

**Comprehensive Annual  
Financial Report  
Fiscal Year Ended  
June 30, 2015**



**City of Morganton  
North Carolina**

**Comprehensive  
Annual Financial Report**

***Fiscal Year Ended June 30, 2015***

**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 10, 2015

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, 2015.

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, 2015. 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 serves a population of 16,932. 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 which is 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 89,842 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, 2014. 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**

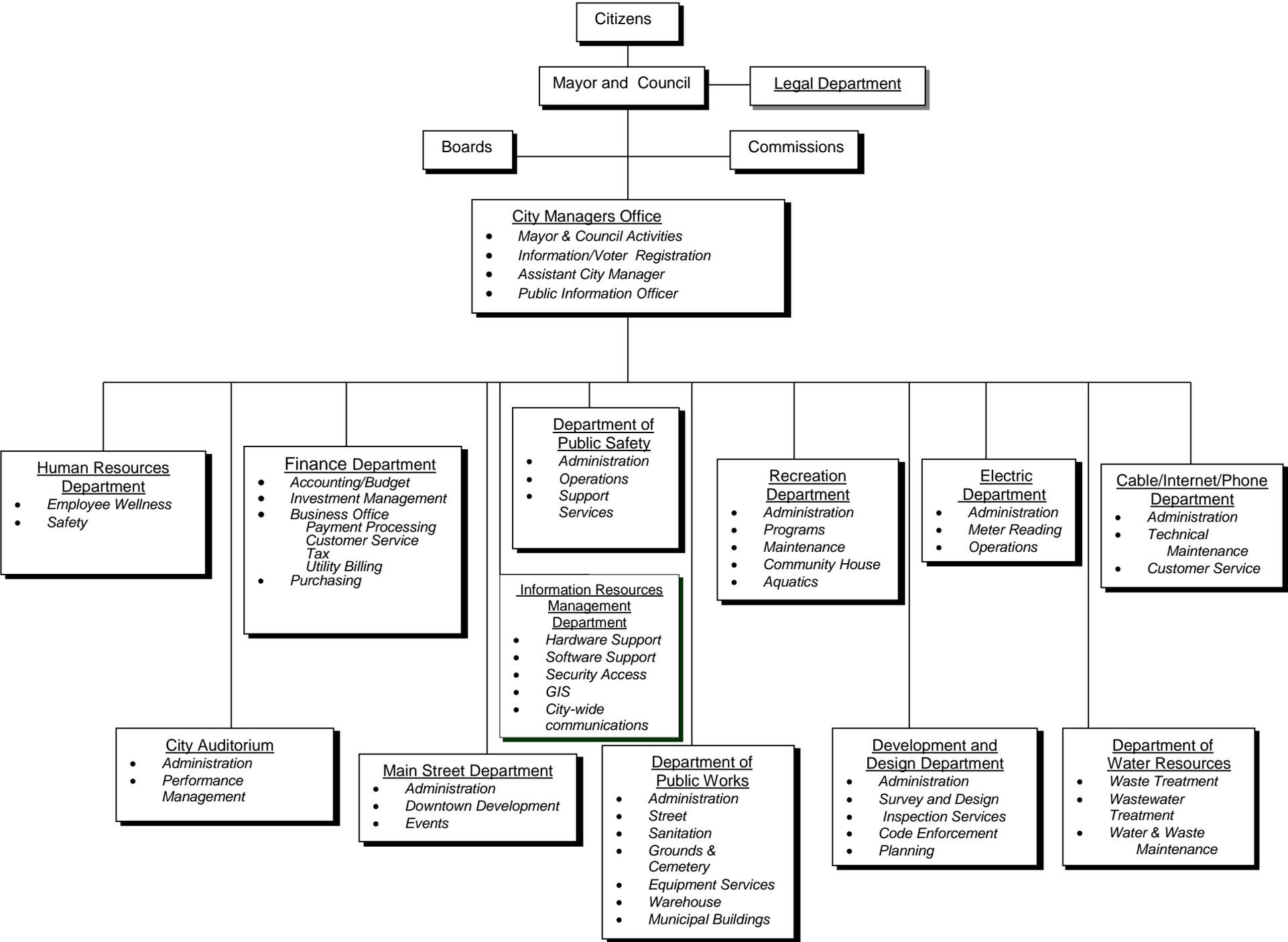
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

# CITY OF MORGANTON

## ORGANIZATION CHART



**S. Eric Bowman, P.A.**  
CERTIFIED PUBLIC ACCOUNTANT

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

Independent Auditor's Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina as of and for the year ended June 30, 2015, 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, .16 percent and 3.2 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the Other Post Employment Benefit and Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on page 4 through 12 and 65 through 66 respectively, the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions on pages 67 and 68 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*

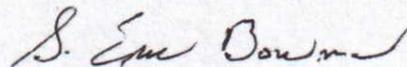
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morganton's basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, other schedules and statistical 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 10, 2015 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 10, 2015



## **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, 2015. 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.

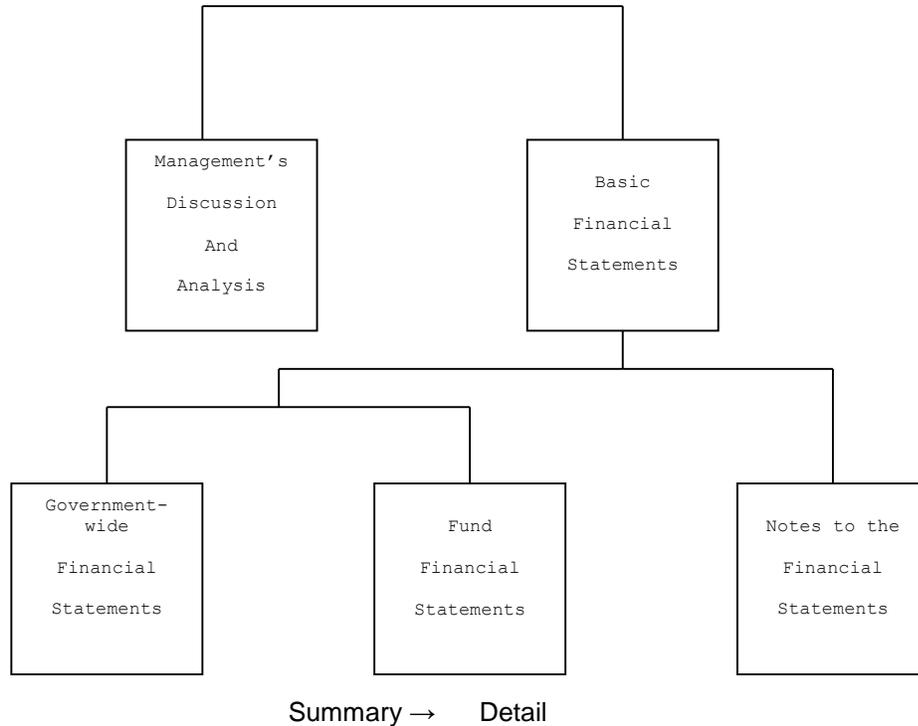
### **Financial Highlights**

- 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 \$114,283,643.
- The government's total net position increased by \$2,381,422. Both governmental activities and business-type activities experienced an increase in net position.
- As of the close of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balances of \$13,281,553, an increase of \$849,594 in comparison with the prior year. Approximately 84 percent of this amount, or \$11,187,907, 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 \$6,918,323, or 35 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt decreased by \$1,187,212 (7%) 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**



### **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 Statues 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 gage 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			
	2015	2014	2015	2014	2015	2014
Current and other assets	\$17,879,773	\$16,214,876	\$22,996,844	\$22,305,916	\$40,876,617	\$38,520,792
Capital assets	35,391,914	34,848,848	67,639,428	68,121,946	103,031,342	102,970,794
Deferred outflows of resources	590,091	580,491	229,480	225,944	819,571	806,435
Total assets and deferred outflows of resources	53,861,778	51,644,215	90,865,752	90,653,806	144,727,530	142,298,021
Liabilities outstanding	6,018,300	4,358,453	12,412,457	13,666,044	18,430,757	18,024,497
Other liabilities	3,321,652	6,620,966	5,625,802	5,637,675	8,947,454	12,258,641
Deferred inflows of resources	2,246,142	112,662	819,534		3,065,676	112,662
Total liabilities and deferred inflows of resources	11,586,094	11,092,081	18,857,793	19,303,719	30,443,887	30,395,800

Net position:						
Net investment in capital assets	31,287,687	30,490,397	54,912,799	54,455,902	86,200,486	84,946,299
Restricted	6,222,219	6,480,008			6,222,219	6,480,008
Unrestricted	4,765,778	3,581,729	17,095,160	16,894,185	21,860,938	20,475,914
Total net position	<u>\$42,275,684</u>	<u>\$40,552,134</u>	<u>\$72,007,959</u>	<u>\$71,350,087</u>	<u>\$114,283,643</u>	<u>\$111,902,221</u>

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 \$114,283,643 as of June 30, 2015. 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 these 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, \$6,222,219 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$21,860,938 is unrestricted. Also, the City of Morganton implemented GASB Statement 68 this year. With the new reporting change, the City is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$114,283,643. Decisions regarding the allocations are made by the administrators of the pension plan, not by the City of Morganton's management.

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 by maintaining a better than 99% collection rate.
- Increased sales tax revenues due to economic growth in the City.
- 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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$3,284,944	\$3,086,823	\$49,373,053	\$49,192,513	\$52,657,997	\$52,279,336
Operating grants and Contributions	720,271	843,004			720,271	843,004
Capital grants and Contributions	945,182		50,000		995,182	
General revenues:						
Ad valorem taxes	9,021,003	8,746,988			9,021,003	8,746,988
Occupancy tax	79,879				79,879	
Privilege license tax	190,977				190,977	
Carbon City fire tax	9,164				9,164	
Sales tax	3,275,403				3,275,403	

Other taxes		3,339,080			3,339,080	
Unrestricted Intergovernmental	2,064,379	1,796,345			2,064,379	1,796,345
Investment earnings	32,694	20,640	37,703	34,987	70,397	55,627
Other	291,330	130,903	257,310	509,308	548,640	640,211
Total revenues	19,915,226	17,963,783	49,718,066	49,736,808	69,633,292	67,700,591
Expenses:						
General government	1,849,269	3,440,468			1,849,269	3,440,468
Public safety	7,852,782	7,660,604			7,852,782	7,660,604
Transportation	2,312,432	2,576,293			2,312,432	2,576,293
Economic and physical development	141,751	136,785			141,751	136,785
Environmental protection	1,097,467	1,047,375			1,097,467	1,047,375
Culture and recreation	5,455,971	4,811,792			5,455,971	4,811,792
Interest on long-term debt	124,446	122,825			124,446	122,825
Water			5,070,715	4,949,707	5,070,715	4,949,707
Wastewater			4,280,212	4,091,744	4,280,212	4,091,744
Electric			34,719,580	33,682,364	34,719,580	33,682,364
Cable			4,347,245	4,472,432	4,347,245	4,472,432
Total expenses	18,834,118	19,796,142	48,417,752	47,196,247	67,251,870	66,992,389
Increase (decrease) in net assets before transfers	1,081,108	(1,832,359)	1,300,314	2,540,561	2,381,422	708,202
Transfers	642,442	681,602	(642,442)	(681,602)		
Increase(decrease) in net assets	1,723,550	(1,150,757)	657,872	1,858,959	2,381,422	708,202
Net assets, July 1	40,552,134	42,870,304	71,350,087	69,945,123	111,902,221	112,815,427
Prior year adjustment		(1,167,413)		(453,995)		(1,621,408)
Net assets, June 30	\$42,275,684	\$40,552,134	\$72,007,959	\$71,350,087	\$114,283,643	\$111,902,221

**Governmental activities:** Governmental activities increased the City's net position by \$1,723,550, thereby accounting for an increase in the net position of the City of Morganton.

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

- Growth in ad valorem tax revenue
- Growth in sales tax revenue

**Business-type activities:** Business-type activities increased the City of Morganton's net position by \$657,872.

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 City'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 \$3,852,811, while total fund balance was \$12,870,951. 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 19.62% of general fund expenditures, while total fund balance represents 65.53% of the same amount.

At June 30, 2015, the governmental funds of the City of Morganton reported a combined fund balance of \$13,281,553 with a net increase in fund balance of \$849,594. Included in this change in fund balance are increases in fund balance in the General Fund, Entitlement Fund and Capital Projects Fund and a decrease in the Permanent Fund.

**General Fund Budgetary Highlights:** During the fiscal year, there was a \$2,158,940 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 \$17,095,160. The decrease in unrestricted net position is directly related to a large one-time grant received in the prior fiscal year.

### **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, 2015 totals \$103,031,342 (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. A capital projects fund was established this year to record revenue and expenditures of the Community House renovation project.

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

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land and Buildings	\$17,990,136	\$17,415,567	\$20,887,179	\$21,069,879	\$38,877,315	\$38,485,446
Plant and system			40,225,678	29,659,275	40,225,678	29,659,275
Equipment	8,476,631	8,017,973	6,526,571	6,273,200	15,003,202	14,291,173
Infrastructure Construction in Progress	8,321,270	9,415,308			8,321,270	9,415,308
	603,877			11,119,592	603,877	11,119,592
<b>Total assets</b>	<b>\$35,391,914</b>	<b>\$34,848,848</b>	<b>\$67,639,428</b>	<b>\$68,121,946</b>	<b>\$103,031,342</b>	<b>\$102,970,794</b>

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 (page 42).

**Long-term Debt.** During the 2014/2015 fiscal year the City paid off its bonded debt.

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 which is 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 \$123,164,084.

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 (page 55).

**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 6.2% is higher than the State's rate of 5.8% and the national rate of 5.3%. The MSA's labor force of 166,500 has increased. 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, 2016**

**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 utility 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 2015-2016 represents an increase of .4% or \$80,255 over the 2014-2015 budget.

**Business-type Activities:** Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2015-2016 business-type activities budget overall is 1% or \$1,023,194 lower than the 2014-2015 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, 2015

Exhibit 1

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$14,001,506	\$16,129,666	\$30,131,172	\$212,071
Taxes receivable (net)	87,115		87,115	
Accrued interest receivable-taxes	3,445		3,445	
Interest receivable-investments	5,888	6,945	12,833	
Accounts receivable (net)	1,249,427	5,784,039	7,033,466	
Inventories	816,584		816,584	171,456
Restricted cash	838,547	735,038	1,573,585	
Net pension asset	877,261	341,156	1,218,417	11,736
Net capital assets				
Land	12,803,783	15,040,621	27,844,404	11,000
Buildings	5,186,353	5,846,558	11,032,911	
Plant and system		40,225,678	40,225,678	
Equipment	8,476,631	6,526,571	15,003,202	23,583
Infrastructure	8,321,270		8,321,270	
Construction in progress	603,877		603,877	
Total assets	53,271,687	90,636,272	143,907,959	429,846
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Contributions to pension plan in current fiscal ye	590,091	229,480	819,571	2,965
<b>LIABILITIES</b>				
Accounts payable and current liabilities	1,981,827	3,614,758	5,596,585	223,110
Customer deposits		735,038	735,038	
Accrued interest payable	25,653		25,653	
Noncurrent liabilities:				
Current:				
Installment purchases payable	974,446	583,938	1,558,384	
Revolving loan payable		574,937	574,937	
Compensated absences payable	339,726	117,131	456,857	
Due in more than one year:				
Installment purchases payable	3,136,210	1,793,829	4,930,039	
Revolving loan payable		9,773,925	9,773,925	
Compensated absences payable	473,704	175,696	649,400	
Net pension obligation	688,079		688,079	
OPEB	1,720,307	669,007	2,389,314	
Total liabilities	9,339,952	18,038,259	27,378,211	223,110
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid ticket sales	128,709		128,709	
Prepaid taxes	10,060		10,060	
Pension deferrals	2,107,373	819,534	2,926,907	28,603
Total deferred inflows of resources	2,246,142	819,534	3,065,676	28,603
<b>NET POSITION</b>				
Net investment in capital assets	31,287,687	54,912,799	86,200,486	34,583
Restricted for:				
Perpetual Maintenance	248,802		248,802	
Stabilization by State Statue	1,254,882		1,254,882	
Transportation	589,962		589,962	
Canteen operations	5,265		5,265	
Public safety	51,472		51,472	
Capital improvements	2,774,154		2,774,154	87,503
Economic development	1,297,682		1,297,682	
Unrestricted	4,765,778	17,095,160	21,860,938	59,012
Total net position	\$42,275,684	\$72,007,959	\$114,283,643	\$181,098

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

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CITY OF MORGANTON  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government:</b>				
Governmental activities				
General government	\$1,849,269	\$817,679	\$141,319	
Public safety	7,852,782	49,396	80,894	141,544
Transportation	2,312,432	3,240	487,379	
Economic and physical developmer	141,751	155,545		
Environmental protection	1,097,467	1,183,901	10,679	
Culture and recreation	5,455,971	1,075,183		803,638
Interest on long-term debt	124,446			
Total governmental activities	<u>18,834,118</u>	<u>3,284,944</u>	<u>720,271</u>	<u>945,182</u>
Business-type activities:				
Water	5,070,715	5,629,436		
Wastewater	4,280,212	4,980,346		50,000
Electric	34,719,580	34,615,760		
Cable	4,347,245	4,147,511		
Total business-type activities	<u>48,417,752</u>	<u>49,373,053</u>		<u>50,000</u>
Total primary government	<u>67,251,870</u>	<u>52,657,997</u>	<u>720,271</u>	<u>995,182</u>
<b>Component units:</b>				
Morganton ABC board	2,954,925	2,953,446		
Morganton redevelopment commission	1,072,221			
Total component units	<u>\$4,027,146</u>	<u>2,953,446</u>		

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

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Functions/Programs	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
Primary government:					
Governmental activities					
General government	(\$890,271)		(\$890,271)		
Public safety	(7,580,948)		(7,580,948)		
Transportation	(1,821,813)		(1,821,813)		
Economic and physical developmen	13,794		13,794		
Environmental protection	97,113		97,113		
Culture and recreation	(3,577,150)		(3,577,150)		
Interest on long-term debt	(124,446)		(124,446)		
Total governmental activities	(13,883,721)		(13,883,721)		
Business-type activities:					
Water		558,721	558,721		
Wastewater		750,134	750,134		
Electric		(103,820)	(103,820)		
Cable		(199,734)	(199,734)		
Total business-type activities		1,005,301	1,005,301		
Total primary government	(13,883,721)	1,005,301	(12,878,420)		
Component units:					
Morganton ABC board				(\$1,479)	
Morganton redevelopment commission					(1,072,221)
Total component units				(1,479)	(1,072,221)
General revenues:					
Ad valorem taxes	9,021,003		9,021,003		
Occupancy tax	79,879		79,879		
Privilege license tax	190,977		190,977		
Carbon City fire tax	9,164		9,164		
Sales tax	3,275,403		3,275,403		
Unrestricted intergovernmental reven	2,064,379		2,064,379		
Investment earnings	32,694	37,703	70,397		
Other revenues	291,330	257,310	548,640		
Transfers	642,442	(642,442)			
Total general revenues and transfe	15,607,271	(347,429)	15,259,842		
Change in net position	1,723,550	657,872	2,381,422	(\$1,479)	(1,072,221)
Net position, beginning	41,719,547	71,804,082	113,523,629	195,000	1,072,221
Restatement	(1,167,413)	(453,995)	(1,621,408)	(12,423)	
Net position, ending	\$42,275,684	\$72,007,959	\$114,283,643	\$181,098	

CITY OF MORGANTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

ASSETS	General	CDBG Entitlement Fund	Permanent Fund	Capital Project Fund	Total Governmental Funds
Cash and cash equivalents	\$13,039,569	\$20,789		\$169,744	\$13,230,102
Restricted cash	589,962		\$248,585		838,547
Taxes receivable (net)	87,115				87,115
Accounts receivable (net)	1,249,211				1,249,211
Interest receivable	5,671		217		5,888
Total assets	<u>\$14,971,528</u>	<u>\$20,789</u>	<u>\$248,802</u>	<u>\$169,744</u>	<u>\$15,410,863</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	1,874,693			28,733	1,903,426
Total liabilities	<u>1,874,693</u>			<u>28,733</u>	<u>1,903,426</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes receivable	87,115				87,115
Prepaid taxes	10,060				10,060
Ticket sales	128,709				128,709
Total deferred inflows of resources	<u>225,884</u>				<u>225,884</u>
<b>FUND BALANCES</b>					
Nonspendable					
Perpetual Maintenance			248,802		248,802
Restricted					
Stabilization by State Statue	1,254,882				1,254,882
Streets - Powell Bill	589,962				589,962
Committed					
Canteen operations	5,265				5,265
Drug Enforcement	51,472				51,472
Capital Projects	2,774,154				2,774,154
Economic Development	1,276,893	20,789			1,297,682
Assigned - Community House				141,011	141,011
Unassigned	6,918,323				6,918,323
Total fund balances	<u>\$12,870,951</u>	<u>\$20,789</u>	<u>\$248,802</u>	<u>\$141,011</u>	<u>\$13,281,553</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$14,971,528</u>	<u>\$20,789</u>	<u>\$248,802</u>	<u>\$169,744</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	34,802,956
Net pension asset	828,524
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	557,308
Other long-term assets are not available to pay for current-period expenditures and, therefore, are inflows of resources in the funds	3,445
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	1,928,206
Liabilities of earned revenues considered deferred inflows of resources in fund statements	87,115
Pension related deferrals	(1,990,297)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds	(7,197,473)
Other liabilities not reported in the funds	(25,653)
Net position of governmental activities	<u>42,275,684</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, 2015

REVENUES	General	CDBG Entitlement Fund	Permanent Fund	Capital Project Fund	Total Governmental Funds
Ad valorem taxes	\$9,054,942				\$9,054,942
Other taxes and licenses	3,555,423				3,555,423
Unrestricted intergovernmental revenue	2,487,639				2,487,639
Restricted intergovernmental revenues	692,675	\$155,545			848,220
Other restricted revenues	141,319				141,319
Permits and fees	181,362				181,362
Sales and services	3,239,681		\$17,305		3,256,986
Investment earnings	31,677		1,017		32,694
Other revenues	291,330			99,250	390,580
Total revenues	<u>19,676,048</u>	<u>155,545</u>	<u>18,322</u>	<u>99,250</u>	<u>19,949,165</u>
<b>EXPENDITURES</b>					
Current					
General government	3,111,885		60,000		3,171,885
Public safety	7,813,649				7,813,649
Transportation	1,397,533				1,397,533
Environmental protection	1,181,444				1,181,444
Cultural and recreational	5,064,967			603,877	5,668,844
Economic and physical development		141,751			141,751
Debt service					
Principal retirement	953,035				953,035
Interest and fees	119,111				119,111
Total expenditures	<u>19,641,624</u>	<u>141,751</u>	<u>60,000</u>	<u>603,877</u>	<u>20,447,252</u>
Revenues over (under) expenditures	<u>34,424</u>	<u>13,794</u>	<u>(41,678)</u>	<u>(504,627)</u>	<u>(498,087)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers - in	642,442			645,638	1,288,080
Transfers - out	(645,638)				(645,638)
Issuance of capital debt	705,239				705,239
Total other financing sources (uses)	<u>702,043</u>				<u>702,043</u>
Net change in fund balances	736,467	13,794	(41,678)	141,011	849,594
Fund balances - beginning (consolidated)	<u>12,134,484</u>	<u>6,995</u>	<u>290,480</u>		<u>12,431,959</u>
Fund balances - ending	<u>\$12,870,951</u>	<u>\$20,789</u>	<u>\$248,802</u>	<u>\$141,011</u>	<u>\$13,281,553</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, 2015

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

Net change in fund balances - total governmental funds	\$849,594
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 capital outlays exceeded depreciation in the current period	439,115
Contributions to the pension plan in the current fiscal year that are not included on the Statement of Activities	557,308
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(33,939)
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	247,796
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	(303,455)
The net revenue of certain activities of the internal service fund is reported with governmental activities	<u>(32,869)</u>
Total changes in net position of governmental activities	<u><u>\$1,723,550</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, 2015

	2015			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes				
Current year	\$8,667,500	\$8,813,175	\$8,915,484	\$102,309
Prior years	50,000	50,000	85,338	35,338
Special tax - Main Street	119,000	119,000	117,871	(1,129)
Interest	32,700	32,700	37,013	4,313
Discounts	(108,000)	(108,000)	(100,764)	7,236
Total	<u>8,761,200</u>	<u>8,906,875</u>	<u>9,054,942</u>	<u>148,067</u>
Other taxes and licenses				
Privilege licenses	216,500	216,500	190,977	(25,523)
Carbon city fire tax	9,700	9,700	9,164	(536)
Occupancy tax	78,000	78,000	79,879	1,879
One-half cent sales tax	2,147,120	2,147,120	2,204,828	57,708
One cent sales tax	1,049,140	1,049,140	1,070,575	21,435
Total	<u>3,500,460</u>	<u>3,500,460</u>	<u>3,555,423</u>	<u>54,963</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	28,529	28,529	28,155	(374)
Section eight in lieu of taxes	2,568	2,568	3,405	837
Payments in lieu of taxes	363,880	363,880	363,879	(1)
Utility sales tax	1,530,610	1,530,610	1,760,734	230,124
Beer and wine	82,975	82,975	79,906	(3,069)
Solid waste disposal	9,500	9,500	10,679	1,179
Alcohol Beverage Commission	205,017	205,017	240,881	35,864
Total	<u>2,223,079</u>	<u>2,223,079</u>	<u>2,487,639</u>	<u>264,560</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	65,867	65,867	63,752	(2,115)
Drug restitution	2,500	2,500		(2,500)
ABC restitution	1,500	1,500		(1,500)
State and federal grants	134,479	309,479	141,544	(167,935)
Powell bill street aid allocation	491,783	491,783	487,379	(4,404)
Total	<u>696,129</u>	<u>871,129</u>	<u>692,675</u>	<u>(178,454)</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, 2015

	2015			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	22,500	165,913	\$141,319	(24,594)
Total	<u>27,500</u>	<u>170,913</u>	<u>141,319</u>	<u>(29,594)</u>
Permits and fees				
Building permits	45,000	45,000	58,364	13,364
Plumbing permits	25,000	25,000	30,885	5,885
Electric permits	35,000	59,075	59,546	471
HVAC permits	35,000	35,000	30,522	(4,478)
Variance/planning/zoning requests	4,500	4,500	2,045	(2,455)
Total	<u>144,500</u>	<u>168,575</u>	<u>181,362</u>	<u>12,787</u>
Sales and services				
Parking revenue	7,000	7,000	11,170	4,170
Reimbursement for services	5,000	5,000	5,274	274
Solid waste user fees	1,185,480	1,185,480	1,152,100	(33,380)
Solid waste late charges	12,000	12,000	14,496	2,496
Curb cuts	4,000	4,000	3,240	(760)
Civil citations	500	500	50	(450)
Engineering inspections	6,000	6,000	5,198	(802)
Rent	600	600	30,775	30,175
Fire protection	500	500	1,300	800
False alarm violations	25,000	25,000	31,500	6,500
Recreation revenue	632,235	632,235	544,842	(87,393)
Food sales and services	343,000	343,000	204,266	(138,734)
Bad check charges/verification fee	7,500	7,500	7,750	250
Canteen sales	1,750	1,750	1,170	(580)
Main street revenue	24,000	24,000	29,026	5,026
Façade loan program	5,000	5,000	2,887	(2,113)
DARE program	20	20	5,376	5,356
Municipal auditorium ticket sales	303,100	303,100	326,075	22,975
Sale of property		300,000	300,000	
Surplus sale	15,500	129,720	146,809	17,089
Reimbursements				
Narcotics task force	3,000	3,000	2,059	(941)
Insurance		56,720	29,909	(26,811)
Stormwater/capital reserve/cable	225,000	375,000	375,000	
Court cost and fees	12,000	12,000	9,409	(2,591)
Total	<u>2,818,185</u>	<u>3,439,125</u>	<u>3,239,681</u>	<u>(199,444)</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, 2015

	2015			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Investment earnings	\$30,000	\$30,000	\$31,246	\$1,246
Other revenue				
Revolving loan principal			17,898	17,898
Revolving loan interest			5,622	5,622
Miscellaneous	57,200	73,700	79,545	5,845
Contributions	20,612	57,082	37,070	(20,012)
Total	77,812	130,782	140,135	9,353
Total revenue	18,278,865	19,440,938	19,524,422	83,484
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			65,508	
Operating expenditures			194,763	
Donations/economic development			531,331	
Pro rata administrative services			(387,325)	
Total	373,163	431,715	404,277	27,438
Legal				
Salaries and employee benefits			183,078	
Operating expenditures			60,632	
Pro rata administrative services			(182,048)	
Total	60,683	61,683	61,662	21
Executive				
Salaries and employee benefits			\$468,750	
Operating expenditures			50,696	
Pro rata administrative services			(415,278)	
Total	103,820	104,373	104,168	205
Human resources				
Salaries and employee benefits			256,877	
Operating expenditures			823,176	
Pro rata administrative services			(649,892)	
Total	496,729	500,078	430,161	69,917

CITY OF MORGANTON  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Accounting				
Salaries and employee benefits			\$260,056	
Operating expenditures			325,443	
Pro rata administrative services			(510,794)	
Total	\$90,140	\$106,140	74,705	\$31,435
Main street				
Salaries and employee benefits			153,919	
Operating expenditures			304,627	
Capital outlay			179,801	
Total	490,250	795,568	638,347	157,221
Canteen operations				
Operating expenditures	2,135	2,174	1,547	627
Business office/tax				
Salaries and employee benefits			330,648	
Operating expenditures			169,020	
Pro rata administrative services			(512,635)	
Total	28,084	30,884	(12,967)	43,851
Development				
Salaries and employee benefits			448,893	
Operating expenditures			119,300	
Total	760,681	789,391	568,193	221,198
Municipal buildings				
Operating expenditures			12,597	
Pro rata administrative services			(90,452)	
Capital outlay			51,202	
Total	(8,782)	45,418	(26,653)	72,071

CITY OF MORGANTON  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
General government (continued)				
Design				
Salaries and employee benefits			\$369,846	
Operating expenditures			47,552	
Pro rata administrative services			(262,534)	
Total	\$175,022	\$175,822	154,864	\$20,958
Public works				
Salaries and employee benefits			132,173	
Operating expenditures			18,326	
Total	177,189	177,189	150,499	26,690
Cemetery and grounds				
Salaries and employee benefits			464,253	
Operating expenditures			69,025	
Pro rata reimbursement			(10,000)	
Capital outlay			39,804	
Total	667,496	659,418	563,082	96,336
Total general government	3,416,610	3,879,853	3,111,885	767,968
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,760,158	
Operating expenditures			1,455,948	
Pro rata administrative services			(19,200)	
Capital outlay			616,743	
Total public safety	8,131,334	8,326,801	7,813,649	513,152
Transportation				
Street department				
Salaries and employee benefits			546,852	
Operating expenditures			102,304	
Capital outlay			139,147	
Total	\$1,041,615	\$1,200,212	788,303	411,909

CITY OF MORGANTON  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Powell bill				
Salaries and employee benefits			326,581	
Operating expenditures			82,526	
Capital outlay			200,123	
Total	468,500	512,500	609,230	(\$96,730)
Total transportation	1,510,115	1,712,712	1,397,533	315,179
Environmental protection - sanitation				
Salaries and employee benefits			\$610,983	
Operating expenditures			333,264	
Capital outlay			237,197	
Total environmental protection	\$1,213,573	\$1,254,256	1,181,444	\$72,812
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			315,309	
Operating expenditures			564,756	
Capital outlay			74,113	
Total	987,065	987,026	954,178	\$32,848
Recreation				
Salaries and employee benefits			1,588,992	
Operating expenditures			1,311,474	
Pro rata administrative services			(22,080)	
Capital outlay			321,211	
Total	3,435,656	4,030,112	3,199,597	830,515
Community House				
Salaries and employee benefits			258,346	
Operating expenditures			652,846	
Total	687,588	1,010,058	911,192	98,866
Total cultural and recreational	5,110,309	6,027,196	5,064,967	962,229

CITY OF MORGANTON  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$928,938	\$959,189	\$953,035	6,154
Interest	125,867	121,291	119,111	2,180
Total debt service	<u>1,054,805</u>	<u>1,080,480</u>	<u>1,072,146</u>	<u>8,334</u>
Total expenditures	<u>20,436,746</u>	<u>22,281,298</u>	<u>19,641,624</u>	<u>2,639,674</u>
Revenues over (under) expenditures	<u>(2,157,881)</u>	<u>(2,840,360)</u>	<u>(117,202)</u>	<u>2,723,158</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	827,819	1,824,686		(1,824,686)
Issuance of capital debt	687,620	687,620	705,239	17,619
Transfer to Capital Projects fund		(314,388)	(314,388)	
Transfer from Electric fund	642,442	642,442	642,442	
Total other financing sources	<u>2,157,881</u>	<u>2,840,360</u>	<u>1,033,293</u>	<u>(1,807,067)</u>
Revenues and other sources over (under) expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>916,091</u>	<u>\$916,091</u>
Net change in fund balances			916,091	
Fund balances - beginning			<u>10,677,967</u>	
Fund balances - ending			\$11,594,058	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			431	
Reimbursements			151,195	
Transfer to Capital Projects fund			(331,250)	
Fund balances - beginning			<u>1,456,517</u>	
Fund balances - ending			<u>\$12,870,951</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, 2015

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2015	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
<u>ASSETS</u>						
<u>CURRENT ASSETS :</u>						
Cash and cash equivalents	\$7,189,968	\$3,199,617	\$2,663,136		\$13,052,721	\$771,404
Investments	840,136	904,024	1,332,785		3,076,945	
Accounts receivable (net)	595,847	551,843	4,272,938	\$363,411	5,784,039	216
Interest receivable	1,487	2,746	2,712		6,945	
Inventories						816,584
Due from other funds			2,716,676		2,716,676	
Restricted Cash	94,024	97,761	543,253		735,038	
Total current assets	<u>8,721,462</u>	<u>4,755,991</u>	<u>11,531,500</u>	<u>363,411</u>	<u>25,372,364</u>	<u>1,588,204</u>
<u>NONCURRENT ASSETS :</u>						
Net pension asset	97,473	97,473	109,658	36,552	341,156	48,737
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	16,500,056	22,524,734	9,632,505	3,941,512	52,598,807	555,641
Capital assets (net)	<u>17,412,073</u>	<u>36,591,802</u>	<u>9,688,455</u>	<u>3,947,098</u>	<u>67,639,428</u>	<u>588,958</u>
Total noncurrent assets	<u>17,509,546</u>	<u>36,689,275</u>	<u>9,798,113</u>	<u>3,983,650</u>	<u>67,980,584</u>	<u>637,695</u>
<b>TOTAL ASSETS</b>	<u>\$26,231,008</u>	<u>\$41,445,266</u>	<u>\$21,329,613</u>	<u>\$4,347,061</u>	<u>\$93,352,948</u>	<u>\$2,225,899</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Contributions to pension plan	\$65,566	\$65,566	\$73,761	\$24,587	229,480	32,783
<u>LIABILITIES</u>						
<u>CURRENT LIABILITIES :</u>						
Accounts payable and accrued liabilities	54,715	111,217	3,222,594	226,232	3,614,758	78,400
Due to other funds				2,716,676	2,716,676	
Customer deposits	94,024	97,761	543,253		735,038	
Compensated absences-current	33,842	28,531	37,314	17,444	117,131	15,771
Installment purchase - current	361,252		68,868	153,818	583,938	
Revolving loan payable - current		574,937			574,937	
Total current liabilities	<u>543,833</u>	<u>812,446</u>	<u>3,872,029</u>	<u>3,114,170</u>	<u>8,342,478</u>	<u>94,171</u>
<u>NONCURRENT LIABILITIES :</u>						
Other postemployment benefits	191,145	191,145	215,038	71,679	669,007	95,573
Compensated absences-noncurrent	50,764	42,796	55,971	26,165	175,696	23,656
Installment purchase - noncurrent	1,316,854		91,670	385,305	1,793,829	
Revolving loan payable - noncurrent		9,773,925			9,773,925	
Total noncurrent liabilities	<u>1,558,763</u>	<u>10,007,866</u>	<u>362,679</u>	<u>483,149</u>	<u>12,412,457</u>	<u>119,229</u>
<b>TOTAL LIABILITIES</b>	<u>2,102,596</u>	<u>10,820,312</u>	<u>4,234,708</u>	<u>3,597,319</u>	<u>20,754,935</u>	<u>213,400</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Pension deferrals	234,153	234,153	263,422	87,806	819,534	117,076
<u>NET POSITION</u>						
Net Investment in capital assets	15,733,967	26,242,940	9,527,917	3,407,975	54,912,799	588,958
Unrestricted	8,225,858	4,213,427	7,377,327	(2,721,452)	17,095,160	1,339,248
<b>TOTAL NET POSITION</b>	<u>\$23,959,825</u>	<u>\$30,456,367</u>	<u>\$16,905,244</u>	<u>\$686,523</u>	<u>\$72,007,959</u>	<u>\$1,928,206</u>

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

CITY OF MORGANTON  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2015	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
OPERATING REVENUES :						
Charges for services	\$5,629,436	\$4,980,346	\$34,615,760	\$4,147,511	\$49,373,053	\$1,878,482
OPERATING EXPENSES :						
Water treatment and maintenance	3,973,469				3,973,469	
Wastewater treatment and maintenance		2,775,676			2,775,676	
Operations and construction			33,998,238		33,998,238	
Operations and maintenance				3,998,000	3,998,000	
MIS, Garage and Warehouse operations						1,832,378
Depreciation	1,053,584	1,271,906	716,459	337,961	3,379,910	81,149
Total	5,027,053	4,047,582	34,714,697	4,335,961	48,125,293	1,913,527
OPERATING INCOME (LOSS)	602,383	932,764	(98,937)	(188,450)	1,247,760	(35,045)
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	10,704	11,898	15,101		37,703	
Sale of materials						2,176
Interest expense	(43,662)	(232,630)	(4,883)	(11,284)	(292,459)	
Miscellaneous	37,100	14,896	60,789	144,525	257,310	
Total	4,142	(205,836)	71,007	133,241	2,554	2,176
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	606,525	726,928	(27,930)	(55,209)	1,250,314	(32,869)
Capital contributions		50,000			50,000	
TRANSFERS :						
Out			(642,442)		(642,442)	
Total			(642,442)		(642,442)	
Change in net position	606,525	776,928	(670,372)	(55,209)	657,872	(32,869)
TOTAL NET POSITION - beginning	23,483,013	29,809,152	17,721,543	790,374		2,025,931
Restatement	(129,713)	(129,713)	(145,927)	(48,642)		(64,856)
TOTAL NET POSITION - ending	<u>\$23,959,825</u>	<u>\$30,456,367</u>	<u>\$16,905,244</u>	<u>\$686,523</u>		<u>\$1,928,206</u>
Change in net position of business-type activities					<u>657,872</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, 2015

	Business-type Activities - Enterprise Funds				Totals June 30, 2015	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
<b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>						
Receipts from customers	\$5,629,436	\$4,980,346	\$34,615,760	\$4,147,511	\$49,373,053	\$1,878,482
Payments to suppliers	(2,736,233)	(102,203)	(32,376,835)	(3,479,607)	(38,694,878)	(1,395,946)
Payments to employees	(1,066,750)	(1,200,730)	(1,383,151)	(519,227)	(4,169,858)	(384,928)
Net cash provided (used) by operating activities	<u>1,826,453</u>	<u>3,677,413</u>	<u>855,774</u>	<u>148,677</u>	<u>6,508,317</u>	<u>97,608</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES :</b>						
Transfers - (out)			(642,442)		(642,442)	
Interfund borrowings			(112,797)	112,797		
Grant received		50,000			50,000	
Noncapital contributions received (used)	37,100	14,896	60,789	144,525	257,310	2,176
Net cash provided (used) by noncapital financing activities	<u>37,100</u>	<u>64,896</u>	<u>(694,450)</u>	<u>257,322</u>	<u>(335,132)</u>	<u>2,176</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(860,457)	(1,005,597)	(697,498)	(333,838)	(2,897,390)	(185,100)
Issuance of capital debt		571,689		67,000	638,689	
Principal paid on capital debt	(447,342)	(910,687)	(92,200)	(127,877)	(1,578,106)	
Interest paid on capital debt	(43,662)	(232,630)	(4,883)	(11,284)	(292,459)	
Net cash provided (used) by capital and related financing activities	<u>(1,351,461)</u>	<u>(1,577,225)</u>	<u>(794,581)</u>	<u>(405,999)</u>	<u>(4,129,266)</u>	<u>(185,100)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>						
Proceeds from sales and maturities of investments	1,681,259	977,621	2,175,041		4,833,921	
Purchases of investments	(840,136)	(904,024)	(1,332,785)		(3,076,945)	
Interest on investments	10,704	11,898	15,101		37,703	
Net cash provided (used) by investing activities	<u>851,827</u>	<u>85,495</u>	<u>857,357</u>		<u>1,794,679</u>	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>						
	1,363,919	2,250,579	224,100	Nil	3,838,598	(85,316)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>						
	<u>5,920,073</u>	<u>1,046,799</u>	<u>2,982,289</u>	<u>Nil</u>	<u>9,949,161</u>	<u>856,720</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>						
	<u>\$7,283,992</u>	<u>\$3,297,378</u>	<u>\$3,206,389</u>	<u>Nil</u>	<u>\$13,787,759</u>	<u>\$771,404</u>

CITY OF MORGANTON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2015	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)	\$602,383	\$932,764	(\$98,937)	(\$188,450)	1,247,760	(\$35,045)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	1,053,584	1,271,906	716,459	337,961	3,379,910	81,149
Pension expense	6,967	6,967	7,837	2,612	24,383	3,483
Changes in assets and liabilities :						
(Increase) decrease in accounts receivable	203,401	1,400,248	131,421	(3,219)	1,731,851	(216)
(Increase) decrease in inventories						62,268
Increase (decrease) in accounts payable and accrued liabilities	(19,494)	91,671	92,966	15,391	180,534	14,201
Increase (decrease) in customer deposits	10,044	15,619	64,213		89,876	
Increase (decrease) in OPEB	22,020	22,020	24,772	8,257	77,069	11,010
(Increase) decrease in deferred outflows of resources for pensions	(65,566)	(65,566)	(73,761)	(24,587)	(229,480)	(32,783)
Increase (decrease) in accrued vacation pay	13,114	1,784	(9,196)	712	6,414	(6,459)
Net cash provided (used) by operating activities	<u>\$1,826,453</u>	<u>\$3,677,413</u>	<u>\$855,774</u>	<u>\$148,677</u>	<u>\$6,508,317</u>	<u>\$97,608</u>

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

CITY OF MORGANTON  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

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. Effective January 31, 2015, all the assets were transferred to the City of Morganton and the Commission has gone dormant. Complete financial statements may be obtained at 305 E. Union Street, Suite A-100, Morganton, NC 28655. This Commission is considered dormant at this time.

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. Sales taxes are considered a shared revenue for the City of Morganton because the tax is levied by Burke County and then remitted to and distributed by the State. 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 City has a capital projects fund which records revenue and expenditures of the Community House renovation project.

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, 2015 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	\$589,962
Permanent Fund	<u>248,585</u>
Total governmental activities	<u>838,547</u>
Business-type Activities:	
Water Fund - Customer deposits	94,024
Wastewater Fund - Customer deposits	97,761
Electric Fund - Customer deposits	<u>543,253</u>
Total Business-type Activities	<u>735,038</u>
Total Restricted Cash	<u><u>\$1,573,585</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

#### Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criteria, contributions made to the pension plan in the 2015 fiscal year. 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 several items that meet the criterion for this category – property tax receivable, prepaid taxes, prepaid ticket sales and deferrals of pension expense that result from the implementation of GASB Statement 68.

#### 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). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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.

Assigned Fund Balance – portion of fund balance that the City of Morganton intends to use for specific purposes. In the Capital Projects fund, it is assigned for the Community House renovation.

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.

### Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees’ Retirement System (LGERS) and additions to/deductions from LGERS’ fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Morganton’s employer contributions are recognized when due and the City of Morganton has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

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 \$7,197,473 difference are as follows:

Installment purchase payable	\$4,110,657
Other post-employment benefits	1,624,734
Net pension obligation	688,079
Compensated absences	<u>774,003</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$7,197,473</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 \$439,115 difference is as follows:

Capital outlay	\$3,896,248
Depreciation expense	<u>(3,457,133)</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net position of governmental activities	<u>\$439,115</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 \$247,796 difference are as follows:

Debt issuance	\$(705,239)
Principal repayments:	
Installment purchase	<u>953,035</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net position of Governmental activities	<u>\$247,796</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 \$(327,562) difference are as follows:

Compensated Absences, Pension Obligation, Pension Expense and OPEB	\$(322,227)
Accrued Interest	<u>\$18,772</u>
Net adjustment to net changes in fund balances - total	
Governmental funds to arrive at changes in net position of	
Governmental activities	<u>\$(303,455)</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 \$(33,939) are as follows:

Recording of tax receipts deferred in the fund statements	<u>\$(33,939)</u>
Net adjustment to revenues	<u>\$(33,939)</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>\$(32,869)</u>
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Another element of that reconciliation states that contributions to the pension plan in the current fiscal year that are not included on the Statement of Activities.

Net adjustment to net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$557,308</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, 2015, the City's deposits had a carrying amount of \$5,262,695 and a bank balance of \$5,771,849. Of the bank balance, \$250,000 was insured by federal depository insurance and 5,521,849 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 \$205,596 and the bank balance was \$287,850. The bank balance was covered by an institution using the Pooling Method. All of the bank balance was covered by Federal depository insurance.

Investments

At June 30, 2015 the City's investments were as follows:

Investment Type	Fair Value	Less Than 6 months	1 - 12 Months	1 - 3 Years
Commercial Paper	\$1,993,812	\$997,534	\$996,278	
US Government Agencies	3,000,317			3,000,317
NC Capital Management Trust - Cash Portfolio	20,425,336	20,425,336		
NC Capital Management Trust - Term Portfolio	1,020,102	1,020,102		
Total:	\$26,439,567	\$22,442,972	\$996,278	\$3,000,317

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, 2015. The City is authorized to invest in obligations of the US Government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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

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

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

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

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

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

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

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

Receivables - allowance for doubtful accounts

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

General Fund:	
Allowance for uncollectible property taxes	\$158,455
Allowance for revolving loans	116,835
Enterprise Funds:	
Allowance for uncollectible charges	<u>205,000</u>
Total	<u>\$480,290</u>

Receivables – net of allowances

Accounts receivable at June 30, 2015 was as follows at the government wide level:

<u>Accounts</u>	<u>Customers</u>	<u>Taxes</u>	<u>Total</u>
\$410,880	\$5,784,039	\$838,547	\$7,033,466

Capital assets

Capital asset activity for the year ended June 30, 2015 was as follows:

Primary Government:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$11,702,627	1,067,839		\$12,770,466
Construction in Progress		\$603,877		603,877
Capital assets being depreciated:				
Buildings	22,911,395	118,908		23,030,303
Equipment	22,306,277	1,740,433	365,191	23,681,519
Infrastructure	44,242,622			44,242,622
Total capital assets being depreciated	89,460,294	1,859,341		90,954,444
Less accumulated depreciation for:				
Buildings	17,358,282	642,329		18,000,611
Equipment	14,613,483	1,355,576	365,191	15,603,868
Infrastructure	34,827,315	1,094,037		35,921,352
Total accumulated depreciation	66,799,080	3,091,942		69,525,831
Total capital assets being depreciated, net	22,661,214	(1,232,601)		21,428,613
Governmental activity Capital assets, net	\$34,363,841	\$439,115		\$34,802,956
Internal Service Fund:				
Capital assets not being depreciated:				
Land	\$33,318			\$33,318
Capital assets being depreciated:				
Buildings	662,917	48,502		711,419
Equipment	976,786	136,598		1,113,384
Total capital assets being depreciated	1,639,703	185,100		1,824,803
Less accumulated depreciation for:				
Buildings	536,407	18,352		554,759
Equipment	651,607	62,797		714,404
Total accumulated depreciation	1,188,014	81,149		1,269,163
Total capital assets being depreciated, net	451,689	103,951		555,640
Internal service fund capital assets, net	\$485,007	\$103,951		\$588,958

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

General Government	\$ 379,900
Public Safety	535,191
Transportation	1,250,703
Environmental Protection	157,358
Culture and Recreational	768,790
Internal Service	<u>81,149</u>
Total depreciation expense	<u>\$3,173,091</u>

Water Fund:

Capital assets not being depreciated:

Land	\$912,017		\$912,017
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Capital assets being depreciated:

Buildings	10,106,366		10,106,366
Plant and System	19,560,761	510,750	20,071,511
Equipment	<u>4,278,546</u>	<u>349,707</u>	<u>4,628,253</u>
Total capital assets being depreciated	<u>33,945,673</u>	<u>860,457</u>	<u>34,806,130</u>

Less accumulated depreciation for:

Buildings	6,310,036	193,451	6,503,487
Plant and System	8,737,289	556,144	9,293,433
Equipment	<u>2,205,165</u>	<u>303,989</u>	<u>2,509,154</u>
Total accumulated depreciation	<u>17,252,490</u>	<u>1,053,584</u>	<u>18,306,074</u>

Total capital assets being depreciated, net	<u>16,231,005</u>	<u>(193,127)</u>	<u>16,037,878</u>
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Water fund capital assets, net	<u>\$17,605,200</u>	<u>(\$193,127)</u>	<u>\$17,412,073</u>
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Wastewater Fund:

	Beginning		Ending	
	Balances	Increases	Decreases	Balances

Capital assets not being depreciated:

Land	\$14,067,068			\$14,067,068
Construction in Progress	11,119,592		11,119,592	

Capital assets being depreciated:

Buildings	3,930,608	21,600		3,952,208
Plant and System	19,825,068	11,553,787		31,378,855
Equipment	<u>6,544,066</u>	<u>549,802</u>		<u>7,093,868</u>
Total capital assets being depreciated	<u>30,299,742</u>	<u>12,125,189</u>		<u>42,424,931</u>

Less accumulated depreciation for:

Buildings	2,934,608	75,283		3,009,891
Plant and System	11,502,341	664,996		12,167,337
Equipment	<u>4,191,342</u>	<u>531,627</u>		<u>4,722,969</u>
Total accumulated depreciation	<u>18,628,291</u>	<u>1,271,906</u>		<u>19,900,197</u>

Total capital assets being depreciated, net	<u>11,671,451</u>	<u>10,853,283</u>		<u>22,524,734</u>
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Wastewater fund capital assets, net	<u>\$36,858,111</u>	<u>\$10,853,283</u>	<u>\$11,119,592</u>	<u>\$36,591,802</u>
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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	15,015,848	349,223		15,365,071
Equipment	4,444,396	348,276		4,792,672
Total capital assets being depreciated	22,191,661	697,499		22,889,160
Less accumulated depreciation for:				
Buildings	1,843,036	65,041		1,908,077
Plant and System	8,012,928	468,873		8,481,801
Equipment	2,684,232	182,545		2,866,777
Total accumulated depreciation	12,540,196	716,459		13,256,655
Total capital assets being depreciated, net	9,651,465	(18,960)		9,632,505
Electric fund capital assets, net	\$9,707,415	(\$18,960)		\$9,688,455

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	152,624		945,700
Plant and System	12,217,132	112,486		12,329,618
Equipment	775,883	68,728		844,611
Total capital assets being depreciated	13,786,091	333,838		14,119,929
Less accumulated depreciation for:				
Buildings	444,529	23,147		467,676
Plant and System	8,706,976	269,830		8,976,806
Equipment	688,952	44,983		733,935
Total accumulated depreciation	9,840,457	337,960		10,178,417
Total capital assets being depreciated, net	3,945,634	(4,122)		3,941,512
Electric fund capital assets, net	\$3,951,220	(\$4,122)		\$3,947,098

Depreciation expense in the amount of \$3,379,909 was charged to business type activities.

Construction commitments

The City has one active construction project in the General 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>
Various	\$723,888	\$603,877	\$120,011

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2015, 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	163,751			163,751
Total capital assets being depreciated	392,884			392,884
Less accumulated Depreciation for:				
Buildings	77,980			77,980
Improvements	151,153			151,153
Equipment	130,852	9,317		140,169
Total accumulated depreciation	359,985	9,317		369,302
Total capital assets being depreciated, net	32,899	(9,317)		23,582
ABC Board capital assets, net	\$43,899	(9,317)		\$34,583

B. Liabilities

Pension plan obligations

1. Local Government Employees' Retirement System

Plan Description - The City of Morganton and the ABC Board are participating employers in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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, by calling (919) 981-5454.

Benefits Provided – LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions - Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Morganton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Morganton's contractually required contribution rate for the year ended June 30, 2015, was 7.28% of compensation for law enforcement

officers and 7.07% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Morganton were \$819,571 for the year ended June 30, 2015.

Refunds of Contributions – City employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported an asset of \$1,218,417 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The City’s proportion of the net pension asset was based on a projection of the City’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the City’s proportion was 0.207%, which was an increase of 0.006% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$87,082. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 133,133
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,836,444
Changes in proportion and differences between City contributions and proportionate share of contributions	42,670	
City contributions subsequent to the measurement date	819,571	-
Total	\$ 862,241	\$ 2,969,577

\$819,571 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$	(731,784)
2017		(731,784)
2018		(731,784)
2019		(731,557)
2020		-
Thereafter		-

Actuarial Assumptions - The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension asset to changes in the discount rate - The following presents the City's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
City's proportionate share of the net pension liability (asset)	\$ 4,135,830	\$ (1,218,415)	\$ (5,726,518)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

## 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>66</u>
Total	<u>76</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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- Contributions to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditors or employers, non-employer contributing entities, the plan administrator, and plan members.

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	\$202,993
Interest on net pension obligation	(1,492)
Adjustment to annual required contribution	<u>2,520</u>
Annual pension cost	204,021
Contributions made for fiscal year ended	
6-30-15	<u>145,596</u>
Increase (decrease) in net pension	58,425
Obligation	
Net pension obligation beginning of year	<u>629,654</u>
Net pension obligation end of year	<u>\$688,079</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>
6/30/13	\$153,205	103.30%	\$614,577
6/30/14	\$161,355	90.66%	\$629,654
6/30/15	\$204,021	71.36%	\$688,079

Funding Status and Funding Progress -

As if December 31, 2014, 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 \$1,738,423. The covered payroll (annual payroll of active employees covered by the plan) was \$2,865,183, and the ratio of the UAAL to the covered payroll was 60.67 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, 2015 were \$382,279, which consisted of \$211,128 from the City and \$171,151 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, 2014, the date of the latest actuarial valuation.

Retirees and dependents receiving benefits	57
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	
Law Enforcement Officers	65
Firefighters	17
General Employees	<u>201</u>
Total	<u>340</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. The City's contribution totaled \$5,462,950 in fiscal year 2015. 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. 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	\$1,018,173
Interest on net OPEB obligation	84,563
Adjustment to annual required contribution	<u>80,784</u>
Annual OPEB cost (expense)	\$1,021,952
Contributions made for year ended 6/30/15	<u>746,703</u>
Increase (decrease) in net OPEB obligation	\$ 275,249
Net OPEB obligation, beginning of year	<u>2,114,066</u>
Net OPEB obligation, end of year	<u>\$2,389,315</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, 2015 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	992,114	66%	\$2,348,962
2014	340,767	169%	\$2,114,066
2015	1,021,952	73%	\$2,389,315

Funded Status and Funding Progress - As of December 31, 2014, 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 \$13,644,337. The covered payroll (annual payroll of active employees covered by the plan) was \$11,291,375 and the ratio of the UAAL to the covered payroll was 120.8%. 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, 2014 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 7.50 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, 2014, was 30 years.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end comprised of the following:

Contributions to pension plan in current year	\$819,571
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Deferred inflows of resources at year-end is comprised of the following:

Taxes receivable (net)	\$87,115
Pension deferrals	2,926,907
Prepaid ticket sales	128,709
Prepaid taxes	<u>10,060</u>
Total	<u>\$3,069,121</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, 2015, the City was a defendant to two 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

#### 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, 2015, including \$262,500 of interest, are as follows

:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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	<u>111,321</u>	<u>2,185</u>
Present value of the minimum Lease payments	<u>\$1,669,850</u>	
Total interest payments		<u>\$262,500</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, 2015, including \$49,523 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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>\$556,000</u>	
Total interest payments		<u>\$49,523</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, 2015, including \$428 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	<u>32,989</u>	<u>428</u>
Present value of the minimum Lease payments	<u>\$32,989</u>	
Total interest payments		<u>\$428</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, 2015, including \$300 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	<u>23,123</u>	<u>300</u>
Present value of the minimum Lease payments	<u>\$23,123</u>	
Total interest payments		<u>\$300</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, 2015, including \$3,926 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	51,130	2,105
2017	51,922	1,313
2018	<u>52,726</u>	<u>508</u>

Present value of the minimum

Lease payments	<u>\$155,778</u>	
Total interest payments		<u>\$3,926</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, 2015, including \$641 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	<u>79,394</u>	<u>641</u>

Present value of the minimum

Lease payments	<u>\$79,394</u>	
Total interest payments		<u>\$641</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, 2015, including \$1,795 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	50,139	1,312
2017	<u>50,967</u>	<u>482</u>

Present value of the minimum

Lease payments	<u>\$101,106</u>	
Total interest payments		<u>\$1,795</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, 2015, including \$42,136 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
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>\$692,983</u>	
Total interest payments		<u>\$42,136</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, 2015, including \$1,666 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	46,766	1,164
2017	47,427	502

Present value of the minimum Lease payments	<u>\$94,193</u>	
Total interest payments		<u>\$1,666</u>

In August 2014, the City entered into an installment purchase contract to finance Public Safety vehicles. \$407,620 was borrowed for 3 years at an interest rate of 1.69%.

The future minimum payments of the installment purchase as of June 30, 2015, including \$16,295 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	130,308	10,997
2017	137,487	3,818
2018	139,825	1,480

Present value of the minimum Lease payments	<u>\$407,620</u>	
Total interest payments		<u>\$16,295</u>

In August 2014, the City entered into an installment purchase contract to finance a Recreation truck. \$39,862 was borrowed for 3 years at an interest rate of 1.69%.

The future minimum payments of the installment purchase as of June 30, 2015, including \$734 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	26,450	614
2017	13,412	120

Present value of the minimum Lease payments	<u>\$39,862</u>	
Total interest payments		<u>\$734</u>

In January 2015, the City entered into an installment purchase contract to finance a rear loader truck and turf equipment. \$257,757 was borrowed for 4 years at an interest rate of 2.24%.

The future minimum payments of the installment purchase as of June 30, 2015, including \$13,210 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	62,266	5,475
2017	63,718	4,024
2018	65,153	2,589
2019	66,620	1,122

Present value of the minimum Lease payments	<u>\$257,757</u>	
Total interest payments		<u>\$13,210</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, 2015, including \$3,727 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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>\$44,000</u>	
Total interest payments		<u>\$3,727</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, 2015, including \$99,660 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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>\$1,193,916</u>	
Total interest payments		<u>\$99,660</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, 2015, including \$11,172 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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>\$484,189</u>	
Total interest payments		<u>\$11,172</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, 2015, including \$14,941 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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>\$472,123</u>	
Total interest payments		<u>\$14,941</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, 2015, including \$2,017 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	57,868	1,409
2017	<u>58,670</u>	<u>608</u>

Present value of the minimum

Lease payments	<u>\$116,538</u>	
Total interest payments		<u>\$2,017</u>

In October 2014, the City entered into an installment purchase contract to finance a cable bucket truck. \$600,000 was borrowed for 3 years at an interest rate of 2.29%.

The future minimum payments of the installment purchase as of June 30, 2015, including \$3,037 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	21,552	1,793
2017	22,433	913
2018	<u>23,015</u>	<u>331</u>

Present value of the minimum

Lease payments	<u>\$67,000</u>	
Total interest payments		<u>\$3,037</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. \$11,495,222 was borrowed for 20 years at an interest rate of 2.00%.

The future minimum payments of the installment purchase as of June 30, 2015, including \$2,171,407 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	574,937	206,977
2017	574,937	195,479
2018	574,937	183,980
2019	574,937	172,481
2020	574,937	160,982
2021-2033	<u>7,474,177</u>	<u>1,046,385</u>
Present value of the minimum Lease payments	<u>\$10,348,862</u>	
Total interest payments		<u>\$1,966,284</u>

Debt Margin

At June 30, 2015, the City of Morganton had a legal debt margin of \$123,164,084.

Changes in long-term liabilities:

	<u>Balance</u>		<u>Balance</u>		<u>Current</u>
	<u>30-Jun-14</u>	<u>Increases</u>	<u>Decreases</u>	<u>30-Jun-15</u>	<u>Portion of</u> <u>Balance</u>
Governmental activities:					
Installment purchase	\$4,358,453	\$705,239	\$953,036	\$4,110,656	\$974,446
Compensated absences	802,472	401,989	391,031	813,430	339,726
Other postemployment benefits	1,522,128	198,179		1,720,307	
Net pension liability (LGERS)	1,747,903		1,747,903		
Net pension obligation	629,654	58,425		688,079	
Governmental activity long-term liabilities	<u>\$9,060,610</u>	<u>\$1,363,832</u>	<u>\$3,091,970</u>	<u>\$7,332,472</u>	<u>\$1,314,172</u>
Business-type activities:					
General obligation bonds	\$425,000		\$425,000		
Installment purchase	2,888,934	\$67,000	578,167	\$2,377,767	\$583,938
Clean water revolving loan	10,352,110	66,766	70,014	10,348,862	574,937
Net pension liability (LGERS)	679,740		679,740		
Other postemployment benefits	591,938	77,069		669,007	
Compensated absences	286,413	141,655	135,241	292,827	117,131
Business-type activity long-term liabilities	<u>\$15,224,135</u>	<u>\$352,490</u>	<u>\$1,888,162</u>	<u>\$13,688,463</u>	<u>\$1,276,006</u>

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

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 \$39,427 of internal service funds compensated absences are included in the above amounts. At year-end \$95,573 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, 2015 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from Cable fund	\$2,716,676	
Cable fund - payable to Electric fund		<u>\$2,716,676</u>
Total interfund receivables and payables	<u>\$2,716,676</u>	<u>\$2,716,676</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, 2015 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, 2015 is as follows:

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$642,442	
To Capital Projects Fund		<u>\$314,388</u>
	642,442	314,388
Economic Development Fund:		
To Capital Projects Fund		331,250
Capital Projects Fund:		
From Economic Development Fund	331,250	
From General Fund	<u>314,388</u>	
	645,638	
Electric Fund :		
To General Fund		<u>642,442</u>
Grand Totals	<u>\$1,288,080</u>	<u>\$1,288,080</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	\$12,870,951
Less:	
Stabilization by state statute	(\$1,254,882)
Streets – Powell bill	(589,962)
Economic development	(1,276,893)
Capital projects	(2,774,154)
Canteen operations	(5,265)
Drug enforcement	(51,472)
Working capital/fund balance policy	<u>(3,065,512)</u>
Remaining fund balance	<u>\$3,852,811</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 10, 2015 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, 2015 were \$30,809,558.

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 \$16,382 to WPCOG during the fiscal year ended June 30, 2015.

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 \$26,342 to the Airport during the fiscal year ended June 30, 2015. 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, 2015. 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.

VII. Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement Number 27), in the fiscal year ending June 30, 2015. The implementation of the statement required the City to record beginning net pension liability and the effects on net position of contributions made by the City during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$1,167,415 and \$453,995, respectively.

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

	Actuarial Accrued Liability (AAL)						
Actuarial Valuation Date	Actuarial 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)	
12-31-14	\$- 0 -	\$1,738,423	\$1,738,423	0.00%	\$2,865,183	60.67%	
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%	

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>
2013	153,205	103.30%
2014	161,355	90.66%
2015	204,021	73.36%

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	12/31/14
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	16 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	N/A

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

	Actuarial Accrued Liability (AAL)						UAAL as a % of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets (a)	Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered 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%	
12-31-14	-0-	13,644,337	13,644,337	0.00%	11,291,375	120.8%	

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

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2013	992,114	66.00%
2014	340,767	100.00%
2015	1,021,952	73.1%

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	12/31/14
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	7.50% - 5.00%
Year of Ultimate trend rate	2020
Includes inflation at	3.00%

CITY OF MORGANTON  
REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF MORGANTON'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
LAST TWO FISCAL YEARS\*

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
Morganton's proportion of the net pension liability (asset) %	.2066%	.2014%
Morganton's proportion of the net pension liability (asset) \$	\$(1,218,415)	\$2,427,643
Morganton's covered-employee payroll	11,592,235	10,422,226
Morganton's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	10.51%	23.29%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

\*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

CITY OF MORGANTON  
REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF MORGANTON'S CONTRIBUTIONS  
LAST TWO FISCAL YEARS\*

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$819,571	\$806,235
Contributions in relation to the contractually required contribution	<u>819,571</u>	<u>806,235</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Morganton's covered-employee payroll	11,592,235	10,422,226
Contributions as a percentage of covered-employee payroll	7.07%	7.74%

CITY OF MORGANTON  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Project	Actual		
	Authorization	Prior	Current	Total To
		Years	Year	Date
REVENUES				
Restricted contributions	<u>\$78,250</u>		<u>\$99,250</u>	<u>\$99,250</u>
Total revenues	<u>78,250</u>		<u>99,250</u>	<u>99,250</u>
EXPENDITURES				
Budgetary appropriation:				
Capital outlay	<u>723,888</u>		<u>603,877</u>	<u>603,877</u>
Total expenditures	<u>723,888</u>		<u>603,877</u>	<u>603,877</u>
Excess of revenues over expenditures	<u>(645,638)</u>		<u>(504,627)</u>	<u>(504,627)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	314,388		314,388	314,388
Transfer from Economic Development Fund	<u>331,250</u>		<u>331,250</u>	<u>331,250</u>
Total other financing sources (uses)	<u>645,638</u>		<u>645,638</u>	<u>645,638</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>		141,011	<u>\$141,011</u>
Fund balances - beginning				
Fund balances - ending			<u>\$141,011</u>	

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, 2015

	<u>2015</u>			Variance Favorable (Unfavorable)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest earned	\$380	\$380	\$431	\$51
Reimbursement	129,945	129,945	151,195	21,250
Total revenues	<u>130,325</u>	<u>130,325</u>	<u>151,626</u>	<u>21,301</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Capital Projects Fund	(440,325)	(440,325)	(331,250)	109,075
Appropriated fund balance	310,000	310,000		(310,000)
Total other financing sources (uses)	<u>(130,325)</u>	<u>(130,325)</u>	<u>(331,250)</u>	<u>(200,925)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	(179,624)	<u>(179,624)</u>
Fund balances - beginning			<u>\$1,456,517</u>	
Fund balances - ending			<u>\$1,276,893</u>	

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, 2015

	Project Authorization	Prior Years	Actual Current Year	Total To Date
<b>REVENUES</b>				
Restricted intergovernmental revenues - community development block grants	\$3,293,622	\$3,417,839	\$115,487	\$3,533,326
Program income	255,102	179,172	40,058	219,230
Total revenues	<u>3,548,724</u>	<u>3,597,011</u>	<u>155,545</u>	<u>3,752,556</u>
<b>EXPENDITURES</b>				
Economic and physical development				
Land acquisition	304,673	171,423		171,423
Rehabilitation	309,423	525,117		525,117
Construction	555,290	582,366	9,800	592,166
Administration	565,550	589,584	33,951	623,535
Credit counseling	32,253	32,253		32,253
Deposit assistance	19,162	19,162		19,162
Grant assistance	370,450	343,918	23,000	366,918
Interest expense	133,109	119,500		119,500
Small business loan	518,916	471,795	75,000	546,795
Section 108 loan repayment	380,000	375,000		375,000
Total expenditures	<u>3,188,826</u>	<u>3,230,118</u>	<u>141,751</u>	<u>3,371,869</u>
Excess of revenues over (under) expenditures	<u>359,898</u>	<u>366,893</u>	<u>13,794</u>	<u>380,687</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of capital debt (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>\$6,995</u>	<u>\$13,794</u>	<u>\$20,789</u>
Fund balances - beginning			<u>\$6,995</u>	
Fund balances - ending			<u>\$20,789</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, 2015

	2015			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Sales and services:				
New cemetery lot sales	\$8,000	\$8,000	\$14,600	\$6,600
Cemetery lot marker service	1,000	1,000	2,705	1,705
Total	<u>9,000</u>	<u>9,000</u>	<u>17,305</u>	<u>8,305</u>
Investment earnings - interest earned	1,000	1,000	1,017	17
Total revenues	<u>10,000</u>	<u>10,000</u>	<u>18,322</u>	<u>8,322</u>
EXPENDITURES				
Cemetery improvements and reimbursement	<u>70,000</u>	<u>70,000</u>	<u>60,000</u>	<u>10,000</u>
Excess of revenues over expenditures	<u>(60,000)</u>	<u>(60,000)</u>	<u>(41,678)</u>	<u>18,322</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>(41,678)</u>	<u>(41,678)</u>
Fund balances - beginning			<u>\$290,480</u>	
Fund balances - ending			<u>\$248,802</u>	

CITY OF MORGANTON  
WATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>2015</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	12,000	15,239	3,239
Water rents	5,380,928	5,182,545	(198,383)
Penalties	62,000	60,396	(1,604)
Water taps	45,000	43,507	(1,493)
Reconnect fees	16,000	20,850	4,850
Rental income	292,000	306,899	14,899
Total	<u>5,807,928</u>	<u>5,629,436</u>	<u>(178,492)</u>
Nonoperating revenues (expenditures) :			
Interest on investments	12,000	10,704	(1,296)
Miscellaneous	4,500	37,100	32,600
Interest expenditures	(43,663)	(43,662)	1
Total	<u>(27,163)</u>	<u>4,142</u>	<u>31,305</u>
Total revenues	<u>5,780,765</u>	<u>5,633,578</u>	<u>(147,187)</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,066,750	
Operating expenditures		2,907,130	
Total	<u>4,068,307</u>	<u>3,973,880</u>	<u>94,427</u>

CITY OF MORGANTON  
WATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015		
	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$447,342	\$447,342	
Capital outlay	2,664,590	860,457	1,804,133
Total budgetary appropriations	3,111,932	1,307,799	1,804,133
Total expenditures	7,180,239	5,281,679	1,898,560
REVENUES OVER (UNDER) EXPENDITURES	(1,399,474)	351,899	1,751,373
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	125,922		(125,922)
Issuance of capital debt	1,273,552		(1,273,552)
Total other financing sources (uses)	1,399,474		(1,399,474)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$351,899	\$351,899
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$351,899
Reconciling items:			
Capital outlays		860,457	
Debt principal		447,342	
Depreciation		(1,053,584)	
Increase in accrued vacation pay		(13,114)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		65,566	
Pension expense		(6,967)	
Increase in accrued OPEB liability		(22,020)	
Bad debts		(23,054)	254,626
Change in Net Position		254,626	\$606,525

CITY OF MORGANTON  
WASTEWATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015		
	Budget	Actual	Variance
<b>REVENUES :</b>			
Operating revenues :			
Reimbursement for services	\$7,000	\$1,570	(\$5,430)
Sewer rents	5,100,000	4,870,088	(229,912)
Late payment penalties	45,000	38,646	(6,354)
Sewer taps	5,000	12,100	7,100
Septage revenue	25,000	29,200	4,200
Sale of materials	6,000	23,232	17,232
Sale of sludge	7,500	5,510	(1,990)
	5,195,500	4,980,346	(215,154)
Total			
Nonoperating revenues (expenditures) :			
Interest earned	5,000	11,898	6,898
Miscellaneous	19,300	14,896	(4,404)
ARC grant		50,000	50,000
Interest expenditures	(232,630)	(232,630)	0
	(208,330)	(155,836)	52,494
Total			
Total revenues	4,987,170	4,824,510	(162,660)
<b>EXPENDITURES :</b>			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,200,730	
Operating expenditures		1,598,720	
	2,981,344	2,799,450	181,894
Total wastewater treatment			

CITY OF MORGANTON  
WASTEWATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015		
	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$910,687	\$910,687	\$0
Capital outlay	1,669,343	1,005,597	663,746
Total budgetary appropriations	<u>2,580,030</u>	<u>1,916,284</u>	<u>663,746</u>
Total expenditures	<u>5,561,374</u>	<u>4,715,734</u>	<u>845,640</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(574,204)</u>	<u>108,776</u>	<u>682,980</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	574,204		(574,204)
Issuance of capital debt (SRF)		571,689	571,689
Total other financing sources (uses)	<u>574,204</u>	<u>571,689</u>	<u>(2,515)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$680,465</u>	<u>\$680,465</u>
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under)			
Expenditures and Other Uses			\$680,465
Reconciling items:			
Capital outlays		1,005,597	
Debt principal		910,687	
SRF loan proceeds		(571,689)	
Depreciation		(1,271,906)	
Increase in accrued vacation pay		(1,785)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		65,566	
Pension expense		(6,967)	
Increase in accrued OPEB liability		(22,020)	
Bad debts		(11,020)	96,463
Change in Net Position			<u>776,928</u>

CITY OF MORGANTON  
ELECTRIC FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>2015</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES :</b>			
Operating revenues :			
Reimbursement for services	\$75,000	\$35,693	(\$39,307)
Sale of power	34,200,000	33,613,964	(586,036)
Late payment penalties	330,000	298,280	(31,720)
Security light rental	533,000	532,894	(106)
Street lighting	74,000	74,000	
Reconnection fees	45,000	48,425	3,425
Pole rental	15,000	12,504	(2,496)
Total	<u>35,272,000</u>	<u>34,615,760</u>	<u>(656,240)</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(4,897)	(4,883)	14
Interest earned	15,000	15,101	101
Reimbursement		5,075	5,075
Miscellaneous	7,500	55,714	48,214
Total	<u>17,603</u>	<u>71,007</u>	<u>53,404</u>
Total revenues	<u>35,289,603</u>	<u>34,686,767</u>	<u>(602,836)</u>
<b>EXPENDITURES :</b>			
Operations and construction :			
Salaries and employee benefits		1,383,151	
Operating expenditures		1,755,499	
Purchases of power		30,809,558	
Total	<u>34,069,591</u>	<u>33,948,208</u>	<u>121,383</u>

CITY OF MORGANTON  
ELECTRIC FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015		
	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$92,200	\$92,200	\$0
Capital Outlay	699,673	697,498	2,175
Total budgetary appropriations	791,873	789,698	2,175
Total expenditures	34,861,464	34,737,906	123,558
REVENUES OVER (UNDER) EXPENDITURES	428,139	(51,139)	(479,278)
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	214,303		(214,303)
Transfer to general fund	(642,442)	(642,442)	
Total other financing sources (uses)	(428,139)	(642,442)	(214,303)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	(\$693,581)	(\$693,581)
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			(\$693,581)
Reconciling items:			
Capital outlays		697,498	
Debt principal		92,200	
Depreciation		(716,459)	
Decrease in accrued vacation pay		9,196	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		73,761	
Pension expense		(7,837)	
Increase in accrued OPEB liability		(24,772)	
Bad debts		(100,378)	23,209
Change in Net Position		(100,378)	(\$670,372)

CITY OF MORGANTON  
CABLE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>2015</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$15,000	\$13,397	(\$1,603)
Studio revenues	2,000	1,410	(590)
Telephone revenues	351,400	345,206	(6,194)
Internet revenues	1,032,000	1,134,567	102,567
Cable rents	<u>2,865,000</u>	<u>2,652,931</u>	<u>(212,069)</u>
Total	<u>4,265,400</u>	<u>4,147,511</u>	<u>(117,889)</u>
Nonoperating revenues (expenditures) :			
Penalties	70,000	64,773	(5,227)
Reconnect fees	20,000	12,180	(7,820)
Ad sales	75,000	56,878	(18,122)
Bad check charges	2,100	860	(1,240)
Miscellaneous revenue	15,857	9,834	(6,023)
Interest expenditures	<u>(11,285)</u>	<u>(11,284)</u>	<u>1</u>
Total	<u>171,672</u>	<u>133,241</u>	<u>(38,431)</u>
Total revenues	<u>4,437,072</u>	<u>4,280,752</u>	<u>(156,320)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		519,227	
Operating expenditures		<u>3,456,823</u>	
Total cable operations and maintenance	<u>4,173,359</u>	<u>3,976,050</u>	<u>197,309</u>

CITY OF MORGANTON  
CABLE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015		
	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$127,877	127,877	
Capital outlay	402,720	333,838	68,882
Total budgetary appropriations	530,597	461,715	68,882
Total expenditures	4,703,956	4,437,765	266,191
REVENUES OVER (UNDER) EXPENDITURES	(266,884)	(157,013)	109,871
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	\$176,884		(\$176,884)
Issuance of capital debt	90,000	67,000	(23,000)
Total other financing sources (uses)	266,884	67,000	(199,884)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	(\$90,013)	(\$90,013)
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			(\$90,013)
Reconciling items:			
Capital outlays		333,838	
Debt principal		127,877	
Proceeds from capital debt		(67,000)	
Depreciation		(337,961)	
Increase in accrued vacation pay		(712)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		24,587	
Pension expense		(2,612)	
Increase in accrued OPEB liability		(8,257)	
Bad debts		(34,956)	34,804
Change in Net Position			(\$55,209)

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, 2015

	2015		
	Financial Plan	Actual	Variance
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	618,406	618,406	
Electric Fund	80,110	80,110	
Water Fund	41,192	41,192	
Wastewater Fund	38,569	38,569	
Cable Fund	100,537	100,537	
Total	<u>878,814</u>	<u>878,814</u>	
Warehouse :			
General Fund sales	30,000	15,987	(14,013)
Electric Fund sales	230,000	251,587	21,587
Water Fund sales	65,000	66,110	1,110
Wastewater Fund sales	2,000	1,198	(802)
Cable Fund sales	20,000	25,407	5,407
Total	<u>347,000</u>	<u>360,289</u>	<u>13,289</u>
Garage :			
General Fund sales	179,500	190,072	10,572
Electric Fund sales	20,000	21,674	1,674
Water Fund sales	23,000	8,252	(14,748)
Wastewater Fund sales	10,000	12,751	2,751
Cable Fund sales	22,500	4,281	(18,219)
Sale of fuel	525,000	402,349	(122,651)
Total	<u>780,000</u>	<u>639,379</u>	<u>(140,621)</u>
Total operating revenues	<u>2,005,814</u>	<u>1,878,482</u>	<u>(127,332)</u>
Nonoperating revenues :			
Sale of materials		2,176	2,176
Total revenues	<u>2,005,814</u>	<u>1,880,658</u>	<u>(125,156)</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, 2015

	<u>2015</u>		
	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$384,928	
Operating expenditures		502,974	
Total IRMS	899,064	887,902	11,162
Warehouse :			
Salaries and employee benefits		127,544	
Operating expenditures		42,579	
Purchases of inventory		343,168	
Pro rata administrative services		(200,707)	
Total warehouse	327,000	312,584	14,416
Garage :			
Salaries and employee benefits		214,584	
Operating expenditures		88,965	
Purchases of inventory		274,919	
Purchases of fuel		389,812	
Pro rata administrative services		(314,347)	
Total garage	780,000	653,933	126,067
Budgetary appropriations :			
Capital outlay	234,540	185,100	49,440
Total budgetary appropriations	234,540	185,100	49,440
Total expenditures	2,240,604	2,039,519	201,085

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, 2015

	2015		
	Financial Plan	Actual	Variance
REVENUES OVER (UNDER) EXPENDITURES	(\$234,790)	(\$158,861)	(\$75,929)
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	234,790		234,790
Total other financing sources (uses)	234,790		234,790
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	(\$158,861)	(\$158,861)
RECONCILIATION FROM FINANCIAL PLAN (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Reconciling items:			
Capital outlays		185,100	
Depreciation		(81,149)	
Decrease in accrued vacation pay		6,458	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		32,783	
Pension expense		(3,483)	
Increase in accrued OPEB liability		(11,010)	
Increase in inventory		(2,707)	125,992
Change in Net Position			(\$32,869)

CITY OF MORGANTON  
SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2015

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015		\$9,118,820	\$9,032,717	\$86,103
2013-2014	\$126,844		68,138	58,706
2012-2013	39,675		14,694	24,981
2011-2012	21,603		3,826	17,777
2010-2011	12,138		374	11,764
2009-2010	10,642		191	10,451
2008-2009	10,327		128	10,199
2007-2008	8,015		0	8,015
2006-2007	9,267		0	9,267
2005-2006	8,307		0	8,307
2004-2005	7,574		7,574	0
<b>TOTAL</b>	<u><u>\$254,392</u></u>	<u><u>\$9,118,820</u></u>	<u><u>\$9,127,642</u></u>	<u><u>\$245,570</u></u>
Less Allowance for Doubtful Accounts				<u>158,455</u>
Net Property Tax Receivable (Exhibit 1)				<u><u>\$87,115</u></u>
<b>RECONCILEMENT WITH REVENUES :</b>				
Taxes - ad valorem - General Fund (Exhibit 4)		\$9,054,942		
Less interest collected		<u>37,013</u>	\$ 9,017,929	
Discounts			100,764	
Releases - Prior years			1,396	
Amount written off for tax year 2004-2005 per statute of limitations			<u>7,553</u>	
<b>TOTAL COLLECTIONS AND CREDITS</b>			<u><u>\$ 9,127,642</u></u>	

CITY OF MORGANTON  
SCHEDULE OF CURRENT TAX LEVY  
JUNE 30, 2015

	<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	\$1,543,910,755	0.53	\$8,182,727	\$8,182,727	
Special district	84,008,571	0.14	117,612	117,612	
Vehicle Taxes	119,498,868	0.53	633,344		\$633,344
 ADD DISCOVERIES :					
Current year	3,592,509	0.53	190,403	190,403	
Prior year	807,358	0.53	4,279	4,279	
 LESS RELEASES	<u>(1,800,943)</u>		<u>(9,545)</u>	<u>(9,545)</u>	
 TOTAL	<u>\$1,750,017,118</u>		<u>\$9,118,820</u>	<u>\$8,485,476</u>	<u>\$633,344</u>
 LESS UNCOLLECTED TAXES AT June 30, 2015			<u>86,103</u>	<u>76,103</u>	
 CURRENT YEAR'S TAXES COLLECTED			<u>\$9,032,717</u>	<u>\$8,399,373</u>	<u>\$633,344</u>
 PERCENT CURRENT YEAR COLLECTED			<u>99.06%</u>	<u>98.99%</u>	<u>100.00%</u>

CITY OF MORGANTON  
SCHEDULE OF TRANSFERS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$642,442	
To Capital Projects Fund		\$314,388
	<u>642,442</u>	<u>314,388</u>
 Economic Development Fund:		
To Capital Projects Fund		331,250
 Capital Projects Fund:		
From Economic Development Fund	331,250	
From General Fund	<u>314,388</u>	
	645,638	
 Electric Fund :		
To General Fund		<u>642,442</u>
 Grand Totals	<u><u>\$1,288,080</u></u>	<u><u>\$1,288,080</u></u>

CITY OF MORGANTON  
SCHEDULE OF CASH AND INVESTMENT BALANCES  
YEAR ENDED JUNE 30, 2015

	<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>5,262,695</u>	<u>5,262,695</u>	<u>5,262,695</u>
Total cash	<u>5,265,190</u>	<u>5,265,190</u>	<u>5,265,190</u>
INVESTMENTS :			
North Carolina Capital Management Trust	21,445,438	21,445,438	21,445,438
US Government agencies	<u>4,994,129</u>	<u>4,994,129</u>	<u>4,994,129</u>
Total investments (including cash equivalents)	<u>26,439,567</u>	<u>26,439,567</u>	<u>26,439,567</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$31,704,757</u></u>	 <u><u>\$31,704,757</u></u>	 <u><u>\$31,704,757</u></u>

CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2015

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.	88-97
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	98-101
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.	102-105
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.	106-107
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.	108-110

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)*

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Governmental activities				
Invested in capital assets, net of related debt	\$41,695,614	\$41,831,482	\$40,439,879	\$39,304,208
Restricted	1,260,371	745,287	1,404,040	1,134,780
Unrestricted	12,339,129	14,704,160	15,287,650	13,048,121
Total governmental activities net assets	<u>\$55,295,114</u>	<u>\$57,280,929</u>	<u>\$57,131,569</u>	<u>\$53,487,109</u>
Business-type activities				
Invested in capital assets, net of related debt	\$45,875,917	\$56,874,381	\$48,204,805	\$49,218,328
Unrestricted	23,181,717	11,302,071	17,210,171	13,890,105
Total business-type activities net assets	<u>\$69,057,634</u>	<u>\$68,176,452</u>	<u>\$65,414,976</u>	<u>\$63,108,433</u>
Primary government				
Net investment in capital assets	\$87,571,531	\$98,705,863	\$88,644,684	\$88,522,536
Restricted	1,260,371	745,287	1,404,040	1,134,780
Unrestricted	35,520,846	26,006,231	32,497,821	26,938,226
Total primary government net assets	<u>\$124,352,748</u>	<u>\$125,457,381</u>	<u>\$122,546,545</u>	<u>\$116,595,542</u>

<b>Fiscal Year</b>					
<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
\$37,897,550	\$36,335,474	\$33,673,160	\$31,808,471	\$30,490,395	\$31,287,687
1,315,433	5,549,775	6,255,232	7,590,604	6,480,008	6,222,219
11,272,201	4,231,094	4,219,343	3,471,229	4,749,144	4,765,778
<b>\$50,485,184</b>	<b>\$46,116,343</b>	<b>\$44,147,735</b>	<b>\$42,870,304</b>	<b>\$41,719,547</b>	<b>\$42,275,684</b>
\$50,256,119	\$51,016,008	\$50,371,775	\$51,986,555	\$54,455,902	\$54,912,799
13,075,437	14,737,059	16,813,565	17,958,568	17,348,180	17,095,160
<b>\$63,331,556</b>	<b>\$65,753,067</b>	<b>\$67,185,340</b>	<b>\$69,945,123</b>	<b>\$71,804,082</b>	<b>\$72,007,959</b>
\$88,153,669	\$87,351,482	\$84,044,935	\$83,795,026	\$84,946,297	\$86,200,486
1,315,433	9,780,869	10,474,575	7,695,753	6,480,008	6,222,219
24,347,638	18,968,153	16,813,565	21,324,648	22,097,324	21,860,938
<b>\$113,816,740</b>	<b>\$116,100,504</b>	<b>\$111,333,075</b>	<b>\$112,815,427</b>	<b>\$113,523,629</b>	<b>\$114,283,643</b>

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

	<b>Fiscal Year</b>			
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Expenses</b>				
Governmental activities:				
General government	\$2,759,135	\$2,742,806	\$2,853,101	\$3,607,537
Public Safety	6,613,948	6,590,390	7,094,187	8,483,992
Transportation	2,209,624	2,244,130	2,476,434	2,468,048
Economic and physical development	121,415	10,308	117,668	96,570
Environmental protection	1,114,664	1,123,568	1,216,620	1,307,076
Culture and recreation	3,276,853	3,637,977	4,236,367	4,655,871
Interest on long-term debt	47,554	44,385	103,428	212,829
Total governmental activities expenses	<u>16,143,193</u>	<u>16,393,564</u>	<u>18,097,805</u>	<u>20,831,923</u>
Business-type activities:				
Water	2,864,899	3,169,593	3,634,869	4,075,486
Wastewater	3,401,640	3,380,132	4,077,418	4,113,272
Electric	24,664,921	25,241,193	26,505,211	26,798,280
Cable	3,874,683	4,001,462	4,015,776	4,009,621
Community house	296,857	323,251	312,634	345,256
Total business-type activities expenses	<u>35,103,000</u>	<u>36,115,631</u>	<u>38,545,908</u>	<u>39,341,915</u>
Total primary government expenses	<u>51,246,193</u>	<u>52,509,195</u>	<u>56,643,713</u>	<u>60,173,838</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$387,459	\$283,089	\$232,411	\$46,347
Public Safety	37,253	24,793	46,702	472,980
Transportation	4,796	4,797	7,656	529,095
Economic and physical development				
Environmental protection	351,808	1,093,367	1,062,990	1,035,070
Culture and recreation	638,779	628,181	677,243	888,946
Operating Grants and Contributions	873,196	998,104	1,100,958	286,720
Capital Grants and Contributions	709,313		258,646	12,291
Total governmental activities program rev's	<u>3,002,604</u>	<u>3,032,331</u>	<u>3,386,606</u>	<u>3,271,449</u>
Business-type activities:				
Charges for services:				
Water	4,078,099	3,945,198	4,011,287	4,662,378
Wastewater	4,309,576	4,353,978	4,138,754	4,288,210
Electric	23,116,052	23,094,949	23,422,320	23,925,934
Cable	3,046,581	3,367,112	3,496,493	3,823,539
Community house	199,688	241,420	223,929	215,865
Operating Grants and Contributions	19,415	21,016	21,734	20,980
Total business-type activities program rev's	<u>34,769,411</u>	<u>35,023,673</u>	<u>35,314,517</u>	<u>36,936,906</u>
Total primary government program rev's	<u>\$37,772,015</u>	<u>\$38,056,004</u>	<u>\$38,701,123</u>	<u>\$40,208,355</u>

2010	2011	2012	2013	2014	2015
\$3,630,766	\$3,609,198	\$3,982,814	\$3,912,009	\$3,440,468	\$1,849,269
7,408,112	8,020,152	7,331,704	7,416,835	7,660,604	7,852,782
2,412,047	2,275,232	2,396,894	2,277,238	2,576,293	2,312,432
218,656	216,413	200,710	119,035	136,785	141,751
1,176,135	1,210,998	1,105,025	1,155,375	1,047,375	1,097,467
4,183,063	4,765,491	4,680,010	4,724,850	4,811,792	5,455,971
201,570	177,894	132,767	127,653	122,825	124,446
19,230,349	20,275,378	19,829,924	19,732,995	19,796,142	18,834,118
3,719,723	4,428,054	4,626,908	4,803,191	4,949,707	5,070,715
3,739,629	3,791,743	3,465,124	3,723,556	4,091,744	4,280,212
27,380,632	29,042,901	30,455,928	32,061,280	33,682,364	34,719,580
4,173,224	4,200,613	4,201,231	4,433,307	4,472,432	4,347,245
300,521					
39,313,729	41,463,311	42,749,191	45,021,334	47,196,247	48,417,752
58,544,078	61,738,689	62,579,115	64,754,329	66,992,389	67,251,870
\$354,433	\$401,366	\$474,238	\$561,709	\$624,519	\$817,679
214,043	49,184	38,273	33,898	38,499	49,396
	468,136			7,557	3,240
				125,549	155,545
1,024,768	1,094,518	1,085,405	1,211,551	1,189,156	1,183,901
861,029	970,297	988,922	1,032,610	1,101,543	1,075,183
724,637	425,492	797,030	716,426	843,004	720,271
323,177	934,725	775,628	863,938		945,182
3,502,087	4,343,718	4,159,496	4,420,132	3,929,827	4,950,397
4,894,472	4,643,110	4,854,787	5,020,919	5,480,781	5,629,436
4,274,993	4,677,572	4,891,791	4,988,894	5,045,826	4,980,346
26,192,614	29,170,119	30,854,838	32,808,535	34,537,320	34,615,760
3,973,907	4,087,798	4,115,024	4,259,270	4,128,586	4,147,511
175,332					
19,392					
39,530,710	42,578,599	44,716,440	47,077,618	49,192,513	49,373,053
\$43,032,797	\$46,922,317	\$48,875,936	\$51,497,750	\$53,122,340	\$54,323,450

**Net (Expense)/Revenue**

Governmental activities	(\$13,140,589)	(\$13,361,233)	(\$14,711,199)	(\$17,560,474)
Business-type activities	(333,589)	(1,091,958)	(3,231,391)	(2,405,009)
Total primary government net expense	<u>(\$13,474,178)</u>	<u>(\$14,453,191)</u>	<u>(\$17,942,590)</u>	<u>(\$19,965,483)</u>

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

Governmental activities:				
Ad valorem taxes	\$6,815,478	\$7,298,421	7,769,020	7,862,442
Occupancy tax				
Privilege license tax				
Carbon City fire tax				
Sales tax				
Other taxes	2,980,248	4,938,519	3,353,209	2,976,369
Unrestricted intergovernmental revenues	1,624,417	827,704	1,936,451	1,993,844
Restricted intergovernmental revenues				
Investment earnings	677,091	519,912	861,266	526,467
Other revenues	334,576	744,259	245,750	95,722
Transfers	706,054	620,527	585,795	461,170
Total governmental activities	<u>13,137,864</u>	<u>14,949,342</u>	<u>14,751,491</u>	<u>13,916,014</u>
Business-type activities:				
Investment earnings	988,043	862,651	815,522	373,351
Other revenues	205,319	325,647	240,188	186,285
Transfers	(706,054)	(744,259)	(585,795)	(461,170)
Total business-type activities	<u>487,308</u>	<u>444,039</u>	<u>469,915</u>	<u>98,466</u>
Total primary government	<u>\$13,625,172</u>	<u>\$15,393,381</u>	<u>\$15,221,406</u>	<u>\$14,014,480</u>

**Change in Net Position**

Governmental activities	(\$2,725)	\$1,588,109	\$40,292	(\$3,644,460)
Business-type activities	153,719	(647,919)	(2,761,476)	(2,306,543)
Total primary government	<u>150,994</u>	<u>940,190</u>	<u>(2,721,184)</u>	<u>(5,951,003)</u>

(\$15,728,262)	(\$15,931,660)	(\$15,670,428)	(\$15,312,863)	(\$15,866,315)	(\$13,883,721)
216,981	1,115,288	1,967,249	2,056,284	1,996,266	955,301
(\$15,511,281)	(\$14,816,372)	(\$13,703,179)	(\$13,256,579)	(\$13,870,049)	(\$12,928,420)

7,820,692	7,708,574	7,623,645	7,944,516	8,746,988	9,021,003
					79,879
					190,977
					9,164
					3,275,403
2,641,496	3,064,831	3,517,569	3,460,242	3,339,080	
1,713,894	1,719,297	1,751,859	1,737,882	1,796,345	2,064,379
	24,701				
137,801	37,993	21,939	32,542	20,640	32,694
64,690	74,362		64,550	130,903	291,330
337,467	(858,831)	786,808	795,700	681,602	642,442
12,716,040	11,770,927	13,701,820	14,035,432	14,715,558	15,607,271

105,723	32,730	31,769	46,163	34,987	37,703
237,886	206,554	220,063	215,785	509,308	307,310
(337,467)	858,831	(786,808)	(795,700)	(681,602)	(642,442)
6,142	1,098,115	(534,976)	(533,752)	(137,307)	(297,429)
\$12,722,182	\$12,869,042	\$13,166,844	\$13,501,680	\$14,578,251	\$15,309,842

(\$3,012,222)	(\$4,160,733)	(\$1,968,608)	(\$1,277,431)	(\$1,150,757)	\$1,723,550
223,123	2,213,403	1,432,273	1,522,532	1,858,959	657,872
(2,789,099)	(1,947,330)	(536,335)	245,101	708,202	2,381,422

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
General Fund					
Reserved	\$5,910,316	\$5,327,266	\$4,465,357	\$2,894,718	\$1,872,310
Unreserved	3,779,653	5,067,584	7,321,962	7,062,954	7,115,736
Restricted					
Committed					
Unassigned					
	<b>\$9,689,969</b>	<b>\$10,394,850</b>	<b>\$11,787,319</b>	<b>\$9,957,672</b>	<b>\$8,988,046</b>
Total general fund					
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	\$3,141,226	\$3,592,720	\$3,607,527	\$3,266,897	\$2,985,427
Permanent fund	340,995	363,816	390,615	415,774	431,933
Nonspendable					
Perpetual Maintenance					
Committed					
Assigned					
Unassigned					
Total all other governmental funds	<b>\$3,482,221</b>	<b>\$3,956,536</b>	<b>\$3,998,142</b>	<b>\$3,682,671</b>	<b>\$3,417,360</b>

Notes:

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

<b>2011*</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
\$2,104,203	\$1,965,729	\$2,610,137	\$1,895,424	\$1,844,844
3,066,228	3,953,714	4,725,743	4,287,109	4,107,784
5,203,732	5,096,368	4,702,828	5,951,951	6,918,323
<b>\$10,374,163</b>	<b>\$11,015,811</b>	<b>\$12,038,708</b>	<b>\$12,134,484</b>	<b>\$12,870,951</b>

\$379,344	\$335,789	\$340,959	\$290,480	\$248,802
				\$20,789
				\$141,011
3,163	13,580	18,231	6,995	
<b>\$382,507</b>	<b>\$349,369</b>	<b>\$359,190</b>	<b>\$297,475</b>	<b>\$410,602</b>

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Revenues</b>				
Ad valorem taxes	\$6,797,506	\$7,136,147	\$7,787,684	\$7,811,407
Other taxes and licenses	2,988,551	3,111,379	3,353,209	2,984,770
Unrestricted intergovernmental revenues	1,624,417	1,827,140	1,936,451	1,996,276
Restricted intergovernmental revenues	1,532,197	897,398	1,304,340	993,723
Other restricted revenues	42,009	61,109	163,289	15,408
Permits and fees	267,267	208,590	176,939	235,419
Sales and services	1,152,828	1,865,234	1,850,063	2,045,014
Investment earnings	677,091	827,704	861,266	526,467
Other revenues	334,576	557,160	137,725	212,665
<b>Total revenues</b>	<b>15,416,442</b>	<b>16,491,861</b>	<b>17,570,966</b>	<b>16,821,149</b>
<b>Expenditures</b>				
General government	2,892,163	2,712,591	5,741,643	3,922,209
Public safety	6,857,152	6,590,915	7,032,648	8,477,428
Transportation	1,068,305	1,122,564	1,601,674	1,243,638
Environmental protection	962,287	1,186,814	1,344,758	1,208,846
Cultural and recreational	3,805,386	4,386,677	3,935,811	6,102,022
Economic and physical development	121,415	50,308	117,668	96,570
Debt service				
Principal	603,254	577,181	452,798	499,283
Interest	47,554	50,401	89,346	147,452
<b>Total expenditures</b>	<b>16,357,516</b>	<b>16,677,451</b>	<b>20,316,346</b>	<b>21,697,448</b>
<b>Other Financing Sources (Uses)</b>				
Issuance of capital debt	641,177	620,527	3,593,660	2,320,000
Transfers in	987,754	1,020,959	1,141,940	1,015,561
Transfers out	(281,700)	(276,700)	(556,145)	(554,391)
<b>Total other financing sources (uses)</b>	<b>1,347,231</b>	<b>1,364,786</b>	<b>4,179,455</b>	<b>2,781,170</b>
<b>Net change in fund balances</b>	<b>\$406,157</b>	<b>\$1,179,196</b>	<b>\$1,434,075</b>	<b>(\$2,095,129)</b>
Debt service as a percentage of noncapital expenditures	4.48%	4.42%	3.53%	3.73%

<b>Fiscal Year</b>					
<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
\$7,786,282	\$7,707,971	\$7,630,208	\$7,936,870	\$8,732,981	\$9,054,942
2,649,525	3,064,831	3,517,569	3,460,242	3,339,080	3,555,423
1,851,812	1,863,644	1,891,276	1,957,471	2,045,038	2,487,639
1,164,160	1,708,071	1,528,865	1,539,846	914,592	848,220
58,557	128,474	34,098	17,894	29,808	141,319
168,853	219,976	168,538	252,293	143,282	181,362
1,964,570	2,167,551	2,215,061	2,410,889	2,593,452	3,256,986
137,801	37,993	21,939	32,542	20,640	32,694
64,690	74,362	73,517	118,481	130,903	390,580
<b>15,846,250</b>	<b>16,972,873</b>	<b>17,081,071</b>	<b>17,726,528</b>	<b>17,949,776</b>	<b>19,949,165</b>
3,266,881	3,126,601	3,479,442	3,709,428	3,322,629	3,171,885
6,693,223	7,221,357	6,908,659	7,052,196	8,123,787	7,813,649
1,160,742	1,183,133	1,230,622	1,255,466	1,546,120	1,397,533
1,005,097	1,044,297	1,168,448	987,112	1,081,299	1,181,444
4,171,791	3,917,534	3,882,803	4,010,149	4,558,063	5,668,844
233,656	216,413	200,710	119,035	136,785	141,751
672,392	693,644	682,564	708,746	796,859	953,035
214,872	180,022	150,661	136,978	121,928	119,111
<b>17,418,654</b>	<b>17,583,001</b>	<b>17,703,909</b>	<b>17,979,110</b>	<b>19,687,470</b>	<b>20,447,252</b>
	196,540	836,808	489,600	1,090,153	705,239
749,167	724,676	(50,000)	891,775	681,602	1,288,080
(411,700)	(1,583,507)	444,540	(96,075)		(645,638)
337,467	(662,291)	1,231,348	1,285,300	1,771,755	1,347,681
<b>(\$1,234,937)</b>	<b>(\$1,272,419)</b>	<b>\$608,510</b>	<b>\$1,032,718</b>	<b>\$34,061</b>	<b>\$849,594</b>
5.37%	5.23%	4.93%	4.70%	5.34%	5.96%

**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>
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
2014-15	1,037,640,097	518,358,914	28,056,258	1,584,055,269	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>
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
2014-15	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 2015-2016</u>			<u>Fiscal Year 2005-2006</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.	\$123,746,077	1	7.07%	75,227,530	1	5.51%
SGL Carbon Corp	35,947,904	2	2.05%	35,866,635	2	2.63%
Morganton Retail Inv.	34,001,381	3	1.94%	21,772,317	6	1.60%
Viscotec	26,342,201	4	1.51%	29,100,137	3	2.13%
Sypris Technologies	23,684,925	5	1.35%	26,772,087	4	1.96%
Case Farms Processing	22,668,436	6	1.30%			
Caterpillar Inc.	20,934,030	7	1.20%	13,998,141	8	1.03%
Leviton Manufacturing	19,365,150	8	1.11%	16,018,600	7	1.17%
Gerresheimer Glass	17,651,480	9	1.01%			
American Roller Bearing	15,636,178	10	0.89%			
Grace Properties				13,512,695	9	0.99%
James Kirkpatrick Trust				13,121,096	10	0.96%
HDM Furniture Industries				26,654,993	5	1.95%
<b>Total</b>	<b>\$339,977,762</b>		<b>19.43%</b>	<b>\$272,044,231</b>		<b>19.94%</b>

**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
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%
2014-15	9,118,820	9,032,717	99.06%	N/A	9,032,717	99.06%

**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			
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
2014-15		0		0	0	0	Not available	0

**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**

<b>Fiscal Year</b>	<b>Bonded Debt Outstanding</b>	<b>Percentage of Assessed Value</b>	<b>Per Capita</b>
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
2014-15	0	0.00%	0

**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, 2015**

<b>Governmental Unit</b>	<b>Debt Outstanding</b>	<b>Percentage Applicable to the City of Morganton</b>	<b>City of Morganton's Share of Debt</b>
Burke County	\$43,802,406	27.29%	\$11,953,677
City of Morganton	<u>4,110,656</u>	100.00%	<u>\$4,110,656</u>
Total direct and overlapping debt	\$47,913,062		\$16,064,333

**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, 2015**

<b>Legal Debt Margin Calculation for Fiscal Year 2014-15</b>	
<b>Assessed Value</b>	\$1,750,017,118
<b>Debt Limit 8% of Assessed Value</b>	140,001,369
<b>Debt Applicable to Debt Limit:</b>	16,837,285
<b>Legal Debt Margin</b>	123,164,084

<b>Fiscal Year</b>	<b>Debt Limit</b>	<b>Total Net Debt Applicable to Limit</b>	<b>Legal Debt Margin</b>	<b>Total Net Debt Applicable to the Limit as a Percentage of Debt Limit</b>
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%
2014-15	140,001,369	16,837,285	123,164,084	12.03%

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

<b>Calendar Year</b>	<b>Population</b>	<b>Personal Income</b> (thousands of dollars)	<b>Per Capita Personal Income</b>	<b>Unemployment Rate</b>
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%
2015	16,932	Not available	Not available	6.2%

**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 2014 - 2015**

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<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
State of North Carolina	2,000	1	5.02%
Burke Public Schools	1,550	2	3.89%
Blue Ridge Healthcare / Grace Hosp.	1,400	3	3.52%
Case Farms	1,045	4	2.62%
Turning Point Services	1,000	5	2.51%
Case Farms	580	6	1.46%
Burke County	530	7	1.33%
Continental Teves Inc.	470	8	1.18%
Western Piedmont College	450	9	1.13%
City of Morganton	280	10	0.70%
Total	<u>9,305</u>		<u>23.37%</u>

**Sources:** Burke Development Inc. and North Carolina Employment Security Commission Labor Market

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**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government	57	57	62	51	51	48	48	48	48	48
Public Safety	102	103	104	100	97.58	92	91	87	87	88
Transportation/Garage	31	31	31	24	22	23	22	22	23	23
Environmental Protection	13	13	13	17	16	13	13	13	13	13
Cultural & Recreation	26.25	26.25	26.25	26.5	26.2	23.5	22.5	19.5	25.25	26.25
IRMS	5	5	6	6	6	5	5	5	6	6
Electric	26	26	26	25	26	24	22	22	24	24
Cable	8	8	8	8	8	8	8	8	9	9
Water	22	22	22	22	22	21	20	20	20	20
Wastewater	27	27	27	24	23	21	21	23	22	22
Total	317.3	318.25	325.25	303.5	297.78	278.5	272.5	267.5	#####	279.25

**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, 2015**

<b>Fiscal Year 2014-15</b>	
<b>General Government</b>	
Building Permits Issued	299
Building Inspections Conducted	931
Total City Employees - Full-time	276.25
Total City Employees - Part-time	360.00
<b>Police</b>	
Physical Arrests (18 years and over) (annual)	1,642
Parking Violations	367
Number of Police Employees - Officers	62
Number of Police Employees - Civilians	9
Number of Police Employees - Reserves	4
Number of Calls Responded	30,130
Number of Traffic Accidents	1,322
<b>Fire Protection</b>	
Fire Calls	483
Number of Fire Personnel - Paid	17
Number of Fire Personnel - Volunteer	10
Fire Inspections	586
<b>Electric</b>	
Customers	8,230
<b>Public Works</b>	
Refuse Collection (tons per day)	31.37
Recyclables Collected (tons per day)	1.38
Residential Collection Trucks	3
<b>Water Treatment Facility</b>	
Customers	10,040
Consumptions	2,700,000,000
<b>Wastewater</b>	
Customers	6,598
Average Daily Sewage Treatment	4.70
<b>Cable Television</b>	
Subscribers / Customers	3,231
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, 2015**

**Fiscal Year 2014-15**

<b>Police</b>	
Stations	1
Patrol units	79
<b>Fire Protection</b>	
Fire Stations	3
<b>Electric</b>	
Miles of Service	280
<b>Public Works</b>	
Miles of Streets	87.88
Primary Streets	86.79
Secondary Streets	1.09
Streetlights	3,420
Traffic Signals	4
<b>Water Treatment Facility</b>	
Plants	1
Miles of Distribution Lines	331
Fire Hydrants	1,504
Storage Capacity (millions of gallons)	8.15
<b>Wastewater</b>	
Plants	1
Miles of Collection Lines	204
<b>Cable Television</b>	
Miles of plant	165
<b>Parks and Recreation</b>	
Acreage	680
Playgrounds	9
Parks	12
Baseball fields	15
Soccer fields	5
Community Centers	2
Aquatic Facilities	2

**Sources:** Various City of Morganton Departments.

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

**S. Eric Bowman, P.A.**  
CERTIFIED PUBLIC ACCOUNTANT

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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, 2015 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, 2015. 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 2015-001 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 10, 2015

# **S. Eric Bowman, P.A.**

**CERTIFIED PUBLIC ACCOUNTANT**

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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, 2015. 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, 2015.

**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*

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

Morganton, North Carolina  
October 10, 2015

# **S. Eric Bowman, P.A.**

**CERTIFIED PUBLIC ACCOUNTANT**

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403 South Green Street  
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Morganton, NC 28680  
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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, 2015. 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, 2015.

**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*

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

Morganton, North Carolina  
October 10, 2015

CITY OF MORGANTON, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

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>
14.218	Community Development Block Grant
66.458	Clean Water State Revolving Loan

CITY OF MORGANTON, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015

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

2015-001

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, 2015

Finding: 2014-001

- |    |                           |  |
|----|---------------------------|--|
| 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, 2014

Prior year audit finding 2014-001 has not been corrected because it is not feasible to hire additional staff.

Prior year audit finding 2014-002 has been corrected.

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

<u>Grantor</u> <u>Pass-Through Grantor</u> <u>Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>State</u> <u>Pass-Through</u> <u>Grantor's Number</u>
Federal Awards:		
Cash Programs:		
<u>U.S. Department of Housing and</u> <u>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 :		
Greenway Patrol UTV	16.738	J009915
Telephone Recording System	16.738	J010399
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
Governor's Highway Safety Program	20.601	PT-2015-09-34
Total U.S. Department of Transportation		
<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>115 487</u>	\$ _____	\$ _____
11 937		3 799
<u>12 525</u>	_____	<u>4 175</u>
<u>24 462</u>	_____	<u>7 974</u>
33 980		5 997
<u>33 102</u>	_____	<u>14 486</u>
<u>67 082</u>	_____	<u>20 483</u>
<u>571 689</u>	_____	_____
\$ <u>778 720</u>	\$ _____	\$ <u>28 457</u>

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

State Awards:

Cash Programs:

N.C. Department of Transportation

Powell Bill

N.C. Department of Commerce

Main Street Solutions Fund

N.C. Department of Environment and Natural Resources

Technical Assistance Grant

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.

<u>Federal</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Local</u> <u>Expenditures</u>
\$ _____	\$ 618 254	\$ _____
_____	50 000	_____
_____	50 000	_____
_____	718 254	_____
<u>\$ 778 720</u>	<u>\$ 718 254</u>	<u>\$ 28 457</u>