>	<u>5,471,865</u>	<u>(64,673)</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,022,592	
Operating expenditures		2,871,717	
Total	<u>4,048,719</u>	<u>3,894,309</u>	<u>154,410</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$772,969	\$771,003	\$1,966
Capital outlay	2,819,546	1,463,782	1,355,764
Total budgetary appropriations	<u>3,592,515</u>	<u>2,234,785</u>	<u>1,357,730</u>
Total expenditures	<u>7,641,234</u>	<u>6,129,094</u>	<u>1,512,140</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,104,696)</u>	<u>(657,229)</u>	<u>1,447,467</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	854,696		(854,696)
Proceeds from capital debt	1,250,000		(1,250,000)
Total other financing sources (uses)	<u>2,104,696</u>		<u>(2,104,696)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$657,229)</u>	<u>(\$657,229)</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Revenues and Other Sources Over (Under)	
Expenditures and Other Uses	(\$657,229)

Reconciling items:

Capital outlays	1,463,782	
Debt principal	771,003	
Increase in accrued vacation pay	(6,007)	
Decrease in OPEB	65,771	
Depreciation	(999,180)	
Amortization of deferred charge on refunding	(16,252)	
Bad debts	(24,140)	<u>1,254,977</u>

Change in Net Position	<u><u>\$597,748</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, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$167,601	\$61,992	(\$105,609)
Sewer rents	4,997,100	4,899,337	(97,763)
Late payment penalties	45,000	42,060	(2,940)
Sewer taps	12,000	3,250	(8,750)
Septage revenue	20,000	28,300	8,300
Sale of sludge	13,500	10,887	(2,613)
Total	5,255,201	5,045,826	(209,375)
Nonoperating revenues (expenditures) :			
Interest earned	3,375	6,701	3,326
Miscellaneous	1,000	1,427	427
Reimbursement	165,000	144,633	(20,367)
Interest expenditures	(182,766)	(182,609)	157
Total	(13,391)	(29,848)	(16,457)
Total revenues	5,241,810	5,015,978	(225,832)
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,174,205	
Operating expenditures		1,412,985	
Total wastewater treatment	2,802,153	2,587,190	214,963

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$1,610,218	\$1,610,217	\$1
Capital outlay	5,829,827	839,292	4,990,535
Total budgetary appropriations	<u>7,440,045</u>	<u>2,449,509</u>	<u>4,990,536</u>
Total expenditures	<u>10,242,198</u>	<u>5,036,699</u>	<u>5,205,499</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(5,000,388)</u>	<u>(20,721)</u>	<u>4,979,667</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	5,100,388		(5,100,388)
Transfer to wastewater capital project	(100,000)		100,000
Total other financing sources (uses)	<u>5,000,388</u>		<u>(5,000,388)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$20,721)</u>	<u>(\$20,721)</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$20,721)
Reconciling items:		
Capital outlays	839,292	
Debt principal	1,610,217	
Increase in accrued vacation pay	(2,286)	
Decrease in OPEB	18,792	
Depreciation	(1,257,671)	
Amortization of deferred charge on refunding	(61,120)	
Bad debts	(19,660)	1,127,564
Change in Net Position (before prior period adjustment)		<u>1,106,843</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, 2014

	Project Authorization	Actual			Variance
		Prior Years	Current Year	Total To Date	
EXPENDITURES					
Administration	60,000	22,592	35,144	57,736	2,264
Engineering	2,222,456	1,730,347	482,919	2,213,266	9,190
Construction	9,316,000	4,462,663	4,189,868	8,652,531	663,469
Total expenditures	<u>11,598,456</u>	<u>6,215,602</u>	<u>4,707,931</u>	<u>10,923,533</u>	<u>674,923</u>
Revenues over (under) expenditures	<u>(11,598,456)</u>	<u>(6,215,602)</u>	<u>(4,707,931)</u>	<u>(10,923,533)</u>	<u>(674,923)</u>
OTHER FINANCING SOURCES					
Loan proceeds - NC Clean Water	11,498,456	6,215,602	4,707,931	10,923,533	574,923
Transfer from wastewater fund	100,000				100,000
Total other financing sources	<u>11,598,456</u>	<u>6,215,602</u>	<u>4,707,931</u>	<u>10,923,533</u>	<u>674,923</u>
Excess of revenues over (under) expenditures and other financial uses	<u><u> </u></u>				

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$185,985	\$86,594	(\$99,391)
Sale of power	33,311,250	33,478,317	167,067
Late payment penalties	278,000	308,098	30,098
Security light rental	523,260	535,632	12,372
Street lighting	74,000	74,000	
Reconnection fees	45,000	42,450	(2,550)
Pole rental	15,000	12,229	(2,771)
Total	<u>34,432,495</u>	<u>34,537,320</u>	<u>104,825</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(3,084)	(3,084)	
Interest earned	9,735	15,040	5,305
Cash over (short)		(98)	(98)
Reimbursement	147,953	147,953	
Miscellaneous	13,000	640	(12,360)
Total	<u>167,604</u>	<u>160,451</u>	<u>(7,153)</u>
Total revenues	<u>34,600,099</u>	<u>34,697,771</u>	<u>97,672</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,394,055	
Operating expenditures		2,406,349	
Purchases of power		29,094,147	
Total	<u>33,129,929</u>	<u>32,894,551</u>	<u>235,378</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$30,118	\$30,117	\$1
Capital Outlay	1,006,696	832,893	173,803
Total budgetary appropriations	<u>1,036,814</u>	<u>863,010</u>	<u>173,804</u>
Total expenditures	<u>34,166,743</u>	<u>33,757,561</u>	<u>409,182</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>433,356</u>	<u>940,210</u>	<u>506,854</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	118,246		(118,246)
Proceeds from capital debt	130,000	173,204	43,204
Transfer to general fund	<u>(681,602)</u>	<u>(681,602)</u>	
Total other financing sources (uses)	<u>(433,356)</u>	<u>(508,398)</u>	<u>(75,042)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$431,812</u>	<u>\$431,812</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$431,812
Reconciling items:		
Capital outlays	832,893	
Debt principal	30,117	
Proceeds from capital debt	(173,204)	
Increase in accrued vacation pay	(6,111)	
Decrease in OPEB	44,630	
Depreciation	(691,607)	
Bad debts	(131,641)	(94,923)
Change in Net Position		<u><u>\$336,889</u></u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$25,000	\$19,626	(\$5,374)
Studio revenues	2,000	1,690	(310)
Telephone revenues	308,000	320,996	12,996
Internet revenues	984,000	1,008,470	24,470
Cable rents	<u>3,095,000</u>	<u>2,777,804</u>	<u>(317,196)</u>
Total	<u>4,414,000</u>	<u>4,128,586</u>	<u>(285,414)</u>
Nonoperating revenues (expenditures) :			
Penalties	75,000	63,039	(11,961)
Reconnect fees	20,000	16,800	(3,200)
Ad sales	82,000	72,265	(9,735)
Bad check charges	2,100	1,800	(300)
Interest earned		29	29
Miscellaneous revenue	<u>64,280</u>	<u>7,392</u>	<u>(56,888)</u>
Total	<u>243,380</u>	<u>161,325</u>	<u>(82,055)</u>
Total revenues	<u>4,657,380</u>	<u>4,289,911</u>	<u>(367,469)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		499,026	
Operating expenditures		<u>3,541,868</u>	
Total cable operations and maintenance	<u>4,463,786</u>	<u>4,040,894</u>	<u>422,892</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Appropriated retained earnings	(\$90,996)		(\$90,996)
Capital outlay	884,590	819,135	65,455
Total budgetary appropriations	793,594	819,135	(25,541)
Total expenditures	5,257,380	4,860,029	397,351
REVENUES OVER (UNDER) EXPENDITURES	<u>(600,000)</u>	<u>(570,118)</u>	<u>29,882</u>
OTHER FINANCING SOURCES (USES) :			
Proceeds from capital debt	600,000	600,000	
Total other financing sources (uses)	600,000	600,000	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$29,882</u>	<u>\$29,882</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$29,882
Reconciling items:		
Capital outlays	819,135	
Proceeds from capital debt	(600,000)	
Increase in accrued vacation pay	(5,018)	
Increase in OPEB	(23,186)	
Depreciation	(371,492)	
Bad debts	(31,842)	(212,403)
Change in Net Position		<u><u>(\$182,521)</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, 2014

	2014		
	Financial Plan	Actual	Variance
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	583,067	583,067	
Electric Fund	83,412	83,412	
Water Fund	53,457	53,457	
Wastewater Fund	43,295	43,295	
Cable Fund	100,075	100,075	
Total	<u>863,306</u>	<u>863,306</u>	
Warehouse :			
General Fund sales	30,000	12,434	(17,566)
Electric Fund sales	230,000	241,390	11,390
Water Fund sales	65,000	59,598	(5,402)
Wastewater Fund sales	2,000	748	(1,252)
Cable Fund sales	20,000	28,125	8,125
Total	<u>347,000</u>	<u>342,295</u>	<u>(4,705)</u>
Garage :			
General Fund sales	179,500	185,953	6,453
Electric Fund sales	20,000	13,420	(6,580)
Water Fund sales	8,000	12,524	4,524
Wastewater Fund sales	10,000	3,856	(6,144)
Cable Fund sales	7,500	13,581	6,081
Sale of fuel	580,000	507,621	(72,379)
Total	<u>805,000</u>	<u>736,955</u>	<u>(68,045)</u>
Total operating revenues	<u>2,015,306</u>	<u>1,942,556</u>	<u>(72,750)</u>
Nonoperating revenues :			
Sale of materials		1,494	1,494
Total revenues	<u>2,015,306</u>	<u>1,944,050</u>	<u>(71,256)</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, 2014

	2014		
	Financial Plan	Actual	Variance
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$371,178	
Operating expenditures		467,860	
Total IRMS	881,122	839,038	42,084
Warehouse :			
Salaries and employee benefits		125,202	
Operating expenditures		43,130	
Purchases of inventory		338,069	
Pro rata administrative services		(268,457)	
Total warehouse	239,875	237,944	1,931
Garage :			
Salaries and employee benefits		213,515	
Operating expenditures		79,751	
Purchases of inventory		244,477	
Purchases of fuel		509,410	
Pro rata administrative services		(299,960)	
Total garage	805,000	747,193	57,807
Budgetary appropriations :			
Appropriated retained earnings	(144,521)		(144,521)
Capital outlay	233,830	122,875	110,955
Total budgetary appropriations	89,309	122,875	(33,566)
Total expenditures	2,015,306	1,947,050	68,256

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, 2014

	<u>2014</u>		
	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>Nil</u>	<u>(\$3,000)</u>	<u>(\$3,000)</u>
RECONCILIATION FROM FINANCIAL PLAN (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Reconciling items:			
Capital outlays		122,875	
Increase in accrued vacation pay		(7,739)	
Increase in OPEB		(7,351)	
Depreciation		(70,058)	
Increase in inventory		<u>48,210</u>	<u>85,937</u>
Change in Net Position			<u>\$82,937</u>

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2014

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2013-2014		\$8,783,795	\$8,656,951	\$126,844
2012-2013	\$133,568		93,893	39,675
2011-2012	38,592		16,989	21,603
2010-2011	18,285		6,147	12,138
2009-2010	12,761		2,119	10,642
2008-2009	12,119		1,792	10,327
2007-2008	8,892		877	8,015
2006-2007	9,980		713	9,267
2005-2006	9,028		721	8,307
2004-2005	8,284		710	7,574
2003-2004	9,471		9,471	0
TOTAL	<u>\$260,980</u>	<u>\$8,783,795</u>	<u>\$8,790,383</u>	<u>\$254,392</u>
Less Allowance for Doubtful Accounts				<u>134,967</u>
Net Property Tax Receivable (Exhibit 1)				<u><u>\$119,425</u></u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$8,732,981		
Less interest collected		<u>56,838</u>	\$ 8,676,143	
Discounts			103,012	
Releases - Prior years			2,364	
Amount written off for tax year 2003-2004 per statute of limitations			<u>8,864</u>	
TOTAL COLLECTIONS AND CREDITS			<u>\$ 8,790,383</u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2014

	<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	\$1,464,535,849	0.53	\$7,762,040	\$7,762,040	
Special district	85,787,857	0.14	120,103	120,103	
Vehicle Taxes	141,277,170	0.53	748,769		\$748,769
 PENALTIES			24,311	24,311	
 ADD DISCOVERIES :					
Current year	29,399,434	0.53	155,817	154,567	1,250
Prior year	3,499,811	0.53	18,549	18,549	
 LESS RELEASES	<u>(10,132,251)</u>		<u>(45,794)</u>	<u>(37,950)</u>	<u>(7,844)</u>
 TOTAL	<u>\$1,714,367,870</u>		<u>\$8,783,795</u>	<u>\$8,041,620</u>	<u>\$742,175</u>
 LESS UNCOLLECTED TAXES AT June 30, 2014			<u>126,844</u>	<u>101,257</u>	<u>25,587</u>
 CURRENT YEAR'S TAXES COLLECTED			<u>\$8,656,951</u>	<u>\$7,940,363</u>	<u>\$716,588</u>
 PERCENT CURRENT YEAR COLLECTED			<u>98.56%</u>	<u>98.74%</u>	<u>96.55%</u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	<u>\$681,602</u>	<u> </u>
Electric Fund :		
To General Fund	<u> </u>	<u>681,602</u>
Grand Totals	<u><u>\$681,602</u></u>	<u><u>\$681,602</u></u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2014

	<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>5,462,088</u>	<u>5,462,088</u>	<u>5,462,088</u>
Total cash	<u>5,464,583</u>	<u>5,464,583</u>	<u>5,464,583</u>
INVESTMENTS :			
North Carolina Capital Management Trust	16,313,054	16,313,054	16,313,054
US Government agencies	<u>7,004,822</u>	<u>7,004,822</u>	<u>7,004,822</u>
Total investments (including cash equivalents)	<u>23,317,876</u>	<u>23,317,876</u>	<u>23,317,876</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$28,782,459</u></u>	 <u><u>\$28,782,459</u></u>	 <u><u>\$28,782,459</u></u>



CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2014

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.	87-96
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	97-100
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.	101-104
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.	105-106
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.	107-109

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)

	2005	2006	2007	2008
Governmental activities				
Invested in capital assets, net of related debt	\$42,225,042	\$41,695,614	\$41,831,482	\$40,439,879
Restricted	716,926	1,260,371	745,287	1,404,040
Unrestricted	12,207,920	12,339,129	14,704,160	15,287,650
Total governmental activities net assets	\$55,149,888	\$55,295,114	\$57,280,929	\$57,131,569
Business-type activities				
Invested in capital assets, net of related debt	\$46,132,330	\$45,875,917	\$56,874,381	\$48,204,805
Unrestricted	22,771,585	23,181,717	11,302,071	17,210,171
Total business-type activities net assets	\$68,903,915	\$69,057,634	\$68,176,452	\$65,414,976
Primary government				
Net investment in capital assets	\$88,357,372	\$87,571,531	\$98,705,863	\$88,644,684
Restricted	716,926	1,260,371	745,287	1,404,040
Unrestricted	34,979,505	35,520,846	26,006,231	32,497,821
Total primary government net assets	\$124,053,803	\$124,352,748	\$125,457,381	\$122,546,545

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$39,304,208	\$37,897,550	\$36,335,474	\$33,673,160	\$31,808,471	\$30,490,395
1,134,780	1,315,433	5,549,775	6,255,232	7,590,604	6,480,008
13,048,121	11,272,201	4,231,094	4,219,343	3,471,229	4,749,144
\$53,487,109	\$50,485,184	\$46,116,343	\$44,147,735	\$42,870,304	\$41,719,547
\$49,218,328	\$50,256,119	\$51,016,008	\$50,371,775	\$51,986,555	\$54,455,902
13,890,105	13,075,437	14,737,059	16,813,565	17,958,568	17,348,180
\$63,108,433	\$63,331,556	\$65,753,067	\$67,185,340	\$69,945,123	\$71,804,082
\$88,522,536	\$88,153,669	\$87,351,482	\$84,044,935	\$83,795,026	\$84,946,297
1,134,780	1,315,433	9,780,869	10,474,575	7,695,753	6,480,008
26,938,226	24,347,638	18,968,153	16,813,565	21,324,648	22,097,324
\$116,595,542	\$113,816,740	\$116,100,504	\$111,333,075	\$112,815,427	\$113,523,629

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

	Fiscal Year			
	2005	2006	2007	2008
Expenses				
Governmental activities:				
General government	\$3,391,972	\$2,759,135	\$2,742,806	\$2,853,101
Public Safety	6,448,234	6,613,948	6,590,390	7,094,187
Transportation	2,375,152	2,209,624	2,244,130	2,476,434
Economic and physical development	146,743	121,415	10,308	117,668
Environmental protection	1,075,471	1,114,664	1,123,568	1,216,620
Culture and recreation	2,826,391	3,276,853	3,637,977	4,236,367
Interest on long-term debt	58,467	47,554	44,385	103,428
Total governmental activities expenses	<u>16,322,430</u>	<u>16,143,193</u>	<u>16,393,564</u>	<u>18,097,805</u>
Business-type activities:				
Water	2,739,467	2,864,899	3,169,593	3,634,869
Wastewater	3,307,399	3,401,640	3,380,132	4,077,418
Electric	22,871,668	24,664,921	25,241,193	26,505,211
Cable	3,511,824	3,874,683	4,001,462	4,015,776
Community house	312,556	296,857	323,251	312,634
Total business-type activities expenses	<u>32,742,914</u>	<u>35,103,000</u>	<u>36,115,631</u>	<u>38,545,908</u>
Total primary government expenses	<u>49,065,344</u>	<u>51,246,193</u>	<u>52,509,195</u>	<u>56,643,713</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$193,064	\$387,459	\$283,089	\$232,411
Public Safety	53,167	37,253	24,793	46,702
Transportation	340,468	4,796	4,797	7,656
Economic and physical development				
Environmental protection	200,736	351,808	1,093,367	1,062,990
Culture and recreation	577,595	638,779	628,181	677,243
Operating Grants and Contributions	654,103	873,196	998,104	1,100,958
Capital Grants and Contributions	983,972	709,313		258,646
Total governmental activities program rev's	<u>3,003,105</u>	<u>3,002,604</u>	<u>3,032,331</u>	<u>3,386,606</u>
Business-type activities:				
Charges for services:				
Water	3,616,616	4,078,099	3,945,198	4,011,287
Wastewater	3,889,286	4,309,576	4,353,978	4,138,754
Electric	22,227,843	23,116,052	23,094,949	23,422,320
Cable	2,691,868	3,046,581	3,367,112	3,496,493
Community house	211,852	199,688	241,420	223,929
Operating Grants and Contributions	22,202	19,415	21,016	21,734
Total business-type activities program rev's	<u>32,659,667</u>	<u>34,769,411</u>	<u>35,023,673</u>	<u>35,314,517</u>
Total primary government program rev's	<u>\$35,662,772</u>	<u>\$37,772,015</u>	<u>\$38,056,004</u>	<u>\$38,701,123</u>

2009	2010	2011	2012	2013	2014
\$3,607,537	\$3,630,766	\$3,609,198	\$3,982,814	\$3,912,009	\$3,440,468
8,483,992	7,408,112	8,020,152	7,331,704	7,416,835	7,660,604
2,468,048	2,412,047	2,275,232	2,396,894	2,277,238	2,576,293
96,570	218,656	216,413	200,710	119,035	136,785
1,307,076	1,176,135	1,210,998	1,105,025	1,155,375	1,047,375
4,655,871	4,183,063	4,765,491	4,680,010	4,724,850	4,811,792
212,829	201,570	177,894	132,767	127,653	122,825
20,831,923	19,230,349	20,275,378	19,829,924	19,732,995	19,796,142
4,075,486	3,719,723	4,428,054	4,626,908	4,803,191	4,949,707
4,113,272	3,739,629	3,791,743	3,465,124	3,723,556	4,091,744
26,798,280	27,380,632	29,042,901	30,455,928	32,061,280	33,682,364
4,009,621	4,173,224	4,200,613	4,201,231	4,433,307	4,472,432
345,256	300,521				
39,341,915	39,313,729	41,463,311	42,749,191	45,021,334	47,196,247
60,173,838	58,544,078	61,738,689	62,579,115	64,754,329	66,992,389
\$46,347	\$354,433	\$401,366	\$474,238	\$561,709	\$624,519
472,980	214,043	49,184	38,273	33,898	38,499
529,095		468,136			7,557
					125,549
1,035,070	1,024,768	1,094,518	1,085,405	1,211,551	1,189,156
888,946	861,029	970,297	988,922	1,032,610	1,101,543
286,720	724,637	425,492	797,030	716,426	843,004
12,291	323,177	934,725	775,628	863,938	
3,271,449	3,502,087	4,343,718	4,159,496	4,420,132	3,929,827
4,662,378	4,894,472	4,643,110	4,854,787	5,020,919	5,480,781
4,288,210	4,274,993	4,677,572	4,891,791	4,988,894	5,045,826
23,925,934	26,192,614	29,170,119	30,854,838	32,808,535	34,537,320
3,823,539	3,973,907	4,087,798	4,115,024	4,259,270	4,128,586
215,865	175,332				
20,980	19,392				
36,936,906	39,530,710	42,578,599	44,716,440	47,077,618	49,192,513
\$40,208,355	\$43,032,797	\$46,922,317	\$48,875,936	\$51,497,750	\$53,122,340

Net (Expense)/Revenue

Governmental activities	(\$13,319,325)	(\$13,140,589)	(\$13,361,233)	(\$14,711,199)
Business-type activities	(83,247)	(333,589)	(1,091,958)	(3,231,391)
Total primary government net expense	<u>(\$13,402,572)</u>	<u>(\$13,474,178)</u>	<u>(\$14,453,191)</u>	<u>(\$17,942,590)</u>

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

Governmental activities:

Ad valorem taxes	\$6,628,096	\$6,815,478	\$7,298,421	7,769,020
Other taxes	2,898,950	2,980,248	4,938,519	3,353,209
Unrestricted intergovernmental revenues	1,554,802	1,624,417	827,704	1,936,451
Restricted intergovernmental revenues				
Investment earnings	314,002	677,091	519,912	861,266
Other revenues	251,180	334,576	744,259	245,750
Transfers	903,442	706,054	620,527	585,795
Total governmental activities	<u>12,550,472</u>	<u>13,137,864</u>	<u>14,949,342</u>	<u>14,751,491</u>

Business-type activities:

Investment earnings	530,398	988,043	862,651	815,522
Other revenues	191,654	205,319	325,647	240,188
Transfers	(903,442)	(706,054)	(744,259)	(585,795)
Total business-type activities	<u>(181,390)</u>	<u>487,308</u>	<u>444,039</u>	<u>469,915</u>
Total primary government	<u>\$12,369,082</u>	<u>\$13,625,172</u>	<u>\$15,393,381</u>	<u>\$15,221,406</u>

Change in Net Position

Governmental activities	(\$768,853)	(\$2,725)	\$1,588,109	\$40,292
Business-type activities	(264,637)	153,719	(647,919)	(2,761,476)
Total primary government	<u>(1,033,490)</u>	<u>150,994</u>	<u>940,190</u>	<u>(2,721,184)</u>

(\$17,560,474)	(\$15,728,262)	(\$15,931,660)	(\$15,670,428)	(\$15,312,863)	(\$15,866,315)
(2,405,009)	216,981	1,115,288	1,967,249	2,056,284	1,996,266
(\$19,965,483)	(\$15,511,281)	(\$14,816,372)	(\$13,703,179)	(\$13,256,579)	(\$13,870,049)

7,862,442	7,820,692	7,708,574	7,623,645	7,944,516	8,746,988
2,976,369	2,641,496	3,064,831	3,517,569	3,460,242	3,339,080
1,993,844	1,713,894	1,719,297	1,751,859	1,737,882	1,796,345
		24,701			
526,467	137,801	37,993	21,939	32,542	20,640
95,722	64,690	74,362		64,550	130,903
461,170	337,467	(858,831)	786,808	795,700	681,602
13,916,014	12,716,040	11,770,927	13,701,820	14,035,432	14,715,558

373,351	105,723	32,730	31,769	46,163	34,987
186,285	237,886	206,554	220,063	215,785	509,308
(461,170)	(337,467)	858,831	(786,808)	(795,700)	(681,602)
98,466	6,142	1,098,115	(534,976)	(533,752)	(137,307)
\$14,014,480	\$12,722,182	\$12,869,042	\$13,166,844	\$13,501,680	\$14,578,251

(\$3,644,460)	(\$3,012,222)	(\$4,160,733)	(\$1,968,608)	(\$1,277,431)	(\$1,150,757)
(2,306,543)	223,123	2,213,403	1,432,273	1,522,532	1,858,959
(5,951,003)	(2,789,099)	(1,947,330)	(536,335)	245,101	708,202

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Fund					
Reserved	\$4,756,325	\$5,910,316	\$5,327,266	\$4,465,357	\$2,894,718
Unreserved	4,434,814	3,779,653	5,067,584	7,321,962	7,062,954
Restricted					
Committed					
Unassigned					
	<u>\$9,191,139</u>	<u>\$9,689,969</u>	<u>\$10,394,850</u>	<u>\$11,787,319</u>	<u>\$9,957,672</u>
Total general fund					
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	\$3,254,095	\$3,141,226	\$3,592,720	\$3,607,527	\$3,266,897
Permanent fund	320,799	340,995	363,816	390,615	415,774
Nonspendable					
Perpetual Maintenance					
Unassigned					
Total all other governmental funds	<u>\$3,574,894</u>	<u>\$3,482,221</u>	<u>\$3,956,536</u>	<u>\$3,998,142</u>	<u>\$3,682,671</u>

Notes:

* Prior to FY 2011 fund balance reporting reflects pre GASB 54 GAAP classifications.
From FY 2011 forward current GAAP is reported.

2010	2011*	2012	2013	2014
\$1,872,310				
7,115,736				
	\$2,104,203	\$1,965,729	\$2,610,137	\$1,895,424
	3,066,228	3,953,714	4,725,743	4,287,109
	5,203,732	5,096,368	4,702,828	5,951,951
\$8,988,046	\$10,374,163	\$11,015,811	\$12,038,708	\$12,134,484

\$2,985,427				
431,933				
	\$379,344	\$335,789	\$340,959	\$290,480
	3,163	13,580	18,231	6,995
\$3,417,360	\$382,507	\$349,369	\$359,190	\$297,475

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

	2005	2006	2007	2008
Revenues				
Ad valorem taxes	\$6,663,201	\$6,797,506	\$7,136,147	\$7,787,684
Other taxes and licenses	2,906,817	2,988,551	3,111,379	3,353,209
Unrestricted intergovernmental revenues	1,554,802	1,624,417	1,827,140	1,936,451
Restricted intergovernmental revenues	1,780,311	1,532,197	897,398	1,304,340
Other restricted revenues	52,415	42,009	61,109	163,289
Permits and fees	139,672	267,267	208,590	176,939
Sales and services	1,022,840	1,152,828	1,865,234	1,850,063
Investment earnings	314,002	677,091	827,704	861,266
Other revenues	251,180	334,576	557,160	137,725
Total revenues	14,685,240	15,416,442	16,491,861	17,570,966
Expenditures				
General government	4,069,987	2,892,163	2,712,591	5,741,643
Public safety	6,589,215	6,857,152	6,590,915	7,032,648
Transportation	1,194,636	1,068,305	1,122,564	1,601,674
Environmental protection	1,110,305	962,287	1,186,814	1,344,758
Cultural and recreational	2,852,031	3,805,386	4,386,677	3,935,811
Economic and physical development	186,743	121,415	50,308	117,668
Debt service				
Principal	521,106	603,254	577,181	452,798
Interest	48,963	47,554	50,401	89,346
Total expenditures	16,572,986	16,357,516	16,677,451	20,316,346
Other Financing Sources (Uses)				
Installment purchase debt issued	292,269	641,177	620,527	3,593,660
Transfers in	1,243,442	987,754	1,020,959	1,141,940
Transfers out	(340,000)	(281,700)	(276,700)	(556,145)
Total other financing sources (uses)	1,195,711	1,347,231	1,364,786	4,179,455
Net change in fund balances	(\$692,035)	\$406,157	\$1,179,196	\$1,434,075
Debt service as a percentage of noncapital expenditures	3.87%	4.48%	4.42%	3.53%

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$7,811,407	\$7,786,282	\$7,707,971	\$7,630,208	\$7,936,870	\$8,732,981
2,984,770	2,649,525	3,064,831	3,517,569	3,460,242	3,339,080
1,996,276	1,851,812	1,863,644	1,891,276	1,957,471	2,045,038
993,723	1,164,160	1,708,071	1,528,865	1,539,846	914,592
15,408	58,557	128,474	34,098	17,894	29,808
235,419	168,853	219,976	168,538	252,293	143,282
2,045,014	1,964,570	2,167,551	2,215,061	2,410,889	2,593,452
526,467	137,801	37,993	21,939	32,542	20,640
212,665	64,690	74,362	73,517	118,481	130,903
16,821,149	15,846,250	16,972,873	17,081,071	17,726,528	17,949,776
3,922,209	3,266,881	3,126,601	3,479,442	3,709,428	3,322,629
8,477,428	6,693,223	7,221,357	6,908,659	7,052,196	8,123,787
1,243,638	1,160,742	1,183,133	1,230,622	1,255,466	1,546,120
1,208,846	1,005,097	1,044,297	1,168,448	987,112	1,081,299
6,102,022	4,171,791	3,917,534	3,882,803	4,010,149	4,558,063
96,570	233,656	216,413	200,710	119,035	136,785
499,283	672,392	693,644	682,564	708,746	796,859
147,452	214,872	180,022	150,661	136,978	121,928
21,697,448	17,418,654	17,583,001	17,703,909	17,979,110	19,687,470
2,320,000		196,540	836,808	489,600	1,090,153
1,015,561	749,167	724,676	(50,000)	891,775	681,602
(554,391)	(411,700)	(1,583,507)	444,540	(96,075)	
2,781,170	337,467	(662,291)	1,231,348	1,285,300	1,771,755
(\$2,095,129)	(\$1,234,937)	(\$1,272,419)	\$608,510	\$1,032,718	\$34,061
3.73%	5.37%	5.23%	4.93%	4.70%	5.34%

**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>
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
2013-14	1,092,910,590	514,553,411	28,455,816	1,635,919,817	0.53

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

* Taxable value equals fair market value.

**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>
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
2013-14	0.53	0.14	0.68

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 2013-2014</u>			<u>Fiscal Year 2004-2005</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.	\$99,478,123	1	6.08%	60,216,899	1	4.53%
SGL Carbon Corp	34,483,462	2	2.11%	34,340,730	2	2.59%
Sypris	25,742,802	3	1.57%	21,772,317	5	1.64%
Viscotec	24,781,726	4	1.51%	27,392,626	3	2.06%
Caterpillar Inc.	24,470,746	5	1.50%	14,281,392	9	1.08%
Case Farms Processing	24,171,118	6	1.48%			
Gerresheimer Glass	18,938,213	7	1.16%			
American Roller Bearing	17,836,520	8	1.09%			
Fiddler's Run LLC	14,712,036	9	0.90%			
Ice River Springs Morg.	14,292,625	10	0.87%			
Grace Properties				16,211,083	6	1.22%
BASF Corp.				15,385,785	7	1.16%
Leviton MFG Co. Inc.				14,923,272	8	1.12%
James Kirkpatrick Trust				13,121,096	10	0.99%
HDM Furniture Industries				26,342,408	4	1.98%
Total	\$298,907,371		18.27%	\$243,987,608		18.37%

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
2004-05	6,713,167	6,583,691	98.07%	121,902	6,705,593	99.89%
2005-06	6,838,043	6,702,794	98.02%	126,942	6,829,736	99.88%
2006-07	7,123,752	7,003,027	98.31%	111,458	7,114,485	99.87%
2007-08	7,768,135	7,660,009	98.61%	100,111	7,760,120	99.90%
2008-09	7,893,702	7,776,653	98.52%	106,722	7,883,375	99.87%
2009-10	7,860,584	7,744,751	98.53%	105,191	7,849,942	99.86%
2010-11	7,778,447	7,660,545	98.48%	105,764	7,766,309	99.84%
2011-12	7,695,934	7,588,040	98.60%	86,291	7,674,331	99.72%
2012-13	8,041,336	7,907,768	98.34%	83,893	7,991,661	99.38%
2013-14	8,783,795	8,656,951	98.56%	N/A	8,656,951	98.56%

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/Loans	Notes Payable			
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
2013-14		4,358,453	425,000	2,888,934	10,352,110	18,024,497	Not available	1,072

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
2004-05	12,290,000	0.93%	720
2005-06	10,900,000	0.80%	640
2006-07	9,545,000	0.67%	554
2007-08	8,175,000	0.05%	472
2008-09	6,810,000	0.40%	398
2009-10	5,475,000	0.32%	321
2010-11	4,170,000	0.24%	246
2011-12	2,895,000	0.18%	171
2012-13	1,572,628	0.09%	93
2013-14	425,000	0.03%	25

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, 2014**

Governmental Unit	Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$48,906,642	26.64%	\$13,028,729
City of Morganton	<u>18,024,497</u>	100.00%	<u>\$18,024,497</u>
Total direct and overlapping debt	\$66,931,139		\$31,053,226

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, 2014**

Legal Debt Margin Calculation for Fiscal Year 2012-13	
Assessed Value	<u>\$1,714,367,870</u>
Debt Limit 8% of Assessed Value	137,149,430
Debt Applicable to Debt Limit:	
Total bonded debt and notes payable	12,813,307
Less: Other Deductions Allowed by Law (Water and Wastewater bonds)	<u>(425,000)</u>
Total Amount of Debt Applicable to Debt Limit	<u>12,388,307</u>
Legal Debt Margin	<u>124,761,123</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
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%
2013-14	137,149,429	12,388,307	124,761,122	9.03%

**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
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	475,280,775	28,065	12.5%
2012	16,917	492,149,364	29,092	10.9%
2013	16,861	Not available	Not available	10.4%
2014	16,807	Not available	Not available	7.5%

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 capita source: Bureau of Economic Analysis/Burke County

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

Fiscal Year 2013 - 2014

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
State of North Carolina	3,750	1	10.94%
Burke Public Schools	2,200	2	6.42%
Blue Ridge Healthcare / Grace Hosp.	1,400	3	4.08%
Turning Point Services	1,000	4	2.92%
Case Farms	725	5	2.11%
Leviton	620	6	1.81%
City of Morganton	596	7	1.74%
Western Piedmont College	560	8	1.63%
Burke County	500	9	1.46%
Continental Teves Inc.	461	10	1.34%
Total	11,812		34.45%

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government	57	57	57	62	51	51	48	48	48	48
Public Safety	101.5	102	103	104	100	97.58	92	91	87	87
Transportation/Garage	31	31	31	31	24	22	23	22	22	23
Environmental Protection	13	13	13	13	17	16	13	13	13	13
Cultural & Recreation	25.3	26.25	26.25	26.25	26.5	26.2	23.5	22.5	19.5	25.25
IRMS	5	5	5	6	6	6	5	5	5	6
Electric	26	26	26	26	25	26	24	22	22	24
Cable	8	8	8	8	8	8	8	8	8	9
Water	22	22	22	22	22	22	21	20	20	20
Wastewater	27	27	27	27	24	23	21	21	23	22
Total	315.8	317.25	318.25	325.25	303.5	297.8	278.5	272.5	267.5	277.25

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, 2014

Fiscal Year 2013-14

General Government

Building Permits Issued	1,800
Building Inspections Conducted	5,250
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	640

Electric

Customers	8,230
-----------	-------

Public Works

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

Water Treatment Facility

Customers	12,108
Consumptions	2,400,000,000

Wastewater

Customers	7,437
Average Daily Sewage Treatment	5.20

Cable Television

Subscribers / Customers	3,454
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, 2014

Fiscal Year 2013-14

Police	
Stations	1
Patrol units	77
Fire Protection	
Fire Stations	3
Electric	
Miles of Service	280
Public Works	
Miles of Streets	87.88
Primary Streets	86.79
Secondary Streets	1.09
Streetlights	3,420
Traffic Signals	4
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.

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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, 2014 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, 2014. 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 2014-1 that we consider to be a significant deficiency.

Compliance and Other Matters

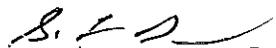
As part of obtaining reasonable assurance about whether the City of Morganton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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, 2014

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

403 South Green Street
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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, 2014. 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, 2014.

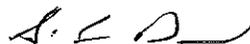
Report on Internal Control Over Compliance

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, 2014

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

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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, 2014. 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, 2014.

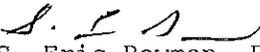
Report on Internal Control Over Compliance

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, 2014

CITY OF MORGANTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- * Material weaknesses identified? yes no
- * Significant deficiencies identified that are not considered to be material weaknesses yes none reported

Noncompliance material to financial statements noted yes no

Federal Awards

Internal control over major federal programs:

- * Material weaknesses identified? yes no
- * Significant deficiencies identified that are not considered to be material weaknesses yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes no

Identification of major federal program:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
20.601	Governor's Highway Safety Program
66.458	Clean Water State Revolving Loan

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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

Powell Bill

CITY OF MORGANTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

Section II.

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

2014-1

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.

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, 2014

Finding: 2014-1

- | | | |
|----|---------------------------|--|
| 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 |

CITY OF MORGANTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Prior year audit finding 2013-1 has not been corrected because it is not feasible to hire additional staff.

Prior year audit finding 2013-2 has been corrected.

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

<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 Public Safety: Edward Byrne Memorial Justice Assistance	16.738	J009094
Direct Program: Bullet Proof Vests	16.607	
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	PT-2014-03-19
<u>U.S. Department of Homeland Security</u> Passed through N.C. Department of Commerce: Assistance to Fire Fighters	97.044	ENW-2012-01971
Passed through N.C. Department of Public Safety: FEMA	97.036	4146-DR-NC
Total U.S. Department of Homeland Security		
<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>\$ 85 084</u>	<u>\$</u>	<u>\$</u>
7 500		2 500
<u>10 661</u>	<u></u>	<u></u>
<u>18 161</u>	<u></u>	<u>2 500</u>
<u>113 652</u>	<u></u>	<u>20 056</u>
64 681		3 404
<u>59 102</u>	<u>19 701</u>	<u></u>
<u>123 783</u>	<u>19 701</u>	<u>3 404</u>
<u>4 707 931</u>	<u></u>	<u></u>
<u>\$ 5 048 611</u>	<u>\$ 19 701</u>	<u>\$ 25 960</u>

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

State Awards:
Cash Programs:

N.C. Department of Transportation
Powell Bill

N.C. Department of Cultural Resources
Silo Barn Rehabilitation Project

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, 2014:

<u>Program Title</u>	<u>Federal CFDA</u>	<u>Amount Outstanding</u>
Clean Water Revolving Loan	66.458	<u>\$10,352,110</u>

<u>Federal</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Local</u> <u>Expenditures</u>
\$ _____	\$ 921 850	\$ _____
_____	11 700	_____
_____	933 550	_____
<u>\$ 5 048 611</u>	<u>\$ 953 251</u>	<u>\$ 25 960</u>