

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2016**

**City of Morganton
North Carolina**

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2016

City Council

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

City Manager

Sally W. Sandy, CPA

Finance Director

Karen B. Duncan, CPA

Prepared by the City of Morganton's Finance Department

CITY OF MORGANTON

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CITY OF MORGANTON
NORTH CAROLINA

October 18, 2016

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

The Comprehensive Annual Financial Report of the City of Morganton, North Carolina is submitted for your review and use. This report is the comprehensive publication of the City's financial position and results of operations as of and for the fiscal year ended June 30, 2016. The City, like all other local governments in the State, is required by state law to publish a complete set of financial statements within four months of the close of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accounts. This report is published to fulfill that requirement for the fiscal year ended June 30, 2016, and to provide further accountability to citizens and other interested parties by providing a more comprehensive report in lieu of the minimum basic financial statement requirements.

As a comprehensive annual financial report this document provides financial detail and historical trends beyond the basic financial statements in the *Financial Section*. The *Supplementary Information* provides details on capital project activity, the economic development fund, the CDBG entitlement fund, the cemetery fund and internal service fund and the four utility funds. The *Statistical Section* provides trend information on financial performance, revenue capacity, debt capacity, demographic and economic indicators as well as operating information. A *Compliance Section* includes documentation on federal and state grants and awards compliance.

City management is responsible for both the accuracy of the data and the completeness and fairness of the report. To ensure reliability of the information, City management has established a comprehensive framework of internal control. Internal controls protect the City's assets from loss, theft and misuse and help ensure that information is reliable for the preparation of this report. Because the cost of internal controls should not outweigh their benefits, the City's controls have been designed to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. As management, to the best of our knowledge and belief, this financial report is complete, accurate and reliable in all material respects.

As noted earlier, the City is required by state law to have an annual independent financial audit. A compliance on federal and state financial assistance is also required under the Federal Single Audit Act of 1984 and the State Single Audit Implementation Act. Elliott Davis Decosimo, CPA's, a licensed certified public accountant practice conducted the audits and concluded in an unqualified ("clean") opinion that the financial statements present fairly in conformity with GAAP, in all material respects, the financial position and changes in financial position for the City of Morganton, North Carolina as of June 30, 2016. The independent auditor's report is located at the beginning of the financial section of this report.

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

Profile of the City

The City of Morganton, incorporated in 1885, is nestled in the foothills of the Blue Ridge Mountains in the western part of North Carolina. It currently serves a population of 16,918 and encompasses 19.145 square miles. Around the region it is known as a great place to live, work and play.

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 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 and adopted by function. Department directors may transfer resources within a functional area as they see fit. Transfers between functional areas need special approval from the City 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.

Financial Policy

The City Council has set a minimum 15% fund balance policy to provide continued financial stability to the government. An adequate unreserved fund balance ensures consistent cash flow, generates interest income, eliminates the need for short term borrowings and provides flexibility for unanticipated opportunities and needs during emergencies.

Long-term financial planning and initiatives

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.

Fiscally responsible budgeting has been key in the City's planning process. Currently the City does not have any bonded debt. In 2014, the City's bond rating was reviewed by Standard and Poor's and increased two steps to an AA bond rating which is another sign of fiscal stability.

Each year the City adopts a capital improvement budget and prepares a six-year capital improvement plan. The City accomplished many projects this fiscal year including:

- Improvements at the City Municipal Auditorium
- Interstate exit utility enhancements
- Significant paving at many facilities and greenway
- Recreation center upgrade and tennis courts
- Courtyard at Community House
- Water tank refurbishments
- Electrical industrial customer station reconstruction
- Cable studio upgrade

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, 2015. 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

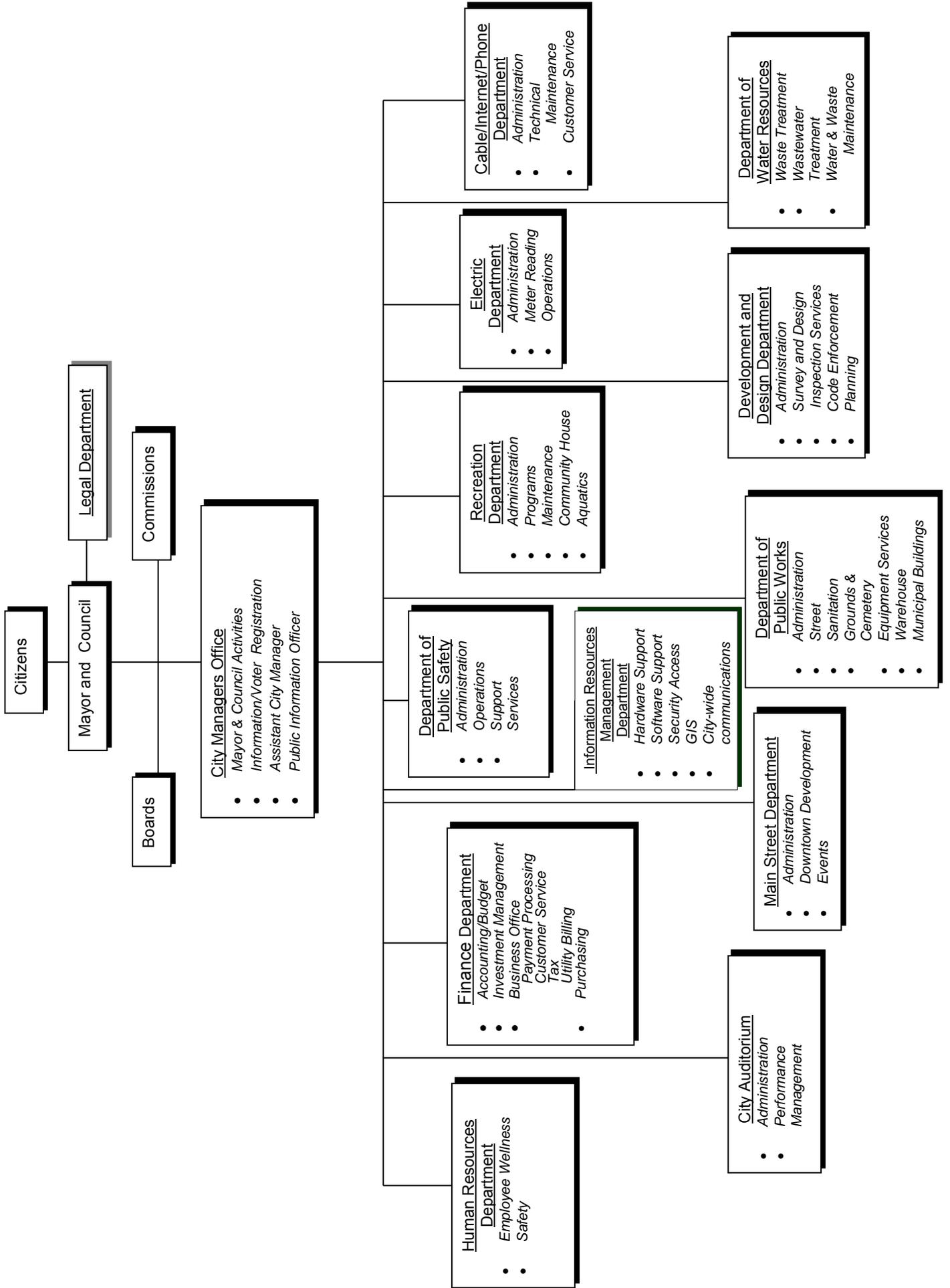
June 30, 2015

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive style.

Executive Director/CEO

CITY OF MORGANTON

ORGANIZATION CHART





Independent Auditor's Report

The Honorable Mayor and
Members of 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Morganton ABC Board, which represent 100 percent of the assets, net position and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Morganton ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit includes 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As discussed in Note VII to the financial statements, the financial statements for the year ending June 30, 2015 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Post Employment Benefits and Law Enforcement Officers Special Separation Allowance Schedules of Funding Progress and Employer Contributions, and the Local Government Employees Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, as listed in the Table of Contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The individual fund financial statements, schedule of ad valorem taxes receivable, schedule of current tax levy, schedule of transfers, schedule of cash and investment balances, the schedule of expenditures of state and federal awards as required by the State Single Audit Implementation Act, the introductory section and the statistical section as listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the financial statements.

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

The introductory section and statistical section 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 18, 2016, on our consideration of the City's internal control over financial reporting and on 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, PLLC". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
October 18, 2016

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, 2016. 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 follow this narrative.

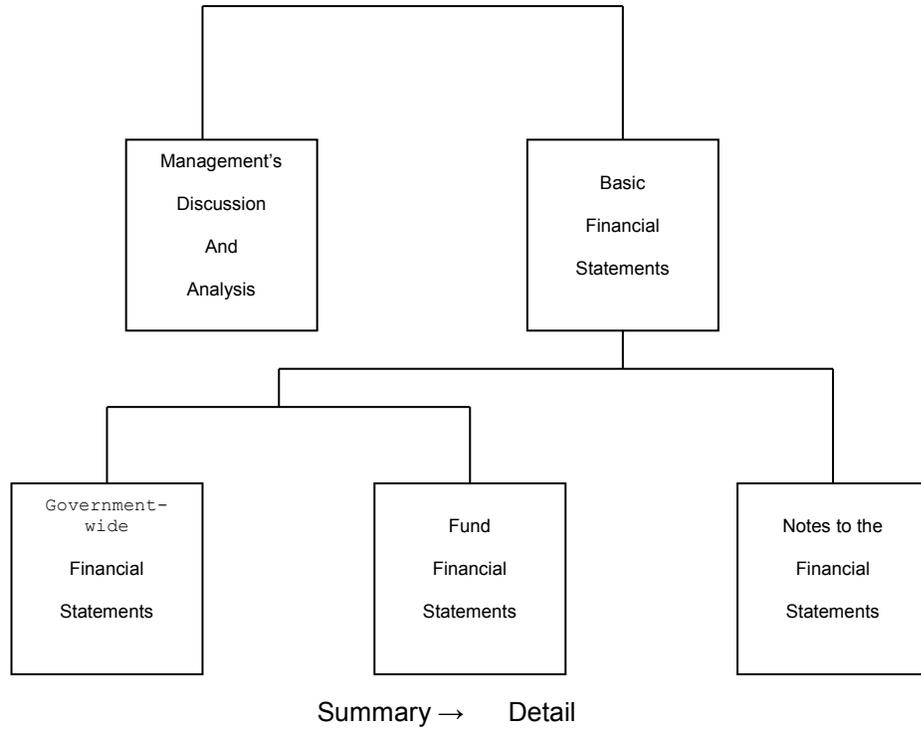
Financial Highlights

- 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 \$117,124,329.
- The government's total net position increased by \$3,190,701. Governmental activities had an increase of \$1,070,621 and business-type activities experienced an increase of \$2,120,080 in net position. A \$1,136,658 change in accounting estimate in the governmental activities accounted for the increase.
- As of the close of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balances of \$15,806,245, an increase of \$2,524,692 in comparison with the prior year. Approximately 79 percent of this amount, or \$12,432,466, 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 \$8,839,922, or 45 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt increased by \$91,148 (.5%) 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 Poor's 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 Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, culture and recreation, and general administration. Property taxes and grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include water, electric, cable, and wastewater services offered by the City of Morganton. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City because the City exercises control over the Board by appointing its' members and because 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			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$19,066,553	\$17,879,773	\$23,051,864	\$22,996,844	\$42,118,417	\$40,876,617
Capital assets	34,390,420	35,391,914	68,471,956	67,639,428	102,862,376	103,031,342
Deferred outflows of resources	577,367	590,091	224,532	229,480	801,899	819,571
Total assets and deferred outflows of resources	54,034,340	53,861,778	91,748,352	90,865,752	145,782,692	144,727,530
L T liabilities outstanding	6,911,930	6,018,300	11,967,846	12,412,457	18,879,776	18,430,757
Other liabilities	3,406,637	3,321,652	5,860,410	5,625,802	9,267,047	8,947,454
Deferred inflows of resources	369,468	2,246,142	142,072	819,534	511,540	3,065,676
Total liabilities and deferred inflows of resources	10,688,035	11,586,094	17,970,328	18,857,793	28,658,363	30,443,887
Net position:						
Net investment in capital assets	29,363,037	31,287,687	56,570,906	54,912,799	85,933,943	86,200,486
Restricted	7,896,819	6,222,219			7,896,819	6,222,219
Unrestricted	6,086,449	4,765,778	17,207,118	17,095,160	23,293,567	21,860,938
Total net position	\$43,346,305	\$42,275,684	\$73,778,024	\$72,007,959	\$117,124,329	\$114,283,643

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 \$117,124,329 as of June 30, 2016. The largest portion of the City's net assets is reflected in the City's investment in capital assets (less any related debt still outstanding that was issued to acquire those items.) The City of Morganton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Morganton's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Morganton's net position, \$7,896,819 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$23,293,567 is unrestricted.

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

- Continued diligence in the collection of property taxes 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

(Continued on next page)

City of Morganton's Changes in Net Position

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$2,842,025	\$3,284,944	\$48,776,975	\$49,373,053	\$51,619,000	\$52,657,997
Operating grants and Contributions	1,455,215	720,271			1,455,215	720,271
Capital grants and Contributions	129,196	945,182		50,000	129,196	995,182
General revenues:						
Ad valorem taxes	9,088,863	9,021,003			9,088,863	9,021,003
Occupancy tax	91,224	79,879			91,224	79,879
Privilege license tax	48	190,977			48	190,977
Carbon City fire tax	9,259	9,164			9,259	9,164
Sales tax	3,522,743	3,275,403			3,522,743	3,275,403
Unrestricted Intergovernmental	2,527,391	2,064,379			2,527,391	2,064,379
Investment earnings	77,325	32,694	92,821	37,703	170,146	70,397
Other	194,633	291,330	228,450	257,310	423,083	548,640
Total revenues	19,937,922	19,915,226	49,098,246	49,718,066	69,036,168	69,633,292
Expenses:						
General government	3,343,228	1,849,269			3,343,228	1,849,269
Public safety	6,651,717	7,852,782			6,651,717	7,852,782
Transportation	2,730,653	2,312,432			2,730,653	2,312,432
Economic and physical development	285,783	141,751			285,783	141,751
Environmental protection	1,046,082	1,097,467			1,046,082	1,097,467
Culture and recreation	5,186,423	5,455,971			5,186,423	5,455,971
Interest on long-term debt	138,427	124,446			138,427	124,446
Water			5,029,465	5,070,715	5,029,465	5,070,715
Wastewater			4,425,170	4,280,212	4,425,170	4,280,212
Electric			32,438,473	34,719,580	32,438,473	34,719,580
Cable			4,417,630	4,347,245	4,417,630	4,347,245
Total expenses	19,382,313	18,834,118	46,310,738	48,417,752	65,693,051	67,251,870
Increase (decrease) in net assets before transfers	555,609	1,081,108	2,787,508	1,300,314	3,343,117	2,381,422
Change in reserve for prepaid insurance	(152,416)				(152,416)	
Transfers	667,428	642,442	(667,428)	(642,442)		
Increase(decrease) in net assets	1,070,621	1,723,550	2,120,080	657,872	3,190,701	2,381,422
Net assets, July 1 as originally reported	42,275,684	40,552,134	72,007,959	71,350,087	114,283,643	111,902,221
Restatement			(350,015)		(350,015)	
Net assets, July 1, as restated	42,275,684	40,552,134	71,657,944	71,350,087	113,933,628	111,902,221
Net assets, June 30	\$43,346,305	\$42,275,684	\$73,778,024	\$72,007,959	\$117,124,329	\$114,283,643

Governmental activities: Governmental activities increased the City's net position by \$1,070,621, thereby adding to the overall 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:

- Change in accounting estimate resulting from moving from being self-insured to being fully insured which eliminated the need for a large insurance claims reserve
- Continued concerted effort to control costs and manage expenditures responsibly
- Annual review and re-prioritizing of Capital outlay
- Continued growth in sales tax revenue

Business-type activities: Business-type activities increased the City of Morganton's net position by \$2,120,080.

Key elements of this increase are:

- Continued awareness of largest customers consumption patterns
- Continued concerted effort to control costs and manage expenditures responsibly
- Annual review and re-prioritizing of Capital outlay

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 \$12,521,743, while total fund balance was \$15,398,715. 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 64.31% of general fund expenditures, while total fund balance represents 79.08% of the same amount.

At June 30, 2016, the governmental funds of the City of Morganton reported a combined fund balance of \$15,806,245 with a net increase in fund balance of 2,524,692. 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 Cemetery Fund.

General Fund Budgetary Highlights: During the fiscal year, there was a \$793,548 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.

The variance between the final amended budget and the actual results reflects conservative, responsible spending and timing of revenues received.

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 \$17,207,118, an increase in unrestricted net position of 111,958.

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, 2016 totals \$102,862,376 (net of accumulated depreciation). These assets include land, buildings, plant and system, equipment and infrastructure.

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

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land and Buildings	\$17,977,893	\$17,990,136	\$20,559,394	\$20,887,179	\$38,537,287	\$38,877,315
Plant and system			30,284,299	40,225,678	30,284,299	40,225,678
Equipment	8,423,590	8,476,631	17,033,912	6,526,571	25,457,502	15,003,202
Infrastructure	7,227,233	8,321,270			7,227,233	8,321,270
Construction in Progress	761,704	603,877	594,351		1,356,055	603,877
Total assets	\$34,390,420	\$35,391,914	\$68,471,956	\$67,639,428	\$102,862,376	\$103,031,342

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.

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 Poor’s reviewed the City in 2014. At that time 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 \$125,558,331.

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

Economic Factors and Next Year’s Budgets and Rates

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

- As is indicative of this part of the country, the local economic environment is experiencing some difficulties. The Hickory-Morganton-Lenoir MSA’s unemployment rate of 5.0% is higher than the State’s rate of 4.9% and the national rate of 4.9%. The MSA’s labor force of 167,642 has increased.

Budget Highlights for the Fiscal Year Ending June 30, 2017

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 2016-2017 represents a decrease of 7% or \$1,650,005 over the 2015-2016 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2016-2017 business-type activities budget overall is 5% or \$3,608,280 lower than the 2015-2016 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

Exhibit 1

JUNE 30, 2016

	Primary Government		Total	Component Unit
	Governmental Activities	Business-type Activities		Morganton ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$15,058,934	\$16,816,662	\$31,875,596	\$135,476
Taxes receivable (net)	69,464		69,464	
Accrued interest receivable-taxes	3,994		3,994	
Interest receivable-investments	25,552	31,916	57,468	
Accounts receivable (net)	1,221,768	5,025,671	6,247,439	
Due from other governments		333,297	333,297	
Inventories	885,037		885,037	252,526
Deferred charges - prepaid insurance	162,479	57,997	220,476	
Restricted cash	1,639,325	786,321	2,425,646	
Total current assets	<u>19,066,553</u>	<u>23,051,864</u>	<u>42,118,417</u>	<u>388,002</u>
Non-current assets:				
Land	12,803,783	15,040,621	27,844,404	11,000
Other capital assets, net of depreciation	20,824,933	52,836,984	73,661,917	14,406
Construction in progress	761,704	594,351	1,356,055	
Total net capital assets	<u>34,390,420</u>	<u>68,471,956</u>	<u>102,862,376</u>	<u>25,406</u>
Total assets	<u>53,456,973</u>	<u>91,523,820</u>	<u>144,980,793</u>	<u>413,408</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	577,367	224,532	801,899	21,261
LIABILITIES				
Current liabilities:				
Accounts payable	1,656,799	3,792,606	5,449,405	226,915
Customer deposits		786,321	786,321	
Accrued interest payable	53,031		53,031	
Current portion of liabilities				
Installment purchases payable	1,389,552	590,919	1,980,471	
Loan payable		574,937	574,937	
Compensated absences payable	307,255	115,627	422,882	
Long-term liabilities:				
Installment purchases payable	3,637,831	1,202,909	4,840,740	
Loan payable		9,532,285	9,532,285	
Compensated absences payable	460,882	173,442	634,324	
Net pension liability	652,855	253,887	906,742	8,392
Net pension obligation (LEO)	89,530		89,530	
OPEB	2,070,832	805,323	2,876,155	
Total liabilities	<u>10,318,567</u>	<u>17,828,256</u>	<u>28,146,823</u>	<u>235,307</u>
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	4,143		4,143	
Pension deferrals	365,325	142,072	507,397	4,362
Total deferred inflows of resources	<u>369,468</u>	<u>142,072</u>	<u>511,540</u>	<u>4,362</u>
NET POSITION				
Net investment in capital assets	29,363,037	56,570,906	85,933,943	25,406
Restricted for:				
Non-expendable (insurance)	152,416		152,416	
Expendable:				
Stabilization by State Statute	2,724,556		2,724,556	
Transportation	250,786		250,786	
Public safety	31,472		31,472	
Capital improvements	2,208,437		2,208,437	
Economic development	1,226,898		1,226,898	
Culture and Recreation	161,509		161,509	
Other (canteen, study)	1,140,745		1,140,745	92,545
Unrestricted	6,086,449	17,207,118	23,293,567	77,049
Total net position	<u>\$43,346,305</u>	<u>\$73,778,024</u>	<u>\$117,124,329</u>	<u>\$195,000</u>

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, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities				
General government	\$3,343,228	\$532,812	\$562,837	
Public safety	6,651,717	61,180	63,323	\$90,371
Transportation	2,730,653	1,120	483,418	
Economic and physical development	285,783		327,549	
Environmental protection	1,046,082	1,188,228	10,634	
Culture and recreation	5,186,423	1,058,685	7,454	38,825
Interest on long-term debt	138,427			
Total governmental activities	<u>19,382,313</u>	<u>2,842,025</u>	<u>1,455,215</u>	<u>129,196</u>
Business-type activities:				
Water	5,029,465	5,776,164		
Wastewater	4,425,170	5,309,234		
Electric	32,438,473	33,452,210		
Cable	4,417,630	4,239,367		
Total business-type activities	<u>46,310,738</u>	<u>48,776,975</u>		
Total primary government	<u>65,693,051</u>	<u>51,619,000</u>	<u>1,455,215</u>	<u>129,196</u>
Component units:				
Morganton ABC board	3,108,805	3,122,707		
Total component units	<u>\$3,108,805</u>	<u>3,122,707</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 Unit
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board
Primary government:				
Governmental activities				
General government	(\$2,247,579)		(\$2,247,579)	
Public safety	(6,436,843)		(6,436,843)	
Transportation	(2,246,115)		(2,246,115)	
Economic and physical development	41,766		41,766	
Environmental protection	152,780		152,780	
Culture and recreation	(4,081,459)		(4,081,459)	
Interest on long-term debt	(138,427)		(138,427)	
Total governmental activities	(14,955,877)		(14,955,877)	
Business-type activities:				
Water		\$746,699	746,699	
Wastewater		884,064	884,064	
Electric		1,013,737	1,013,737	
Cable		(178,263)	(178,263)	
Total business-type activities		2,466,237	2,466,237	
Total primary government	(14,955,877)	2,466,237	(12,489,640)	
Component units:				
Morganton ABC board				\$13,902
Total component units				13,902
General revenues:				
Ad valorem taxes	9,088,863		9,088,863	
Occupancy tax	91,224		91,224	
Carbon City fire tax	9,259		9,259	
Privilege License tax	48		48	
Sales tax	3,522,743		3,522,743	
Unrestricted intergovernmental revenues	2,527,391		2,527,391	
Investment earnings	77,325	92,821	170,146	
Other revenues	194,633	228,450	423,083	
Change in reserve for prepaid insurance	(152,416)		(152,416)	
Transfers	667,428	(667,428)		
Total general revenues, prepaid reserves and transfers	16,026,498	(346,157)	15,680,341	
Change in net position	1,070,621	2,120,080	3,190,701	13,902
Net position, beginning, as originally report	42,275,684	72,007,959	114,283,643	181,098
Restatement		(350,015)	(350,015)	
Net position, beginning, as restated	42,275,684	71,657,944	113,933,628	
Net position, ending	\$43,346,305	\$73,778,024	\$117,124,329	\$195,000

CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	CDBG Entitlement Fund	Cemetery Fund	Capital Project Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$14,159,209	\$22,799		\$161,509	\$14,343,517
Restricted cash	1,435,825		\$203,500		1,639,325
Prepaid Insurance	152,416				152,416
Taxes receivable (net)	69,464				69,464
Accounts receivable (net)	1,202,497	19,109			1,221,606
Interest receivable	24,890		662		25,552
Total assets	<u>\$17,044,301</u>	<u>\$41,908</u>	<u>\$204,162</u>	<u>\$161,509</u>	<u>\$17,451,880</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$1,571,979	\$49			\$1,572,028
Total liabilities	<u>1,571,979</u>	<u>49</u>			<u>1,572,028</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	69,464				69,464
Prepaid taxes	4,143				4,143
Total deferred inflows of resources	<u>73,607</u>				<u>73,607</u>
FUND BALANCES					
Nonspendable					
Prepaid Insurance	152,416				152,416
Restricted					
Stabilization by State Statute	2,724,556				2,724,556
Streets - Powell Bill	250,786				250,786
Economic Development		41,859			41,859
Committed					
Canteen operations	6,087				6,087
Drug Enforcement	31,472				31,472
Capital Projects	2,208,437				2,208,437
Economic Development	1,185,039				1,185,039
Community House				161,509	161,509
Cemetery			204,162		204,162
Unassigned	8,839,922				8,839,922
Total fund balances	<u>15,398,715</u>	<u>41,859</u>	<u>204,162</u>	<u>161,509</u>	<u>15,806,245</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$17,044,301</u>	<u>\$41,908</u>	<u>\$204,162</u>	<u>\$161,509</u>	<u>\$17,451,880</u>

Amounts reported for governmental activities in the Statement of Net Position are different because:		15,806,245
Total Fund Balance, Governmental Funds		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	105,333,903	
Accumulated depreciation	<u>(71,521,950)</u>	33,811,953
Deferred outflows of resources of resources related to pensions are not reported in the funds		545,291
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds.		3,994
The Internal Service fund is used by management to charge the costs of certain activities, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.		1,927,684
Earned revenue considered deferred inflows of resources in fund statements		69,464
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Installment purchase debt	(5,027,383)	
Compensated absences	(730,982)	
LEO pension	(89,530)	
OPEB	(1,955,786)	
Net pension liability	<u>(616,585)</u>	(8,420,266)
Deferred inflows of resources related to pensions are not reported in the funds		(345,029)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		<u>(53,031)</u>
Net position of governmental activities		<u><u>\$43,346,305</u></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, 2016

REVENUES	General	CDBG Entitlement Fund	Cemetery Fund	Capital Project Fund	Total Governmental Funds
Ad valorem taxes	\$9,105,965				\$9,105,965
Other taxes and licenses	3,623,274				3,623,274
Unrestricted intergovernmental revenues	2,538,025				2,538,025
Restricted intergovernmental revenues	1,086,367	\$327,549			1,413,916
Other restricted revenues	113,582				113,582
Permits and fees	137,285				137,285
Sales and services	2,828,380		\$13,645		2,842,025
Investment earnings	75,610		1,715		77,325
Other revenues	64,802			\$38,825	103,627
Total revenues	<u>19,573,290</u>	<u>327,549</u>	<u>15,360</u>	<u>38,825</u>	<u>19,955,024</u>
EXPENDITURES					
Current					
General government	3,364,337		60,000		3,424,337
Public safety	7,144,444				7,144,444
Transportation	1,570,530				1,570,530
Environmental protection	1,153,858				1,153,858
Cultural and recreational	5,145,963			157,827	5,303,790
Economic and physical development		306,479			306,479
Debt service					
Principal retirement	981,041				981,041
Interest and fees	111,049				111,049
Total expenditures	<u>19,471,222</u>	<u>306,479</u>	<u>60,000</u>	<u>157,827</u>	<u>19,995,528</u>
Revenues over (under) expenditures	<u>102,068</u>	<u>21,070</u>	<u>(44,640)</u>	<u>(119,002)</u>	<u>(40,504)</u>
OTHER FINANCING SOURCES (USES)					
Transfers - in	667,428			139,500	806,928
Transfers - out	(139,500)				(139,500)
Issuance of capital debt	1,897,768				1,897,768
Total other financing sources (uses)	<u>2,425,696</u>				<u>2,425,696</u>
Net change in fund balances	2,527,764	21,070	(44,640)	20,498	2,524,692
Fund balances - beginning (consolidated)	<u>12,870,951</u>	<u>20,789</u>	<u>248,802</u>	<u>141,011</u>	<u>13,281,553</u>
Fund balances - ending	<u>\$15,398,715</u>	<u>\$41,859</u>	<u>\$204,162</u>	<u>\$161,509</u>	<u>\$15,806,245</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, 2016

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

Net change in fund balances - total governmental funds		\$2,524,692
<p>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</p>		
Capital outlay expenditures which were capitalized	2,552,612	
Depreciation expense for governmental assets	<u>(3,543,615)</u>	(991,003)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
Change in unavailable revenue for tax and interest revenues		(17,102)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items</p>		
New long-term debt issued	(1,897,768)	
Principal payments on long-term debt	981,041	
Increase in accrued interest payable	<u>(27,378)</u>	(944,105)
<p>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</p>		
Compensated absences	43,022	
Pension expense	188,142	
Net pension obligation (LEO) expense	598,549	
Other postemployment benefits expense	<u>(331,052)</u>	498,661
<p>The net expense of certain activities of the internal service fund is reported with governmental activities</p>		
		<u>(522)</u>
Total changes in net position of governmental activities		<u><u>\$1,070,621</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Ad valorem taxes				
Current year	\$8,798,007	\$8,861,987	\$8,958,964	\$96,977
Prior years	50,000	97,450	97,443	(7)
Special tax - Main Street	116,436	116,436	116,899	463
Interest	28,700	28,700	33,806	5,106
Discounts	(100,800)	(100,800)	(101,147)	(347)
Total	<u>8,892,343</u>	<u>9,003,773</u>	<u>9,105,965</u>	<u>102,192</u>
Other taxes and licenses				
Privilege licenses penalties			48	48
Carbon city fire tax	9,265	9,265	9,259	(6)
Occupancy tax	78,000	78,000	91,224	13,224
One-half cent sales tax	2,200,000	2,298,308	2,335,007	36,699
One cent sales tax	1,044,000	1,118,000	1,187,736	69,736
Total	<u>3,331,265</u>	<u>3,503,573</u>	<u>3,623,274</u>	<u>119,701</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	28,155	28,155	33,547	5,392
Section eight in lieu of taxes	3,405	3,405	2,639	(766)
Payments in lieu of taxes	376,030	376,030	376,030	
Utility sales tax	1,758,280	1,827,000	1,804,751	(22,249)
Beer and wine	79,208	79,208	73,551	(5,657)
Solid waste disposal	10,192	10,192	10,634	442
Alcohol Beverage Commission	212,808	212,808	236,873	24,065
Total	<u>2,468,078</u>	<u>2,536,798</u>	<u>2,538,025</u>	<u>1,227</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	63,752	63,752	63,323	(429)
Drug restitution	2,500	2,500		(2,500)
ABC restitution	1,500	1,500		(1,500)
State and federal grants	788,697	1,591,197	539,626	(1,051,571)
Powell bill street aid allocation	483,374	483,374	483,418	44
Total	<u>1,339,823</u>	<u>2,142,323</u>	<u>1,086,367</u>	<u>(1,055,956)</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES - (continued)				
Other restricted revenues				
Shared cost of curb and gutter	\$5,000	\$5,000		(\$5,000)
Restricted contributions	362,755	462,556	\$113,582	(348,974)
Total	<u>367,755</u>	<u>467,556</u>	<u>113,582</u>	<u>(353,974)</u>
Permits and fees				
Building permits	35,000	36,000	39,267	3,267
Plumbing permits	18,000	18,000	25,120	7,120
Electric permits	40,000	40,000	35,984	(4,016)
HVAC permits	23,000	35,000	35,004	4
Variance/planning/zoning requests	3,400	3,400	1,910	(1,490)
Total	<u>119,400</u>	<u>132,400</u>	<u>137,285</u>	<u>4,885</u>
Sales and services				
Parking revenue	11,000	11,000	12,891	1,891
Reimbursement for services	5,000	5,000	1,108	(3,892)
Solid waste user fees	1,145,000	1,145,000	1,145,084	84
Rough trash fees	3,500	15,600	16,484	884
Solid waste late charges	14,120	14,120	13,015	(1,105)
Curb cuts	4,000	4,000	1,120	(2,880)
Civil citations	500	500	270	(230)
Engineering inspections	5,000	5,000	3,725	(1,275)
Rent	600	35,100	30,775	(4,325)
Fire protection	500	500	1,650	1,150
False alarm violations	25,000	25,000	30,075	5,075
Recreation revenue	663,875	663,875	515,213	(148,662)
Food sales and services	278,000	278,000	253,093	(24,907)
Bad check charges/verification fee	7,600	7,600	7,245	(355)
Canteen sales	1,870	1,870	1,157	(713)
Main street revenue	29,000	29,000	33,284	4,284
Façade loan program	5,000	5,000	2,634	(2,366)
DARE program	100	100	5,895	5,795
Municipal auditorium ticket sales	375,000	375,000	290,379	(84,621)
Surplus sale	26,000	205,942	204,930	(1,012)
Reimbursements				
Burke County		15,563	36,064	20,501
Insurance		5,979	16,620	10,641
Stormwater/capital reserve/cable	195,000	195,000	195,000	
Court cost and fees	12,000	12,000	10,669	(1,331)
Total	<u>2,807,665</u>	<u>3,055,749</u>	<u>2,828,380</u>	<u>(227,369)</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES - (continued)				
Investment earnings	\$27,000	\$27,000	\$73,189	\$46,189
Other revenue				
Revolving loan principal		14,000	4,593	(9,407)
Revolving loan interest			2,861	2,861
Miscellaneous	66,000	83,740	33,639	(50,101)
Contributions	20,612	23,440	23,709	269
Total	<u>86,612</u>	<u>121,180</u>	<u>64,802</u>	<u>(56,378)</u>
Total revenue	<u>19,439,941</u>	<u>20,990,352</u>	<u>19,570,869</u>	<u>(1,419,483)</u>
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			60,107	
Operating expenditures			122,682	
Donations/economic development			910,509	
Pro rata administrative services			(398,529)	
Total	<u>351,189</u>	<u>1,126,044</u>	<u>694,769</u>	<u>431,275</u>
Legal				
Salaries and employee benefits			189,361	
Operating expenditures			67,944	
Pro rata administrative services			(192,290)	
Total	<u>64,097</u>	<u>71,122</u>	<u>65,015</u>	<u>6,107</u>
Executive				
Salaries and employee benefits			457,071	
Operating expenditures			50,011	
Pro rata administrative services			(429,021)	
Total	<u>109,255</u>	<u>108,905</u>	<u>78,061</u>	<u>30,844</u>
Human resources				
Salaries and employee benefits			260,938	
Operating expenditures			924,434	
Pro rata administrative services			(643,349)	
Total	<u>286,376</u>	<u>593,706</u>	<u>542,023</u>	<u>51,683</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Accounting				
Salaries and employee benefits			\$268,139	
Operating expenditures			320,668	
Pro rata administrative services			(509,232)	
Total	<u>\$89,865</u>	<u>\$94,550</u>	<u>79,575</u>	<u>\$14,975</u>
Main street				
Salaries and employee benefits			159,020	
Operating expenditures			334,946	
Total	<u>584,562</u>	<u>731,196</u>	<u>493,966</u>	<u>237,230</u>
Canteen operations				
Operating expenditures	<u>2,100</u>	<u>2,100</u>	<u>233</u>	<u>1,867</u>
Business office/tax				
Salaries and employee benefits			352,674	
Operating expenditures			156,967	
Pro rata administrative services			(515,137)	
Total	<u>30,910</u>	<u>47,710</u>	<u>(5,496)</u>	<u>53,206</u>
Development				
Salaries and employee benefits			479,702	
Operating expenditures			88,366	
Capital outlay			158,959	
Total	<u>783,098</u>	<u>794,426</u>	<u>727,027</u>	<u>67,399</u>
Municipal buildings				
Operating expenditures			(18,670)	
Pro rata administrative services			(87,922)	
Capital outlay			42,778	
Total	<u>(20,933)</u>	<u>(4,173)</u>	<u>(63,814)</u>	<u>59,641</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
General government (continued)				
Design				
Salaries and employee benefits			\$373,482	
Operating expenditures			45,977	
Pro rata administrative services			(260,264)	
Total	<u>\$173,509</u>	<u>\$173,969</u>	<u>159,195</u>	<u>\$14,774</u>
Public works				
Salaries and employee benefits			135,122	
Operating expenditures			16,537	
Total	<u>179,435</u>	<u>179,485</u>	<u>151,659</u>	<u>27,826</u>
Cemetery and grounds				
Salaries and employee benefits			486,981	
Operating expenditures			68,802	
Pro rata reimbursement			(10,000)	
Capital outlay			74,384	
Total	<u>684,175</u>	<u>686,675</u>	<u>620,167</u>	<u>66,508</u>
Total general government	<u>3,317,638</u>	<u>4,605,715</u>	<u>3,542,380</u>	<u>1,063,335</u>
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,698,670	
Operating expenditures			1,323,508	
Pro rata administrative services			(19,200)	
Capital outlay			652,062	
Total public safety	<u>8,671,435</u>	<u>8,793,862</u>	<u>7,655,040</u>	<u>1,138,822</u>
Transportation				
Street department				
Salaries and employee benefits			618,758	
Operating expenditures			83,782	
Capital outlay			168,031	
Total	<u>\$1,228,060</u>	<u>\$1,258,477</u>	<u>870,571</u>	<u>387,906</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
Powell bill				
Salaries and employee benefits			\$285,058	
Operating expenditures			529,795	
Capital outlay			9,918	
Total	<u>\$403,510</u>	<u>\$673,422</u>	<u>824,771</u>	<u>(\$151,349)</u>
Total transportation	<u>1,631,570</u>	<u>1,931,899</u>	<u>1,695,342</u>	<u>236,557</u>
Environmental protection - sanitation				
Salaries and employee benefits			601,739	
Operating expenditures			319,677	
Capital outlay			311,868	
Total environmental protection	<u>1,095,164</u>	<u>1,349,152</u>	<u>1,233,284</u>	<u>115,868</u>
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			330,430	
Operating expenditures			588,006	
Capital outlay			181,701	
Total	<u>1,185,199</u>	<u>1,154,255</u>	<u>1,100,137</u>	<u>54,118</u>
Recreation				
Salaries and employee benefits			1,619,929	
Operating expenditures			1,379,302	
Pro rata administrative services			(22,080)	
Capital outlay			795,084	
Total	<u>4,778,597</u>	<u>5,108,140</u>	<u>3,772,235</u>	<u>1,335,905</u>
Community House				
Salaries and employee benefits			247,647	
Operating expenditures			173,450	
Total	<u>451,670</u>	<u>525,655</u>	<u>421,097</u>	<u>104,558</u>
Total cultural and recreational	<u>6,415,466</u>	<u>6,788,050</u>	<u>5,293,469</u>	<u>1,494,581</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$975,653	\$982,207	\$981,041	\$1,166
Interest	117,445	117,445	111,049	6,396
Total debt service	<u>1,093,098</u>	<u>1,099,652</u>	<u>1,092,090</u>	<u>7,562</u>
Total expenditures	<u>22,224,371</u>	<u>24,568,330</u>	<u>20,511,605</u>	<u>4,056,725</u>
Revenues over (under) expenditures	<u>(2,784,430)</u>	<u>(3,577,978)</u>	<u>(940,736)</u>	<u>2,637,242</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	476,452	1,152,232		(1,152,232)
Issuance of capital debt	1,640,550	1,897,818	1,897,768	(50)
Transfer to Capital Projects fund		(139,500)	(139,500)	
Transfer from Electric fund	667,428	667,428	667,428	
Total other financing sources	<u>2,784,430</u>	<u>3,577,978</u>	<u>2,425,696</u>	<u>(1,152,282)</u>
Revenues and other sources over expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>1,484,960</u>	<u>\$1,484,960</u>
Net change in fund balances			1,484,960	
Fund balances - beginning			11,594,058	
Change in accounting estimate			1,134,658	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			2,421	
Reimbursements			(94,275)	
Fund balances - beginning			<u>1,276,893</u>	
Fund balances - ending			<u>\$15,398,715</u>	

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

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CITY OF MORGANTON
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	<u>Business-type Activities - Enterprise Funds</u>				<u>Totals</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Electric Fund</u>	<u>Cable Fund</u>		
<u>ASSETS</u>						
<u>CURRENT ASSETS :</u>						
Cash and cash equivalents	\$6,483,993	\$2,161,548	\$1,337,146		\$9,982,687	\$715,417
Investments	1,771,458	2,062,795	2,999,722		6,833,975	
Accounts receivable (net)	628,269	443,234	3,918,747	\$35,421	5,025,671	162
Due from other governments	333,297				333,297	
Inventories						885,037
Prepaid insurance	18,305	16,216	19,041	\$4,435	57,997	10,063
Interest receivable	8,133	10,031	13,752		31,916	
Restricted Cash	103,995	104,898	577,428		786,321	
Total current assets	<u>9,347,450</u>	<u>4,798,722</u>	<u>8,865,836</u>	<u>39,856</u>	<u>23,051,864</u>	<u>1,610,679</u>
<u>NONCURRENT ASSETS :</u>						
Due from other funds			3,017,326		3,017,326	
Capital assets:						
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	16,515,524	22,671,569	9,581,454	4,068,437	52,836,984	545,150
Construction in progress	360,797	233,554			594,351	
Total noncurrent assets	<u>17,788,338</u>	<u>36,972,191</u>	<u>12,654,730</u>	<u>4,074,023</u>	<u>71,489,282</u>	<u>578,467</u>
TOTAL ASSETS	<u>27,135,788</u>	<u>41,770,913</u>	<u>21,520,566</u>	<u>4,113,879</u>	<u>94,541,146</u>	<u>2,189,146</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Contributions to pension plan	64,152	64,152	72,171	24,057	224,532	32,076
<u>LIABILITIES</u>						
<u>CURRENT LIABILITIES :</u>						
Accounts payable and accrued liabilities	265,632	174,073	3,103,658	249,243	3,792,606	84,771
Compensated absences-current	28,082	29,018	39,368	19,159	115,627	14,862
Installment purchase - current	364,466		69,670	156,783	590,919	
Loan payable - current		574,937			574,937	
Liabilities payable from restricted assets:						
Customer deposits	103,995	104,898	577,428		786,321	
Total current liabilities	<u>762,175</u>	<u>882,926</u>	<u>3,790,124</u>	<u>425,185</u>	<u>5,860,410</u>	<u>99,633</u>
<u>NONCURRENT LIABILITIES :</u>						
Due to other funds				3,017,326	3,017,326	
Other postemployment benefits	230,092	230,092	258,854	86,285	805,323	115,046
Compensated absences-noncurrent	42,123	43,527	59,052	28,740	173,442	22,293
Net pension liability	72,539	72,539	81,607	27,202	253,887	36,270
Installment purchase - noncurrent	952,387		22,000	228,522	1,202,909	
Loan payable - noncurrent	333,297	9,198,988			9,532,285	
Total noncurrent liabilities	<u>1,630,438</u>	<u>9,545,146</u>	<u>421,513</u>	<u>3,388,075</u>	<u>14,985,172</u>	<u>173,609</u>
TOTAL LIABILITIES	<u>2,392,613</u>	<u>10,428,072</u>	<u>4,211,637</u>	<u>3,813,260</u>	<u>20,845,582</u>	<u>273,242</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Pension deferrals	40,592	40,592	45,666	15,222	142,072	20,296
<u>NET POSITION</u>						
Net Investment in capital assets	16,138,188	27,198,266	9,545,734	3,688,718	56,570,906	578,467
Unrestricted	8,628,547	4,168,135	7,789,700	(3,379,264)	17,207,118	1,349,217
TOTAL NET POSITION	<u>\$24,766,735</u>	<u>\$31,366,401</u>	<u>\$17,335,434</u>	<u>\$309,454</u>	<u>\$73,778,024</u>	<u>\$1,927,684</u>

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

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CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Business-type Activities - Enterprise Funds</u>				<u>Totals</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Electric Fund</u>	<u>Cable Fund</u>		
OPERATING REVENUES :						
Charges for services	\$5,776,164	\$5,309,234	\$33,452,210	\$4,239,367	\$48,776,975	\$1,701,497
OPERATING EXPENSES :						
Water treatment and maintenance	3,893,202				3,893,202	
Wastewater treatment and maintenance		2,846,146			2,846,146	
Operations			31,665,691		31,665,691	
Operations and maintenance MIS, Garage and Warehouse operations				4,102,697	4,102,697	1,605,576
Depreciation	1,083,108	1,339,467	768,418	303,322	3,494,315	100,864
Total	4,976,310	4,185,613	32,434,109	4,406,019	46,002,051	1,706,440
OPERATING INCOME (LOSS)	799,854	1,123,621	1,018,101	(166,652)	2,774,924	(4,943)
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	32,028	25,186	35,607		92,821	
Sale of materials						4,421
Interest expense	(53,155)	(239,557)	(4,364)	(11,611)	(308,687)	
Noncapital contributions	28,183	784	48,274	151,209	228,450	
Total	7,056	(213,587)	79,517	139,598	12,584	4,421
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIC	806,910	910,034	1,097,618	(27,054)	2,787,508	(522)
TRANSFERS :						
Out			(667,428)		(667,428)	
Total			(667,428)		(667,428)	
Change in net position	806,910	910,034	430,190	(27,054)	2,120,080	(522)
TOTAL NET POSITION - beginning, as originally reported	23,959,825	30,456,367	16,905,244	686,523	72,007,959	1,928,206
Restatement				(350,015)	(350,015)	
TOTAL NET POSITION - beginning, as restated	23,959,825	30,456,367	16,905,244	336,508	71,657,944	1,928,206
TOTAL NET POSITION - ending	<u>\$24,766,735</u>	<u>\$31,366,401</u>	<u>\$17,335,434</u>	<u>\$309,454</u>	<u>\$73,778,024</u>	<u>\$1,927,684</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, 2016

	Business-type Activities - Enterprise Funds				Totals June 30, 2016	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
CASH FLOWS FROM OPERATING ACTIVITIES :						
Receipts from customers	\$5,753,713	\$5,424,980	\$33,840,576	\$4,217,342	\$49,236,611	\$1,701,497
Payments to suppliers	(2,622,830)	(1,455,387)	(30,012,730)	(3,223,500)	(37,314,447)	(933,256)
Payments to employees	(1,075,349)	(1,326,089)	(1,766,888)	(850,025)	(5,018,351)	(738,276)
Net cash provided by operating activities	<u>2,055,534</u>	<u>2,643,504</u>	<u>2,060,958</u>	<u>143,817</u>	<u>6,903,813</u>	<u>29,965</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES :						
Transfers			(667,428)		(667,428)	
Interfund borrowings			(300,650)	300,650		
Sale of materials						4,421
Noncapital contributions received	28,183	784	48,274	151,209	228,450	
Net cash provided (used) by noncapital financing activities	<u>28,183</u>	<u>784</u>	<u>(919,804)</u>	<u>451,859</u>	<u>(438,978)</u>	<u>4,421</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(1,459,373)	(1,719,856)	(717,367)	(430,247)	(4,326,843)	(90,373)
Principal paid on capital debt	(361,253)	(574,937)	(68,868)	(153,818)	(1,158,876)	
Interest paid on capital debt	(53,155)	(239,557)	(4,364)	(11,611)	(308,687)	
Net cash used by capital and related financing activities	<u>(1,873,781)</u>	<u>(2,534,350)</u>	<u>(790,599)</u>	<u>(595,676)</u>	<u>(5,794,406)</u>	<u>(90,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :						
Proceeds from sales and maturities of investments	840,136	904,024	1,332,785		3,076,945	
Purchases of investments	(1,771,458)	(2,062,795)	(2,999,722)		(6,833,975)	
Interest on investments	25,382	17,901	24,567		67,850	
Net cash used by investing activities	<u>(905,940)</u>	<u>(1,140,870)</u>	<u>(1,642,370)</u>		<u>(3,689,180)</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	(696,004)	(1,030,932)	(1,291,815)		(3,018,751)	(55,987)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
	7,283,992	3,297,378	3,206,389	Nil	9,949,161	771,404
CASH AND CASH EQUIVALENTS AT END OF YEAR						
	<u>\$6,587,988</u>	<u>\$2,266,446</u>	<u>\$1,914,574</u>	Nil	<u>\$10,769,008</u>	<u>\$715,417</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2016	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)	\$799,854	\$1,123,621	\$1,018,101	(\$166,652)	2,774,924	(\$4,943)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	1,083,108	1,339,467	768,418	303,322	3,494,315	100,864
Changes in assets and liabilities :						
(Increase) decrease in accounts receivable	(32,422)	108,609	354,191	(22,025)	408,353	54
(Increase) in prepaid insurance	(18,305)	(16,216)	(19,041)	(4,435)	(57,997)	(10,063)
Decrease in net pension asset	97,473	97,473	109,658	36,552	341,156	48,737
Increase in inventories						(68,453)
Decrease in deferred outflows of resources for pensions	1,414	1,414	1,590	530	4,948	707
Increase (decrease) in accounts payable and accrued liabilities	210,917	62,856	(118,936)	23,011	177,848	6,371
Increase in customer deposits	9,971	7,137	34,175		51,283	
Increase in OPEB	38,947	38,947	43,816	14,606	136,316	19,473
(Decrease) in deferred inflows of resources for pensions	(193,561)	(193,561)	(217,756)	(72,584)	(677,462)	(96,780)
Increase in net pension liability	72,539	72,539	81,607	27,202	253,887	36,270
Increase (decrease) in accrued vacation pay	(14,401)	1,218	5,135	4,290	(3,758)	(2,272)
Net cash provided (used) by operating activities	<u>\$2,055,534</u>	<u>\$2,643,504</u>	<u>\$2,060,958</u>	<u>\$143,817</u>	<u>\$6,903,813</u>	<u>\$29,965</u>
NONCASH TRANSACTIONS						
Infrastructure loan receivable	<u>\$333,297</u>					

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

I. Summary of significant accounting policies

The accounting policies of the City of Morganton and its discretely presented component unit 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 unit, entities for which the government is considered to be financially accountable. The 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.

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 two special revenue funds, the CDBG Entitlement Fund and the Cemetery Fund. The CDBG Entitlement Fund accounts for federal funds used to benefit low and moderate-income individuals. The Cemetery fund is used to account for transactions related to the City Cemetery. The City has a capital project fund which records revenue and expenditures of the Community House renovation project.

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/internet/telephone 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 and the Capital Project 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, 2016 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 and the ABC Board 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 and the ABC Board 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's and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

The City and the ABC Board'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. 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 and the ABC Board 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, 2016. 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 average cost. The ABC Board values inventory at the lower of FIFO cost or market.

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. Utility customer deposits are also shown as restricted cash.

City of Morganton Restricted Cash

Governmental Activities:	
General Fund – Streets	\$250,786
Cemetery Fund	203,500
Economic Development	1,185,039
Total governmental activities	<u>1,639,325</u>
Business-type Activities:	
Water Fund - Customer deposits	103,995
Wastewater Fund - Customer deposits	104,898
Electric Fund - Customer deposits	577,428
Total Business-type Activities	<u>786,321</u>
Total Restricted Cash	\$2,425,646

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 received prior to June 15, 2015 are recorded at estimated fair value at the donation date. All other purchased or constructed capital assets are reported at cost or estimated historical cost.

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

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

<u>Assets</u>	<u>Years</u>
Infrastructure	20
Distribution System	10 - 30
Buildings	20
Equipment	10
Vehicles	5
Vehicles greater than 1 ton	10

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 2016 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 three items that meet the criterion for this category – property tax receivable, prepaid taxes, 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 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 issuances 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.

Prepaid insurance – Insurance paid in advance.

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.

Restricted for Economic development - portion of fund balance restricted to be spent on programs in accordance with federal restrictions.

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 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.

Committed for Community House - portion of fund balance assigned by the governing board, in a Capital Projects fund, for the Community House renovation.

Committed for Cemetery – portion of fund balance committed by the governing board for operations of the City Cemetery.

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.

IV. Detail notes on all funds

A. Assets

Deposits

All of the City's and the ABC Board'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 or the ABC Board'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 and the ABC Board these deposits are considered to be held by the City's and the ABC Board'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 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 and the ABC Board have no policy regarding outstanding risk for deposits.

At June 30, 2016, the City's deposits had a carrying amount of \$6,236,558 and a bank balance of \$5,617,834. Of the bank balance, \$500,000 was insured by federal depository insurance and \$5,306,566 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 \$128,971 and the bank balance was \$265,779. Of the bank balance, \$250,000 was covered by Federal depository insurance and the remainder was covered by collateral held under the pooling method.

Investments

At June 30, 2016 the City's investments were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2016	Maturity	Rating
Government Agency: Federal Farm Credit Bank	Fair Value Level 1	\$1,000,000	April 20, 2017	AAA
Government Agency: Federal Farm Credit Bank	Fair Value Level 1	\$1,225,104	October 16, 2017	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 1	\$1,000,282	November 24, 2017	AAA
Government Agency: Federal Farm Credit Bank	Fair Value Level 1	\$1,001,922	December 11, 2017	AAA
Government Agency: Federal Home Loan Bank	Fair Value Level 1	\$1,002,439	March 29, 2018	AAA
Government Agency: Federal Farm Credit Bank	Fair Value Level 1	\$1,000,024	August 2, 2018	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 1	\$1,000,343	October 29, 2018	AAA
Government Agency: Federal National MTG Assn	Fair Value Level 1	\$1,000,285	November 16, 2018	AAA
Government Agency: Federal Home Loan Bank	Fair Value Level 1	\$1,000,909	November 26, 2018	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 1	\$1,000,060	January 29, 2019	AAA
Government Agency: Federal Farm Credit Bank	Fair Value Level 1	\$1,001,655	June 13, 2019	AAA
NC Capital Management Trust- Cash Portfolio	Amortized Cost	\$15,808,383	N/A	AAAm
NC Capital Management Trust- Term Portfolio (a)	Fair Value Level 1	\$1,023,278	< 1 year	Unrated
Total:		\$28,064,684		

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarch: level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

(a) This is the duration for the Term Portfolio.

Interest Rate Risk – The City has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s internal 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 complement its cash flow strategy.

Credit Risk - The City has no formal policy regarding credit risk, but has internal management procedures that limits the City’s investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City diversifies its investment portfolio to avoid incurring unreasonable risk inherent in over-investing in specific instruments, individual financial institutions or maturities.

<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, 2016. The City’s investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. 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	\$131,045
Allowance for revolving loans	100,920
Allowance for uncollectible charges	8,000
Water Fund:	
Allowance for uncollectible charges	22,000
Electric Fund:	
Allowance for uncollectible charges	105,000
Wastewater Fund:	
Allowance for uncollectible charges	13,000
Cable Fund	
Allowance for uncollectible charges	<u>33,000</u>
Total	<u>\$412,965</u>

Capital assets

Capital asset activity for the year ended June 30, 2016 was as follows:

Primary Government:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$12,770,466			\$12,770,466
Construction in Progress	603,877	157,827		761,704
Capital assets being depreciated:				
Buildings	23,030,303	593,332	184,970	23,438,665
Equipment	23,681,519	1,801,453	1,362,526	24,120,446
Infrastructure	44,242,622			44,242,622
Total capital assets being depreciated	<u>90,954,444</u>	<u>2,394,785</u>	<u>1,547,496</u>	<u>91,801,733</u>
Less accumulated depreciation for:				
Buildings	18,000,611	589,309	184,970	18,404,950
Equipment	15,603,868	1,860,269	1,362,526	16,101,611
Infrastructure	35,921,352	1,094,037		37,015,389
Total accumulated depreciation	<u>69,525,831</u>	<u>3,543,615</u>	<u>1,547,496</u>	<u>71,521,950</u>
Total capital assets being depreciated, net	<u>21,428,613</u>	<u>(1,148,830)</u>		<u>20,279,783</u>
Governmental activity Capital assets, net	<u>\$34,802,956</u>	<u>(\$991,003)</u>		<u>\$33,811,953</u>

Internal Service Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$33,318		\$1	\$33,317
Capital assets being depreciated:				
Buildings	711,419			711,419
Equipment	1,113,384	90,373	21,539	1,182,218
Total capital assets being depreciated	1,824,803	90,373	21,539	1,893,637
Less accumulated depreciation for:				
Buildings	554,759	16,265		571,024
Equipment	714,404	84,599	21,540	777,463
Total accumulated depreciation	1,269,163	100,864	21,540	1,348,487
Total capital assets being depreciated, net	555,640	(10,491)	1	545,150
Internal service fund capital assets, net	\$588,958	(\$10,491)		\$578,467

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

General Government	\$ 384,342
Public Safety	778,733
Transportation	1,314,124
Environmental Protection	212,337
Culture and Recreational	854,079
Internal Service	100,864
Total depreciation expense	<u>\$3,644,479</u>

Business-type activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Water Fund:				
Capital assets not being depreciated:				
Land	\$912,017			\$912,017
Construction in Progress		360,797		360,797
Capital assets being depreciated:				
Buildings	10,106,366			10,106,366
Plant and System	20,071,511	1,054,133	39,457	21,086,187
Equipment	4,628,253	44,443	182,058	4,490,638
Total capital assets being depreciated	34,806,130	1,098,576	221,515	35,683,191
Less accumulated depreciation for:				
Buildings	6,503,487	193,451		6,696,938
Plant and System	9,293,433	604,456	39,457	9,858,432
Equipment	2,509,154	285,201	182,058	2,612,297
Total accumulated depreciation	18,306,074	1,083,108	221,515	19,167,667
Total capital assets being depreciated, net	16,500,056	15,468		16,515,524
Water fund capital assets, net	\$17,412,073	\$376,265		\$17,788,338

Wastewater Fund:	Beginning				Ending
	Balances	Reclassification	Increases	Decreases	Balances
Capital assets not being depreciated:					
Land	\$14,067,068				\$14,067,068
Construction in Progress			233,554		233,554
Capital assets being depreciated:					
Buildings	3,952,208			23,670	3,928,538
Plant and System	31,378,855	(11,119,593)	1,019,306	50,889	21,227,679
Equipment	7,093,868	11,119,593	466,996	808,061	17,872,396
Total capital assets being depreciated	42,424,931		1,486,302	882,620	43,028,613
Less accumulated depreciation for:					
Buildings	3,009,891		60,805	23,670	3,047,026
Plant and System	12,167,337		453,264	50,889	12,569,712
Equipment	4,722,969		825,398	808,061	4,740,306
Total accumulated depreciation	19,900,197		1,339,467	882,620	20,357,044
Total capital assets being depreciated, net	22,524,734		146,835		22,671,569
Wastewater fund capital assets, net	\$36,591,802		\$380,389		\$36,972,191

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	17,642	71,364	2,677,695
Plant and System	15,365,071	533,458		15,898,529
Equipment	4,792,672	166,267	106,026	4,852,913
Total capital assets being depreciated	22,889,160	717,367	177,390	23,429,137
Less accumulated depreciation for:				
Buildings	1,908,077	65,482	71,364	1,902,195
Plant and System	8,481,801	417,132		8,898,933
Equipment	2,866,777	285,804	106,026	3,046,555
Total accumulated depreciation	13,256,655	768,418	177,390	13,847,683
Total capital assets being depreciated, net	9,632,505	(51,051)		9,581,454
Electric fund capital assets, net	\$9,688,455	(\$51,051)		\$9,637,404

Cable Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$5,586			\$5,586
Capital assets being depreciated:				
Buildings	945,700			945,700
Plant and System	12,329,618	278,977		12,608,595
Equipment	844,611	151,270		995,881
Total capital assets being depreciated	<u>14,119,929</u>	<u>430,247</u>		<u>14,550,176</u>
Less accumulated depreciation for:				
Buildings	467,676	25,691		493,367
Plant and System	8,976,806	232,808		9,209,614
Equipment	733,935	44,823		778,758
Total accumulated depreciation	<u>10,178,417</u>	<u>303,322</u>		<u>10,481,739</u>
Total capital assets being depreciated, net	<u>3,941,512</u>	<u>126,925</u>		<u>4,068,437</u>
Cable fund capital assets, net	<u>\$3,947,098</u>	<u>\$126,925</u>		<u>\$4,074,023</u>

Depreciation expense in the amount of \$3,494,315 was charged to business type activities.

Cable fund	\$303,322
Electric fund	768,418
Wastewater fund	1,339,467
Water fund	1,083,108

Construction commitments

The City has active construction projects in the General, Water and Wastewater funds. At year-end, the City's commitments with contractors are as follows:

General Fund:			
<u>Vendor</u>	<u>Contract Price</u>	<u>Paid to date</u>	<u>Remaining</u>
Various	\$788,888	\$761,704	\$27,184
Water Fund:			
<u>Vendor</u>	<u>Contract Price</u>	<u>Paid to date</u>	<u>Remaining</u>
Brushy Mountain Builders	\$1,038,000	\$218,500	\$819,500
McGill & Associates	\$134,300	\$81,826	\$52,474
Various	\$60,471	\$60,471	
Wastewater Fund:			
<u>Vendor</u>	<u>Contract Price</u>	<u>Paid to date</u>	<u>Remaining</u>
Freese & Nichols	\$621,170	\$233,554	\$387,616

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2016, was as follows:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
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	140,169	9,176		149,345
Total accumulated depreciation	369,302	9,176		378,478
Total capital assets being depreciated, net	23,582	(9,176)		14,406
ABC Board capital assets, net	\$34,582	(\$9,176)		\$25,406

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, 2016, was 7.15% of compensation for law enforcement officers and 6.67% 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 \$769,923 for the year ended June 30, 2016.

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, 2016, the City reported a liability of \$906,742 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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, 2015, the City's proportion was 0.202%, which was a decrease of 0.005% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$415,225. At June 30, 2016, 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	-	\$213,136
Net difference between projected and actual earnings on pension plan investments	-	258,151
Changes in proportion and differences between City contributions and proportionate share of contributions	31,976	36,110
City contributions subsequent to the measurement date	769,923	
Total	<u>\$801,899</u>	<u>\$507,397</u>

\$769,923 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, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	(305,841)
2017	(305,841)
2018	(305,441)
2019	441,702

Actuarial Assumptions - The total pension liability in the December 31, 2014 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, 2014 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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	23.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 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 3.00%. All rates of return and inflation are annualized.

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:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
City's proportionate share of the net pension liability (asset)	\$6,322,845	\$906,742	(\$3,656,203)

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, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	14
Active plan members	<u>59</u>
Total	<u>73</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, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return 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 actuarial value assets was market value. The remaining amortization period at December 31, 2014 was 16 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	\$216,022
Interest on net pension obligation	1,430
Adjustment to annual required contribution	<u>(2,512)</u>
Annual pension cost	214,940
Contributions made for fiscal year ended	
6-30-16	<u>154,000</u>
Increase (decrease) in net pension	60,940
Obligation	
Net pension obligation beginning of year	<u>28,590</u>
Net pension obligation end of year	<u>\$89,530</u>

3 YEAR TREND INFORMATION			
<u>Fiscal</u>	<u>Annual Pension</u>	<u>Percentage of</u>	<u>Net Pension</u>
<u>Year Ended</u>	<u>Cost (APC)</u>	<u>APC Contributed</u>	<u>Obligation</u>
6/30/14	\$161,355	90.66%	\$(29,835)
6/30/15	\$204,021	71.36%	\$ 28,590
6/30/16	\$214,940	71.65%	\$ 89,530

Funding Status and Funding Progress – As if December 31, 2015, 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 \$2,613,350. The covered payroll (annual payroll of active employees covered by the plan) was \$2,872,388, and the ratio of the UAAL to the covered payroll was 90.98 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, 2016 were \$350,229, which consisted of \$190,787 from the City (pension expense) and \$159,442 from the law enforcement officers. There were no forfeitures reflected in pension expense and there is no outstanding employer liability at the end of the reporting period.

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, 2015, the date of the latest actuarial valuation.

Retirees and dependents receiving benefits	54
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	
Law Enforcement Officers	57
Firefighters	15
General Employees	<u>199</u>
Total	<u>325</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. Employees and retirees pay \$10 a month towards the cost of their coverage. The City's contribution totaled \$694,842 in fiscal year 2016. Employees and retirees have the option of purchasing dependent coverage. 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	\$1,177,412
Interest on net OPEB obligation	95,573
Adjustment to annual required contribution	<u>(91,302)</u>
Annual OPEB cost (expense)	\$1,181,683
Contributions made for year ended 6/30/16	<u>694,842</u>
Increase (decrease) in net OPEB obligation	\$ 486,841
Net OPEB obligation, beginning of year	<u>2,389,314</u>
Net OPEB obligation, end of year	<u>\$2,876,155</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, 2016 were as follows:

<u>For Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	340,767	168.9%	\$2,114,066
2015	1,021,952	73.1%	\$2,389,314
2016	1,181,683	58.8%	\$2,876,155

Funded Status and Funding Progress - As of December 31, 2015, 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 \$15,300,174. The covered payroll (annual payroll of active employees covered by the plan) was \$11,405,156 and the ratio of the UAAL to the covered payroll

was 134.2%. 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, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return, 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 of 7.75 – 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, 2015, 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	\$769,923
Changes in proportion and differences	<u>31,976</u>
Total	<u>\$801,899</u>

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

Taxes receivable (net) (General fund)	\$69,464
Pension deferrals	507,397
Prepaid taxes (General fund)	<u>4,143</u>
Total	<u>\$581,004</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 past 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

The City is not aware of any claims or legal actions that would 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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$199,063 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	222,647	54,688
2018	222,647	45,937
2019	222,647	37,188
2020	222,647	28,438
2021	222,647	19,688
2022	222,647	10,938
2023	111,321	2,186
Total	<u>\$1,447,203</u>	<u>\$199,063</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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$29,714 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	139,000	14,857
2018	139,000	9,905
2019	139,000	4,952
Total	<u>\$417,000</u>	<u>\$29,714</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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$1,821 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	51,922	1,313
2018	52,726	508
Total	<u>\$104,648</u>	<u>\$1,821</u>

In December 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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$484 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	50,967	484
Total	<u>\$50,967</u>	<u>\$484</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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$29,890 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	112,312	10,208
2018	114,388	8,132
2019	116,503	6,017
2020	118,656	3,864
2021	120,850	1,669
Total	<u>\$582,709</u>	<u>\$29,890</u>

In January 2014, 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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$502 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	<u>47,427</u>	<u>502</u>
Total	<u>\$47,427</u>	<u>\$502</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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$5,298 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	<u>137,487</u>	<u>3,818</u>
2018	<u>139,825</u>	<u>1,480</u>
Total	<u>\$277,312</u>	<u>\$5,298</u>

In November 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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$120 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	<u>13,412</u>	<u>120</u>
Total	<u>\$13,412</u>	<u>\$120</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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$7,734 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	<u>63,718</u>	<u>4,024</u>
2018	<u>65,153</u>	<u>2,589</u>
2019	<u>66,620</u>	<u>1,121</u>
Total	<u>\$195,491</u>	<u>\$7,734</u>

In July 2015, the City entered into an installment purchase contract to finance three projects – City parking lots, resurfacing the Greenway trail and improvements at the Mountain View recreation center. \$1,065,500 was borrowed for 4.5 years at an interest rate of 1.6%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$47,709 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	253,555	24,747
2018	266,332	11,970
2019	270,625	7,677
2020	<u>274,988</u>	<u>3,315</u>
Total	<u>\$1,065,500</u>	<u>\$47,709</u>

In September 2015, the City entered into an installment purchase contract to finance Public Safety cars. \$420,000 was borrowed for 3 years at an interest rate of 1.26%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$9,786 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	176,916	7,546
2018	188,926	2,090
2019	<u>47,604</u>	<u>150</u>
Total	<u>\$413,446</u>	<u>\$9,786</u>

In September 2015, the City entered into an installment purchase contract to finance a leaf truck. \$168,000 was borrowed for 3 years at an interest rate of 1.26%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$3,914 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	73,388	3,018
2018	75,570	836
2019	<u>19,042</u>	<u>60</u>
Total	<u>\$168,000</u>	<u>\$3,914</u>

In April 2016, the City entered into an installment purchase contract to finance a garbage truck. \$244,268 was borrowed for 4.5 years at an interest rate of 1.97%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$13,012 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	46,801	4,655
2018	47,919	3,538
2019	48,870	2,587
2020	49,839	1,617
2021	<u>50,839</u>	<u>615</u>
Total	<u>\$244,268</u>	<u>\$13,012</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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$2,236 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Electric Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2017	11,000	1,118
2018	11,000	746
2019	11,000	372
Total	<u>\$33,000</u>	<u>\$2,236</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%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$74,826 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
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	3,915	84
Total	<u>\$1,023,915</u>	<u>\$74,826</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 4.5 years at an interest rate of 1.67%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$4,280 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2017	194,466	3,679
2018	98,472	601
Total	<u>\$292,938</u>	<u>\$4,280</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 4.5 years at an interest rate of 1.57%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$8,045 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Cable Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2017	134,351	4,810
2018	136,468	2,692
2019	<u>69,038</u>	<u>543</u>
Total	<u>\$339,857</u>	<u>\$8,045</u>

In December 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%

Annual debt service payments of the installment purchase as of June 30, 2016, including \$608 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Electric Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2017	<u>58,670</u>	<u>608</u>
Total	<u>\$58,670</u>	<u>\$608</u>

In October 2014, the City entered into an installment purchase contract to finance a cable bucket truck. \$67,000 was borrowed for 3 years at an interest rate of 2.29%.

Annual debt service payments of the installment purchase as of June 30, 2016, including \$1,244 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Cable Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2017	22,432	913
2018	<u>23,016</u>	<u>331</u>
Total	<u>\$45,448</u>	<u>\$1,244</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%

Annual debt service payments of the installment purchase as of June 30, 2016, including \$1,759,307 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Wastewater Fund</u>	
	<u>Principal</u>	<u>Interest</u>
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>
Total	<u>\$9,773,925</u>	<u>\$1,759,307</u>

North Carolina Drinking Water State Revolving Loan

In June 2016, the City entered into a drinking water state revolving loan to finance clearwell improvements at its water plant. In accordance with the agreement \$1,273,552 is available for draw on the project. Of this amount \$333,297 has been expended on the project and was outstanding at June 30, 2016. Interest on the loan is 0%. The principal shall be repaid in not more than 20 annual installments commencing May 2018.

Debt Margin

At June 30, 2016, the City of Morganton had a legal debt margin of \$125,558,331.

Changes in long-term liabilities:

	Balance			Balance	Current
	<u>30-Jun-15</u>	<u>Increases</u>	<u>Decreases</u>	<u>30-Jun-16</u>	<u>Portion of</u> <u>Balance</u>
Governmental activities:					
Installment purchase	\$4,110,656	\$1,897,768	\$981,041	\$5,027,383	\$1,389,552
Compensated absences	813,430	396,244	441,537	768,137	307,255
Other postemployment benefits	1,720,307	350,525		2,070,832	
Net pension liability (LGERS)		652,855		652,855	
Net pension obligation	688,079		598,549	89,530	
Governmental activities long-term liabilities	<u>7,332,472</u>	<u>3,297,392</u>	<u>2,021,127</u>	<u>8,608,737</u>	<u>1,696,807</u>
Business-type activities:					
Installment purchase	2,377,767		583,939	1,793,828	590,919
Clean water revolving loan	10,348,862		574,937	9,773,925	574,937
Drinking water revolving loan		333,297		333,297	
Net pension liability (LGERS)		253,887		253,887	
Other postemployment benefits	669,007	136,316		805,323	
Compensated absences	292,827	135,041	138,799	289,069	115,627
Business-type activities long-term liabilities	<u>\$13,688,463</u>	<u>\$858,541</u>	<u>\$1,297,675</u>	<u>\$13,249,329</u>	<u>\$1,281,483</u>

Compensated absences for governmental activities have typically been liquidated in 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, 2016 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from Cable fund	\$3,017,326	
Cable fund - payable to Electric fund		<u>\$3,017,326</u>
Total interfund receivables and payables	<u>\$3,017,326</u>	<u>\$3,017,326</u>

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

Transfers are used for various reasons. In the year ended June 30, 2016 transfers were used to:

- Subsidize the general fund to forestall a significant property tax increase
- Fund the Community House capital project

A summary of interfund transfers by fund for the year ended June 30, 2016 is as follows:

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$667,428	
To Capital Projects Fund		<u>\$139,500</u>
Total	667,428	139,500
Capital Projects Fund:		
From General Fund	139,500	
Electric Fund :		
To General Fund		667,428
Total	<u>\$806,928</u>	<u>\$806,928</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	\$15,398,715
Less:	
Stabilization by state statute	(\$2,724,556)
Streets – Powell bill	(250,786)
Economic development	(1,185,039)
Capital projects	(2,208,437)
Canteen operations	(6,087)
Drug enforcement	(31,472)
Prepaid Insurance	(152,416)
Working capital/fund balance policy	<u>(3,076,741)</u>
Remaining fund balance	<u>\$5,763,181</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.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders that remain unperformed at year-end.

General fund	\$1,427,705
Water fund	958,346
Electric fund	46,284
Wastewater fund	650,155
Cable fund	2,746
Internal Service fund	333,572
Special Revenue fund	19,531
Capital Projects fund	33,900

Subsequent Events

Subsequent events have been evaluated through October 18, 2016 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, 2016 were \$28,314,907.

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 \$19,511 to WPCOG during the fiscal year ended June 30, 2016.

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 \$50,149 to the Airport during the fiscal year ended June 30, 2016. 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, 2016. Complete financial statements for the Airport can be obtained from the Airport's administrative offices.

The City and the members of the City's public safety department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. During the fiscal year ended June 30, 2016, the City reported revenues of \$13,954 and expenditures of \$2,512 for the payments made through the Fireman's Relief fund. The Firemen's supplemental fund expended \$2,866 to retired reserve firefighters. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2016. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

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, does not approve its budget and is not able to impose its will or provide specific financial benefit or burden. The City of Morganton is also disclosed as related organization in the notes to the financial statements for the Morganton Housing Authority.

VII. Prior Period Adjustment

During the fiscal year ended June 30, 2016, the City determined that in prior year's cable fund receivables were not being accrued in advance of the completion of the earnings process. Accordingly, beginning net position on the statement of revenues, expenses, and changes in fund net position for the cable fund has been restated for the change as follows:

Beginning net position, as originally reported	\$686,523
Restatement	<u>(350,015)</u>
Beginning net position, as restated	<u>\$336,508</u>

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)	
12-31-10	- 0 -	1,560,115	1,560,115	0.00%	2,707,611	57.62%	
12-31-11	- 0 -	1,510,264	1,510,264	0.00%	2,582,327	58.48%	
12-31-12	- 0 -	1,544,433	1,544,433	0.00%	2,552,762	60.50%	
12-31-13	- 0 -	1,623,025	1,623,025	0.00%	2,835,558	57.59%	
12-31-14	- 0 -	1,738,423	1,738,423	0.00%	2,865,183	60.67%	
12-31-15	- 0 -	2,613,350	2,613,350	0.00%	2,872,388	90.98%	

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	12/31/15
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	3.57%
Projected salary increases	3.50% - 7.35%
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)						
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)	
12-31-05	-	8,573,522	8,573,522	0.00%	9,843,896	87.1%	
12-31-07	-	10,919,744	10,919,744	0.00%	10,858,443	100.6%	
12-31-10	-	14,022,125	14,022,125	0.00%	11,160,151	125.6%	
12-31-12	-	11,915,941	11,915,941	0.00%	10,602,247	112.4%	
12-31-14	-	13,644,337	13,644,337	0.00%	11,291,375	120.8%	
12-31-15	-	15,300,174	15,300,174	0.00%	11,405,156	134.2%	

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	66.0%
2014	340,767	100.0%
2015	1,021,952	73.1%
2016	1,181,683	58.8%

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	12/31/15
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	4.0%
Pre-medicare trend rate	7.75% - 5.00%
Year of Ultimate trend rate	2022
Includes inflation at	3.00%

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

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	2016	2015	2014
Morganton's proportion of the net pension liability (asset) %	0.2020%	.2066%	.2014%
Morganton's proportion of the net pension liability (asset) \$	906,742	(1,218,415)	2,427,643
Morganton's covered-employee payroll	11,312,359	11,592,235	10,422,226
Morganton's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.02%	10.51%	23.29%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	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 THREE FISCAL YEARS*

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$769,923	\$819,571	\$806,235
Contributions in relation to the contractually required contribution	<u>769,923</u>	<u>819,571</u>	<u>806,235</u>
Contribution deficiency (excess)	-	-	-
Morganton's covered-employee payroll	11,312,359	11,592,235	10,422,226
Contributions as a percentage of covered-employee payroll	6.81%	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, 2016

		<u>Actual</u>			Variance
	<u>Project</u>	<u>Prior</u>	<u>Current</u>	<u>Total To</u>	Favorable
	<u>Authorization</u>	<u>Years</u>	<u>Year</u>	<u>Date</u>	(Unfavorable)
REVENUES					
Restricted contributions	<u>\$78,250</u>	<u>\$99,250</u>	<u>\$38,825</u>	<u>\$138,075</u>	<u>(\$59,825)</u>
Total revenues	<u>78,250</u>	<u>99,250</u>	<u>38,825</u>	<u>138,075</u>	<u>(59,825)</u>
EXPENDITURES					
Budgetary appropriation:					
Capital outlay	<u>863,388</u>	<u>603,877</u>	<u>157,827</u>	<u>761,704</u>	<u>101,684</u>
Total expenditures	<u>863,388</u>	<u>603,877</u>	<u>157,827</u>	<u>761,704</u>	<u>101,684</u>
Excess of revenues over expenditures	<u>(785,138)</u>	<u>(504,627)</u>	<u>(119,002)</u>	<u>(623,629)</u>	<u>(161,509)</u>
OTHER FINANCING SOURCES (USES)					
Transfer from General Fund	453,888	314,388	139,500	453,888	
Transfer from Economic Development Func	<u>331,250</u>	<u>331,250</u>		<u>331,250</u>	
Total other financing sources (uses)	<u>785,138</u>	<u>645,638</u>	<u>139,500</u>	<u>785,138</u>	
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>\$141,011</u>	20,498	<u>\$161,509</u>	<u>\$161,509</u>
Fund balances - beginning			<u>\$141,011</u>		
Fund balances - ending			<u>\$161,509</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
Interest earned	\$1,807	\$1,807	\$2,421	\$614
Reimbursement	35,725	35,725	35,725	
Total revenues	<u>37,532</u>	<u>37,532</u>	<u>38,146</u>	<u>614</u>
EXPENDITURES				
Reimbursement	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>	
Excess of revenues over expenditures	<u>(92,468)</u>	<u>(92,468)</u>	<u>(91,854)</u>	<u>614</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	<u>92,468</u>	<u>92,468</u>		<u>(92,468)</u>
Total other financing sources (uses)	<u>92,468</u>	<u>92,468</u>		<u>(92,468)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	<u>(91,854)</u>	<u>(\$91,854)</u>
Fund balances - beginning			<u>1,276,893</u>	
Fund balances - ending			<u>\$1,185,039</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, 2016

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
REVENUES					
Restricted intergovernmental revenues -					
community development block grants	\$3,845,008	\$3,533,326	#####	\$3,803,499	\$41,509
Program income	285,102	219,230	57,376	276,606	8,496
Total revenues	<u>4,130,110</u>	<u>3,752,556</u>	<u>327,549</u>	<u>4,080,105</u>	<u>50,005</u>
EXPENDITURES					
Economic and physical development					
Land acquisition	304,673	171,423		171,423	133,250
Rehabilitation	378,604	525,117		525,117	(146,513)
Construction	826,009	592,166	178,103	770,269	55,740
Administration	626,841	623,535	30,654	654,189	(27,348)
Credit counseling	32,253	32,253		32,253	
Deposit assistance	19,162	19,162		19,162	
Grant assistance	415,645	366,918	22,195	389,113	26,532
Interest expense	133,109	119,500		119,500	13,609
Small business loan	653,916	546,795	75,527	622,322	31,594
Section 108 loan repayment	380,000	375,000		375,000	5,000
Total expenditures	<u>3,770,212</u>	<u>3,371,869</u>	<u>306,479</u>	<u>3,678,348</u>	<u>91,864</u>
Excess of revenues over (under) expenditur	<u>359,898</u>	<u>380,687</u>	<u>21,070</u>	<u>401,757</u>	<u>(41,859)</u>
OTHER FINANCING SOURCES (USES)					
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)	
	<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>\$20,789</u>	<u>\$21,070</u>	<u>\$41,859</u>	<u>(\$41,859)</u>
Fund balances - beginning			<u>\$20,789</u>		
Fund balances - ending			<u>\$41,859</u>		

CITY OF MORGANTON
CEMETARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales and services:				
New cemetery lot sales	\$10,000	\$10,000	\$10,630	\$630
Cemetery lot marker service	1,000	1,000	3,015	2,015
Total	<u>11,000</u>	<u>11,000</u>	<u>13,645</u>	<u>2,645</u>
Investment earnings - interest earned	<u>750</u>	<u>750</u>	<u>1,715</u>	<u>965</u>
Total revenues	<u>11,750</u>	<u>11,750</u>	<u>15,360</u>	<u>3,610</u>
EXPENDITURES				
Cemetery improvements and reimbursement	<u>71,750</u>	<u>71,750</u>	<u>60,000</u>	<u>11,750</u>
Excess of revenues over expenditures	<u>(60,000)</u>	<u>(60,000)</u>	<u>(44,640)</u>	<u>15,360</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>(44,640)</u>	<u>(44,640)</u>
Fund balances - beginning			<u>\$248,802</u>	
Fund balances - ending			<u>\$204,162</u>	

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$14,000	\$9,305	(\$4,695)
Water rents	5,190,000	5,325,663	135,663
Penalties	65,000	52,612	(12,388)
Water taps	45,000	60,895	15,895
Reconnect fees	19,000	30,550	11,550
Rental income	360,000	297,139	(62,861)
Total	<u>5,693,000</u>	<u>5,776,164</u>	<u>83,164</u>
Nonoperating revenues (expenditures) :			
Interest on investments	8,000	32,028	24,028
Miscellaneous	19,400	28,183	8,783
Interest expenditures	<u>(31,726)</u>	<u>(53,155)</u>	<u>(21,429)</u>
Total	<u>(4,326)</u>	<u>7,056</u>	<u>11,382</u>
Total revenues	<u>5,688,674</u>	<u>5,783,220</u>	<u>94,546</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,097,802	
Operating expenditures		<u>2,774,328</u>	
Total	<u>\$4,206,773</u>	<u>\$3,872,130</u>	<u>\$334,643</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$361,253	\$361,253	
Capital outlay	1,569,824	1,098,575	\$471,249
Total budgetary appropriations	1,931,077	1,459,828	471,249
Total expenditures	6,137,850	5,331,958	805,892
REVENUES OVER (UNDER) EXPENDITURES	(449,176)	451,262	900,438
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	434,176		(434,176)
Issuance of capital debt	15,000		(15,000)
Total other financing sources (uses)	449,176		(449,176)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$451,262	\$451,262
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under)			
Expenditures and Other Uses			\$451,262
Reconciling items:			
Capital outlays		1,098,575	
Debt principal		361,253	
Depreciation		(1,083,108)	
Decrease in accrued vacation pay		14,401	
Decrease in net pension asset		(97,473)	
Increase in deferred outflows of resources - pensions		(1,414)	
Increase in net pension liability		(72,539)	
Decrease in deferred inflows of resources - pensions		193,561	
Increase in accrued OPEB liability		(38,947)	
Bad debts		(18,661)	355,648
Change in Net Position		(18,661)	\$806,910

CITY OF MORGANTON
WATER 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, 2016

	<u>Project</u> <u>Authorization</u>	<u>Actual</u>			<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
		<u>Prior</u> <u>Years</u>	<u>Current</u> <u>Year</u>	<u>Total To</u> <u>Date</u>	
EXPENDITURES					
Retainage			27,500	27,500	
Construction			333,298	333,298	
Total expenditures	<u>1,249,951</u>		<u>360,798</u>	<u>360,798</u>	889,153
OTHER FINANCING SOURCES					
Issuance of capital debt	<u>1,249,951</u>		<u>333,297</u>	<u>333,297</u>	<u>(916,654)</u>
Excess of expenditures (over) other financial uses	<u>Nil</u>		<u>(27,501)</u>	<u>(\$27,501)</u>	<u>(\$27,501)</u>
Fund balances - beginning			<u> </u>		
Fund balances - ending			<u>(\$27,501)</u>		

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$89,122	\$72,858	(\$16,264)
Sewer rents	4,973,300	5,116,585	143,285
Late payment penalties	42,000	37,912	(4,088)
Sewer taps	10,000	12,903	2,903
Septage revenue	30,000	22,775	(7,225)
Sale of materials	8,500	40,861	32,361
Sale of sludge	7,500	5,340	(2,160)
	<u>5,160,422</u>	<u>5,309,234</u>	<u>148,812</u>
Nonoperating revenues (expenditures) :			
Interest earned	7,000	25,186	18,186
Miscellaneous	1,000	784	(216)
Interest expenditures	(206,978)	(239,557)	(32,579)
	<u>(198,978)</u>	<u>(213,587)</u>	<u>(14,609)</u>
Total revenues	<u>4,961,444</u>	<u>5,095,647</u>	<u>134,203</u>
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,210,343	
Operating expenditures		1,617,773	
		<u>2,828,116</u>	
Total wastewater treatment	<u>\$3,189,785</u>	<u>\$2,828,116</u>	<u>\$361,669</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$574,937	\$574,937	
Capital outlay	1,906,457	1,486,302	\$420,155
Total budgetary appropriations	2,481,394	2,061,239	420,155
Total expenditures	5,671,179	4,889,355	781,824
REVENUES OVER (UNDER) EXPENDITURES	(709,735)	206,292	916,027
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	709,735		(709,735)
Total other financing sources (uses)	709,735		(709,735)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$206,292	\$206,292
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under)			
Expenditures and Other Uses			\$206,292
Reconciling items:			
Capital outlays		1,486,302	
Debt principal		574,937	
Depreciation		(1,339,467)	
Increase in accrued vacation pay		(1,218)	
Decrease in net pension asset		(97,473)	
Increase in deferred outflows of resources - pensions		(1,414)	
Increase in net pension liability		(72,539)	
Decrease in deferred inflows of resources - pensions		193,561	
Increase in accrued OPEB liability		(38,947)	703,742
Change in Net Position			\$910,034

CITY OF MORGANTON
WASTEWATER 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, 2016

	<u>Project</u> <u>Authorization</u>	<u>Actual</u>			<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
		<u>Prior</u> <u>Years</u>	<u>Current</u> <u>Year</u>	<u>Total To</u> <u>Date</u>	
EXPENDITURES					
Construction	<u>\$650,000</u>		<u>\$233,554</u>	<u>\$233,554</u>	<u>416,446</u>
OTHER FINANCING SOURCES					
Issuance of capital debt	<u>650,000</u>				<u>(650,000)</u>
Excess of expenditures (over) other financial uses	<u>Nil</u>		<u>(233,554)</u>	<u>(\$233,554)</u>	<u>(\$233,554)</u>
Fund balances - beginning					
Fund balances - ending			<u>(\$233,554)</u>		

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$89,505	\$89,361	(\$144)
Sale of power	33,130,583	32,424,150	(706,433)
Late payment penalties	292,500	266,109	(26,391)
Security light rental	500,000	526,281	26,281
Street lighting	74,000	74,000	
Reconnection fees	56,200	59,600	3,400
Pole rental	12,500	12,709	209
Total	<u>34,155,288</u>	<u>33,452,210</u>	<u>(703,078)</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(6,500)	(4,364)	2,136
Interest earned	12,400	35,607	23,207
Miscellaneous	29,635	48,274	18,639
Total	<u>35,535</u>	<u>79,517</u>	<u>43,982</u>
Total revenues	<u>34,190,823</u>	<u>33,531,727</u>	<u>(659,096)</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,378,521	
Operating expenditures		1,867,732	
Purchases of power		28,314,907	
Total	<u>\$32,777,743</u>	<u>\$31,561,160</u>	<u>\$1,216,583</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$68,869	\$68,868	\$1
Capital Outlay	706,725	717,367	(10,642)
	775,594	786,235	(10,641)
Total budgetary appropriations			
Total expenditures	33,553,337	32,347,395	1,205,942
REVENUES OVER (UNDER) EXPENDITURES	637,486	1,184,332	546,846
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	29,942		(29,942)
Transfer to general fund	(667,428)	(667,428)	
	(637,486)	(667,428)	(29,942)
Total other financing sources (uses)			
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$516,904	\$516,904
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$516,904
Reconciling items:			
Capital outlays		717,367	
Debt principal		68,868	
Depreciation		(768,418)	
Increase in accrued vacation pay		(5,135)	
Decrease in net pension asset		(109,658)	
Increase in deferred outflows of resources - pensions		(1,590)	
Increase in net pension liability		(81,607)	
Decrease in deferred inflows of resources - pensions		217,756	
Increase in accrued OPEB liability		(43,816)	
Bad debts		(80,481)	(86,714)
Change in Net Position		\$430,190	\$430,190

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$15,000	\$14,783	(\$217)
Studio revenues	1,800	1,120	(680)
Telephone revenues	359,800	360,082	282
Internet revenues	1,302,144	1,294,593	(7,551)
Cable rents	<u>2,731,000</u>	<u>2,568,789</u>	<u>(162,211)</u>
Total	<u>4,409,744</u>	<u>4,239,367</u>	<u>(170,377)</u>
Nonoperating revenues (expenditures) :			
Penalties	68,000	57,499	(10,501)
Reconnect fees	14,000	11,955	(2,045)
Ad sales	75,000	63,604	(11,396)
Bad check charges	1,000	1,600	600
Miscellaneous revenue	15,000	16,551	1,551
Interest expenditures	<u>(8,689)</u>	<u>(11,611)</u>	<u>(2,922)</u>
Total	<u>164,311</u>	<u>139,598</u>	<u>(24,713)</u>
Total revenues	<u>4,574,055</u>	<u>4,378,965</u>	<u>(195,090)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		522,035	
Operating expenditures		<u>3,564,905</u>	
Total cable operations and maintenance	<u>\$4,337,222</u>	<u>\$4,086,940</u>	<u>\$250,282</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$153,819	\$153,818	\$1
Capital outlay	281,014	430,247	(\$149,233)
Total budgetary appropriations	434,833	584,065	(149,232)
Total expenditures	4,772,055	4,671,005	101,050
REVENUES OVER (UNDER) EXPENDITURES	(198,000)	(292,040)	(94,040)
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	198,000		(198,000)
Total other financing sources (uses)	198,000		(198,000)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	(\$292,040)	(\$292,040)
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			(\$292,040)
Reconciling items:			
Capital outlays		430,247	
Debt principal		153,818	
Depreciation		(303,322)	
Increase in accrued vacation pay		(4,290)	
Decrease in net pension asset		(36,552)	
Increase in deferred outflows of resources - pensions		(530)	
Increase in net pension liability		(27,202)	
Decrease in deferred inflows of resources - pensions		72,584	
Increase in accrued OPEB liability		(14,606)	
Bad debts		(5,161)	264,986
Change in Net Position			(\$27,054)

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, 2016

	Financial Plan	Actual	Variance
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	\$512,975	\$512,975	
Electric Fund	81,370	81,370	
Water Fund	52,970	52,970	
Wastewater Fund	39,781	39,781	
Cable Fund	100,218	100,218	
Cemetery Fund	5,629	5,629	
Internal Service Fund	25,781	25,781	
Total	<u>818,724</u>	<u>818,724</u>	
Warehouse :			
General Fund sales	30,000	15,855	(\$14,145)
Electric Fund sales	250,000	268,478	18,478
Water Fund sales	65,000	53,522	(11,478)
Wastewater Fund sales	2,000	1,116	(884)
Cable Fund sales	25,000	24,036	(964)
Total	<u>372,000</u>	<u>363,007</u>	<u>(8,993)</u>
Garage :			
General Fund sales	179,500	182,085	2,585
Electric Fund sales	20,000	22,559	2,559
Water Fund sales	23,000	18,109	(4,891)
Wastewater Fund sales	10,000	11,243	1,243
Cable Fund sales	22,500	9,795	(12,705)
Sale of fuel	475,000	275,975	(199,025)
Total	<u>730,000</u>	<u>519,766</u>	<u>(210,234)</u>
Total operating revenues	<u>1,920,724</u>	<u>1,701,497</u>	<u>(219,227)</u>
Nonoperating revenues :			
Sale of materials/surplus		4,421	4,421
Total revenues	<u>\$1,920,724</u>	<u>\$1,705,918</u>	<u>(\$214,806)</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, 2016

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$395,526	
Operating expenditures		463,663	
Total IRMS	<u>\$906,449</u>	<u>859,189</u>	<u>\$47,260</u>
Warehouse :			
Salaries and employee benefits		121,091	
Operating expenditures		50,432	
Purchases of inventory		363,225	
Pro rata administrative services		(177,734)	
Total warehouse	<u>387,028</u>	<u>357,014</u>	<u>30,014</u>
Garage :			
Salaries and employee benefits		221,658	
Operating expenditures		76,697	
Purchases of inventory		138,360	
Purchases of fuel		261,106	
Pro rata administrative services		(311,413)	
Total garage	<u>730,000</u>	<u>386,408</u>	<u>343,592</u>
Budgetary appropriations :			
Capital outlay	<u>142,918</u>	<u>90,373</u>	<u>52,545</u>
Total budgetary appropriations	<u>142,918</u>	<u>90,373</u>	<u>52,545</u>
Total expenditures	<u>\$2,166,395</u>	<u>\$1,692,984</u>	<u>\$473,411</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

	Financial Plan	Actual	Variance
REVENUES OVER (UNDER) EXPENDITURES	(\$245,671)	\$12,934	(\$258,605)
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	245,671		245,671
Total other financing sources (uses)	245,671		245,671
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	(\$12,934)	\$12,934
RECONCILIATION FROM FINANCIAL PLAN (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Reconciling items:			
Capital outlays		90,373	
Depreciation		(100,864)	
Decrease in accrued vacation pay		2,272	
Decrease in net pension asset		(48,737)	
Increase in deferred outflows of resources - pensions		(707)	
Increase in net pension liability		(36,270)	
Decrease in deferred inflows of resources - pensions		96,780	
Increase in accrued OPEB liability		(19,473)	
Increase in inventory		3,170	(13,456)
Change in Net Position			(\$522)

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2016

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2015</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2016</u>
2015-2016		\$9,136,156	\$9,066,692	\$69,464
2014-2015	\$86,137		56,331	29,806
2013-2014	58,706		31,952	26,754
2012-2013	26,886		8,887	17,999
2011-2012	17,777		6,999	10,778
2010-2011	11,765		2,069	9,696
2009-2010	10,451		757	9,694
2008-2009	10,199		347	9,852
2007-2008	8,015		412	7,603
2006-2007	9,267		404	8,863
2005-2006	6,368		6,368	
TOTAL	<u>\$245,571</u>	<u>\$9,136,156</u>	<u>\$9,181,218</u>	<u>\$200,509</u>
Less Allowance for Doubtful Accounts				<u>131,045</u>
Net Property Tax Receivable (Exhibit 1)				<u>\$69,464</u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$9,105,965		
Less interest collected		<u>33,806</u>	\$ 9,072,159	
Discounts			101,147	
Releases - Prior years			1,544	
Amount written off for tax year 2005-2006 per statute of limitations			<u>6,368</u>	
TOTAL COLLECTIONS AND CREDITS			<u>\$ 9,181,218</u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2016

	<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	\$1,546,873,396	0.53	\$8,198,429	\$8,198,429	
Special district	83,638,571	0.14	117,094	117,094	
Vehicle Taxes	122,854,717	0.53	655,277		\$655,277
ADD DISCOVERIES :					
Current year	31,676,792	0.53	186,338	186,338	
Prior year	2,122,955	0.53	11,252	11,252	
LESS RELEASES	<u>(6,081,887)</u>		<u>(32,234)</u>	<u>(32,234)</u>	
TOTAL	<u>\$1,781,084,544</u>		<u>\$9,136,156</u>	<u>\$8,480,879</u>	<u>\$655,277</u>
LESS UNCOLLECTED TAXES AT June 30, 2016			<u>69,464</u>	<u>69,464</u>	
CURRENT YEAR'S TAXES COLLECTED			<u>\$9,066,692</u>	<u>\$8,411,415</u>	<u>\$655,277</u>
PERCENT CURRENT YEAR COLLECTED			<u>99.24%</u>	<u>99.18%</u>	<u>100.00%</u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$667,428	
To Capital Projects Fund		\$139,500
	<u>667,428</u>	<u>139,500</u>
Capital Projects Fund:		
From General Fund	139,500	
Electric Fund :		
To General Fund		<u>667,428</u>
Grand Totals	<u><u>\$806,928</u></u>	<u><u>\$806,928</u></u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2016

	<u>Carrying Value</u>	<u>Cost Value</u>	<u>Fair Value</u>
CASH :			
On hand	\$4,385	\$4,385	\$4,385
In time deposits - NOW, SuperNOW, money market and certificates of deposit	<u>6,232,173</u>	<u>6,232,173</u>	<u>6,232,173</u>
Total cash	<u>6,236,558</u>	<u>6,236,558</u>	<u>6,236,558</u>
INVESTMENTS :			
North Carolina Capital Management Trust	16,831,660	16,831,660	16,831,660
US Government agencies	<u>11,233,024</u>	<u>11,225,000</u>	<u>11,233,024</u>
Total investments (including cash equivalents)	<u>28,064,684</u>	<u>28,056,660</u>	<u>28,064,684</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$34,301,242</u></u>	 <u><u>\$34,293,218</u></u>	 <u><u>\$34,301,242</u></u>

CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2016

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.	89-98
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	99-102
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.	103-106
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.	107-108
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.	109-111

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)

	2007	2008	2009	2010
Governmental activities				
Invested in capital assets, net of related debt	\$41,831,482	\$40,439,879	\$39,304,208	\$37,897,550
Restricted	745,287	1,404,040	1,134,780	1,315,433
Unrestricted	14,704,160	15,287,650	13,048,121	11,272,201
Total governmental activities net assets	57,280,929	57,131,569	53,487,109	50,485,184
Business-type activities				
Invested in capital assets, net of related debt	56,874,381	48,204,805	49,218,328	50,256,119
Unrestricted	11,302,071	17,210,171	13,890,105	13,075,437
Total business-type activities net assets	68,176,452	65,414,976	63,108,433	63,331,556
Primary government				
Net investment in capital assets	98,705,863	88,644,684	88,522,536	88,153,669
Restricted	745,287	1,404,040	1,134,780	1,315,433
Unrestricted	26,006,231	32,497,821	26,938,226	24,347,638
Total primary government net assets	\$125,457,381	\$122,546,545	\$116,595,542	\$113,816,740

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$36,335,474	\$33,673,160	\$31,808,471	\$30,490,395	\$31,287,687	\$29,363,037
5,549,775	6,255,232	7,590,604	6,480,008	6,222,219	7,896,819
4,231,094	4,219,343	3,471,229	4,749,144	4,765,778	6,086,449
46,116,343	44,147,735	42,870,304	41,719,547	42,275,684	43,346,305
51,016,008	50,371,775	51,986,555	54,455,902	54,912,799	56,570,906
14,737,059	16,813,565	17,958,568	17,348,180	17,095,160	17,207,118
65,753,067	67,185,340	69,945,123	71,804,082	72,007,959	73,778,024
87,351,482	84,044,935	83,795,026	84,946,297	86,200,486	85,933,943
9,780,869	10,474,575	7,695,753	6,480,008	6,222,219	7,896,819
18,968,153	16,813,565	21,324,648	22,097,324	21,860,938	23,293,567
\$116,100,504	\$111,333,075	\$112,815,427	\$113,523,629	\$114,283,643	\$117,124,329

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

	Fiscal Year			
	2007	2008	2009	2010
Expenses				
Governmental activities:				
General government	\$2,742,806	\$2,853,101	\$3,607,537	\$3,630,766
Public Safety	6,590,390	7,094,187	8,483,992	7,408,112
Transportation	2,244,130	2,476,434	2,468,048	2,412,047
Economic and physical development	10,308	117,668	96,570	218,656
Environmental protection	1,123,568	1,216,620	1,307,076	1,176,135
Culture and recreation	3,637,977	4,236,367	4,655,871	4,183,063
Interest on long-term debt	44,385	103,428	212,829	201,570
Total governmental activities expenses	<u>16,393,564</u>	<u>18,097,805</u>	<u>20,831,923</u>	<u>19,230,349</u>
Business-type activities:				
Water	3,169,593	3,634,869	4,075,486	3,719,723
Wastewater	3,380,132	4,077,418	4,113,272	3,739,629
Electric	25,241,193	26,505,211	26,798,280	27,380,632
Cable	4,001,462	4,015,776	4,009,621	4,173,224
Community house	323,251	312,634	345,256	300,521
Total business-type activities expenses	<u>36,115,631</u>	<u>38,545,908</u>	<u>39,341,915</u>	<u>39,313,729</u>
Total primary government expenses	<u>52,509,195</u>	<u>56,643,713</u>	<u>60,173,838</u>	<u>58,544,078</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	283,089	232,411	46,347	354,433
Public Safety	24,793	46,702	472,980	214,043
Transportation	4,797	7,656	529,095	
Economic and physical development				
Environmental protection	1,093,367	1,062,990	1,035,070	1,024,768
Culture and recreation	628,181	677,243	888,946	861,029
Operating Grants and Contributions	998,104	1,100,958	286,720	724,637
Capital Grants and Contributions		258,646	12,291	323,177
Total governmental activities program rev's	<u>3,032,331</u>	<u>3,386,606</u>	<u>3,271,449</u>	<u>3,502,087</u>
Business-type activities:				
Charges for services:				
Water	3,945,198	4,011,287	4,662,378	4,894,472
Wastewater	4,353,978	4,138,754	4,288,210	4,274,993
Electric	23,094,949	23,422,320	23,925,934	26,192,614
Cable	3,367,112	3,496,493	3,823,539	3,973,907
Community house	241,420	223,929	215,865	175,332
Operating Grants and Contributions	21,016	21,734	20,980	19,392
Total business-type activities program rev's	<u>35,023,673</u>	<u>35,314,517</u>	<u>36,936,906</u>	<u>39,530,710</u>
Total primary government program rev's	<u>\$38,056,004</u>	<u>\$38,701,123</u>	<u>\$40,208,355</u>	<u>\$43,032,797</u>

2011	2012	2013	2014	2015	2016
\$3,609,198	\$3,982,814	\$3,912,009	\$3,440,468	\$1,849,269	\$3,343,228
8,020,152	7,331,704	7,416,835	7,660,604	7,852,782	6,651,717
2,275,232	2,396,894	2,277,238	2,576,293	2,312,432	2,730,653
216,413	200,710	119,035	136,785	141,751	285,783
1,210,998	1,105,025	1,155,375	1,047,375	1,097,467	1,046,082
4,765,491	4,680,010	4,724,850	4,811,792	5,455,971	5,186,423
177,894	132,767	127,653	122,825	124,446	138,427
20,275,378	19,829,924	19,732,995	19,796,142	18,834,118	19,382,313
4,428,054	4,626,908	4,803,191	4,949,707	5,070,715	5,029,465
3,791,743	3,465,124	3,723,556	4,091,744	4,280,212	4,425,170
29,042,901	30,455,928	32,061,280	33,682,364	34,719,580	32,438,473
4,200,613	4,201,231	4,433,307	4,472,432	4,347,245	4,417,630
41,463,311	42,749,191	45,021,334	47,196,247	48,417,752	46,310,738
61,738,689	62,579,115	64,754,329	66,992,389	67,251,870	65,693,051
401,366	474,238	561,709	624,519	817,679	532,812
49,184	38,273	33,898	38,499	49,396	61,180
468,136			7,557	3,240	1,120
			125,549	155,545	
1,094,518	1,085,405	1,211,551	1,189,156	1,183,901	1,188,228
970,297	988,922	1,032,610	1,101,543	1,075,183	1,058,685
425,492	797,030	716,426	843,004	720,271	1,455,215
934,725	775,628	863,938		945,182	129,196
4,343,718	4,159,496	4,420,132	3,929,827	4,950,397	4,426,436
4,643,110	4,854,787	5,020,919	5,480,781	5,629,436	5,776,164
4,677,572	4,891,791	4,988,894	5,045,826	4,980,346	5,309,234
29,170,119	30,854,838	32,808,535	34,537,320	34,615,760	33,452,210
4,087,798	4,115,024	4,259,270	4,128,586	4,147,511	4,239,367
42,578,599	44,716,440	47,077,618	49,192,513	49,373,053	48,776,975
\$46,922,317	\$48,875,936	\$51,497,750	\$53,122,340	\$54,323,450	\$53,203,411

Net (Expense)/Revenue

Governmental activities	(\$13,361,233)	(\$14,711,199)	(\$17,560,474)	(\$15,728,262)
Business-type activities	(1,091,958)	(3,231,391)	(2,405,009)	216,981
Total primary government net expense	<u>(14,453,191)</u>	<u>(17,942,590)</u>	<u>(19,965,483)</u>	<u>(15,511,281)</u>

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

Governmental activities:				
Ad valorem taxes	7,298,421	7,769,020	7,862,442	7,820,692
Occupancy tax				
Privilege license tax				
Carbon City fire tax				
Sales tax				
Other taxes	4,938,519	3,353,209	2,976,369	2,641,496
Unrestricted intergovernmental revenues	827,704	1,936,451	1,993,844	1,713,894
Restricted intergovernmental revenues				
Investment earnings	519,912	861,266	526,467	137,801
Other revenues	744,259	245,750	95,722	64,690
Change in reserve for prepaid insurance				
Transfers	620,527	585,795	461,170	337,467
Total governmental activities	<u>14,949,342</u>	<u>14,751,491</u>	<u>13,916,014</u>	<u>12,716,040</u>
Business-type activities:				
Investment earnings	862,651	815,522	373,351	105,723
Other revenues	325,647	240,188	186,285	237,886
Transfers	(744,259)	(585,795)	(461,170)	(337,467)
Total business-type activities	<u>444,039</u>	<u>469,915</u>	<u>98,466</u>	<u>6,142</u>
Total primary government	<u>15,393,381</u>	<u>15,221,406</u>	<u>14,014,480</u>	<u>12,722,182</u>

Change in Net Position

Governmental activities	1,588,109	40,292	(3,644,460)	(3,012,222)
Business-type activities	(647,919)	(2,761,476)	(2,306,543)	223,123
Total primary government	<u>\$940,190</u>	<u>(\$2,721,184)</u>	<u>(\$5,951,003)</u>	<u>(\$2,789,099)</u>

(\$15,931,660)	(\$15,670,428)	(\$15,312,863)	(\$15,866,315)	(\$13,883,721)	(\$14,955,877)
1,115,288	1,967,249	2,056,284	1,996,266	955,301	2,466,237
<u>(14,816,372)</u>	<u>(13,703,179)</u>	<u>(13,256,579)</u>	<u>(13,870,049)</u>	<u>(12,928,420)</u>	<u>(12,489,640)</u>

7,708,574	7,623,645	7,944,516	8,746,988	9,021,003	9,088,863
				79,879	91,224
				190,977	48
				9,164	9,259
				3,275,403	3,522,743
3,064,831	3,517,569	3,460,242	3,339,080		
1,719,297	1,751,859	1,737,882	1,796,345	2,064,379	2,527,391
24,701					
37,993	21,939	32,542	20,640	32,694	77,325
74,362		64,550	130,903	291,330	194,633
					(152,416)
(858,831)	786,808	795,700	681,602	642,442	667,428
<u>11,770,927</u>	<u>13,701,820</u>	<u>14,035,432</u>	<u>14,715,558</u>	<u>15,607,271</u>	<u>16,026,498</u>

32,730	31,769	46,163	34,987	37,703	92,821
206,554	220,063	215,785	509,308	307,310	228,450
858,831	(786,808)	(795,700)	(681,602)	(642,442)	(667,428)
<u>1,098,115</u>	<u>(534,976)</u>	<u>(533,752)</u>	<u>(137,307)</u>	<u>(297,429)</u>	<u>(346,157)</u>
<u>12,869,042</u>	<u>13,166,844</u>	<u>13,501,680</u>	<u>14,578,251</u>	<u>15,309,842</u>	<u>15,680,341</u>

(4,160,733)	(1,968,608)	(1,277,431)	(1,150,757)	1,723,550	1,070,621
2,213,403	1,432,273	1,522,532	1,858,959	657,872	2,120,080
<u>(\$1,947,330)</u>	<u>(\$536,335)</u>	<u>\$245,101</u>	<u>\$708,202</u>	<u>\$2,381,422</u>	<u>\$3,190,701</u>

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
General Fund					
Reserved	\$5,327,266	\$4,465,357	\$2,894,718	\$1,872,310	
Unreserved	5,067,584	7,321,962	7,062,954	7,115,736	
Nonspendable					
Restricted					\$2,104,203
Committed					3,066,228
Unassigned					5,203,732
	<u>10,394,850</u>	<u>11,787,319</u>	<u>9,957,672</u>	<u>8,988,046</u>	<u>10,374,163</u>
Total general fund					
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	3,956,536	3,998,142	3,682,671	3,417,360	
Restricted					379,344
Committed					
Unassigned					3,163
Total all other governmental funds	<u>\$3,956,536</u>	<u>\$3,998,142</u>	<u>\$3,682,671</u>	<u>\$3,417,360</u>	<u>\$382,507</u>

Notes:

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

2012	2013	2014	2015	2016
				\$152,416
\$1,965,729	\$2,610,137	\$1,895,424	\$1,844,844	2,975,342
3,953,714	4,725,743	4,287,109	4,107,784	3,431,035
5,096,368	4,702,828	5,951,951	6,918,323	8,839,922
11,015,811	12,038,708	12,134,484	12,870,951	15,398,715
335,789	340,959	290,480	248,802	41,859
			161,800	365,671
13,580	18,231	6,995		
\$349,369	\$359,190	\$297,475	\$410,602	\$407,530

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

	2007	2008	2009	2010
Revenues				
Ad valorem taxes	\$7,136,147	\$7,787,684	\$7,811,407	\$7,786,282
Other taxes and licenses	3,111,379	3,353,209	2,984,770	2,649,525
Unrestricted intergovernmental revenues	1,827,140	1,936,451	1,996,276	1,851,812
Restricted intergovernmental revenues	897,398	1,304,340	993,723	1,164,160
Other restricted revenues	61,109	163,289	15,408	58,557
Permits and fees	208,590	176,939	235,419	168,853
Sales and services	1,865,234	1,850,063	2,045,014	1,964,570
Investment earnings	827,704	861,266	526,467	137,801
Other revenues	557,160	137,725	212,665	64,690
Total revenues	16,491,861	17,570,966	16,821,149	15,846,250
Expenditures				
General government	2,712,591	5,741,643	3,922,209	3,266,881
Public safety	6,590,915	7,032,648	8,477,428	6,693,223
Transportation	1,122,564	1,601,674	1,243,638	1,160,742
Environmental protection	1,186,814	1,344,758	1,208,846	1,005,097
Cultural and recreational	4,386,677	3,935,811	6,102,022	4,171,791
Economic and physical development	50,308	117,668	96,570	233,656
Debt service				
Principal	577,181	452,798	499,283	672,392
Interest	50,401	89,346	147,452	214,872
Total expenditures	16,677,451	20,316,346	21,697,448	17,418,654
Other Financing Sources (Uses)				
Issuance of capital debt	620,527	3,593,660	2,320,000	
Transfers in	1,020,959	1,141,940	1,015,561	749,167
Transfers out	(276,700)	(556,145)	(554,391)	(411,700)
Total other financing sources (uses)	1,364,786	4,179,455	2,781,170	337,467
Net change in fund balances	\$1,179,196	\$1,434,075	(\$2,095,129)	(\$1,234,937)
Debt service as a percentage of noncapital expenditures	4.42%	3.53%	3.73%	5.37%

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$7,707,971	\$7,630,208	\$7,936,870	\$8,732,981	\$9,054,942	\$9,105,965
3,064,831	3,517,569	3,460,242	3,339,080	3,555,423	3,623,274
1,863,644	1,891,276	1,957,471	2,045,038	2,487,639	2,538,025
1,708,071	1,528,865	1,539,846	914,592	848,220	1,413,916
128,474	34,098	17,894	29,808	141,319	113,582
219,976	168,538	252,293	143,282	181,362	137,285
2,167,551	2,215,061	2,410,889	2,593,452	3,256,986	2,842,025
37,993	21,939	32,542	20,640	32,694	77,325
74,362	73,517	118,481	130,903	390,580	103,627
16,972,873	17,081,071	17,726,528	17,949,776	19,949,165	19,955,024
3,126,601	3,479,442	3,709,428	3,322,629	3,171,885	3,424,337
7,221,357	6,908,659	7,052,196	8,123,787	7,813,649	7,144,444
1,183,133	1,230,622	1,255,466	1,546,120	1,397,533	1,570,530
1,044,297	1,168,448	987,112	1,081,299	1,181,444	1,153,858
3,917,534	3,882,803	4,010,149	4,558,063	5,668,844	5,303,790
216,413	200,710	119,035	136,785	141,751	306,479
693,644	682,564	708,746	796,859	953,035	981,041
180,022	150,661	136,978	121,928	119,111	111,049
17,583,001	17,703,909	17,979,110	19,687,470	20,447,252	19,995,528
196,540	836,808	489,600	1,090,153	705,239	1,897,768
724,676	(50,000)	891,775	681,602	1,288,080	806,928
(1,583,507)	444,540	(96,075)		(645,638)	(139,500)
(662,291)	1,231,348	1,285,300	1,771,755	1,347,681	2,565,196
(\$1,272,419)	\$608,510	\$1,032,718	\$34,061	\$849,594	\$2,524,692
5.23%	4.93%	4.70%	5.34%	5.24%	6.26%

**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>
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
2015-16	1,147,443,980	523,151,058	30,809,358	1,701,404,396	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>
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
2015-16	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.	\$118,831,817	1	6.67%	\$75,199,529	1	5.36%
SGL Carbon Corp	35,267,404	2	1.98%	30,181,231	2	2.15%
Morganton Retail Inv.	34,001,381	3	1.91%			
Sypris Technologies	23,684,925	4	1.33%	26,772,087	3	1.91%
Case Farms Processing	21,260,889	5	1.19%			
Caterpillar Inc.	20,934,030	6	1.18%	13,998,141	7	1.00%
Viscotec	19,562,232	7	1.10%	26,408,338	5	1.88%
Leviton Manufacturing	19,365,150	8	1.09%	16,018,600	6	1.14%
Gerresheimer Glass	17,651,480	9	0.99%			
American Roller Bearing	15,636,178	10	0.88%			
Grace Properties				13,512,695	8	0.96%
James Kirkpatrick Trust				13,121,096	9	0.94%
HDM Furniture Industries				26,654,993	4	1.90%
VPI INC				10,714,163	10	
Total	\$326,195,486		18.31%	\$252,580,873		17.25%

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
2006-07	\$7,123,752	\$7,003,027	98.31%	111,862	\$7,114,889	99.88%
2007-08	7,768,135	7,660,009	98.61%	100,523	7,760,532	99.90%
2008-09	7,893,702	7,776,653	98.52%	107,197	7,883,850	99.88%
2009-10	7,860,584	7,744,751	98.53%	106,139	7,850,890	99.88%
2010-11	7,778,447	7,660,545	98.48%	108,206	7,768,751	99.88%
2011-12	7,695,934	7,588,040	98.60%	97,116	7,685,156	99.86%
2012-13	8,041,336	7,907,768	98.34%	115,569	8,023,337	99.78%
2013-14	8,783,795	8,656,951	98.56%	100,090	8,757,041	99.70%
2014-15	9,118,820	9,032,717	99.06%	56,297	9,089,014	99.67%
2015-16	9,136,156	9,066,692	99.24%	0	9,066,692	99.24%

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			
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%	898
2009-10		5,019,440	5,475,000	1,493,332		11,987,772	Not available	704
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	496
2013-14		4,358,453	425,000	2,888,934	10,352,110	18,024,497	Not available	1,072
2014-15		4,110,656		2,377,767	10,348,862	16,837,285	Not available	994
2015-16		5,027,383		1,793,828	10,107,222	16,928,433	2.97%	1,001

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

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

Fiscal Year	Bonded Debt Outstanding	Percentage of Assessed Value	Per Capita
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
2015-16	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, 2016**

Governmental Unit	Governmental Activities Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$38,749,375	27.50%	\$10,656,078
City of Morganton	<u>5,027,383</u>	100.00%	<u>5,027,383</u>
Total direct and overlapping debt	\$43,776,758		\$15,683,461

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, 2016**

Legal Debt Margin Calculation for Fiscal Year 2015-16	
Assessed Value	\$1,781,084,544
Debt Limit 8% of Assessed Value	142,486,764
Debt Applicable to Debt Limit:	16,928,433
Legal Debt Margin	125,558,331

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
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	131,733,040	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%
2015-16	142,486,764	16,928,433	125,558,331	11.88%

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

Calendar Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate
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%
2016	16,918	569,239,946	33,647	5.0%

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 2015-16			
<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
Burke Public Schools	2,200	1	5.81%
Carolinas Healthcare/Blue Ridge	1,400	2	3.70%
State of North Carolina	1,200	3	3.17%
Turning Point Services	1,000	4	2.64%
Case Farms	725	5	1.91%
Leviton	620	6	1.64%
Western Piedmont College	560	7	1.48%
Burke County	499	8	1.32%
Continental Teves	450	9	1.19%
City of Morganton	273	10	0.72%
Total	8,927		23.58%

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government	57	62	51	51	48	48	48	48	48	48
Public Safety	103	104	100	97.58	92	91	87	87	88	91
Transportation/Garage	31	31	24	22	23	22	22	23	23	23
Environmental Protection	13	13	17	16	13	13	13	13	13	13
Cultural & Recreation	26.25	26.25	26.5	26.2	23.5	22.5	19.5	25.25	26.25	26.25
IRMS	5	6	6	6	5	5	5	6	6	6
Electric	26	26	25	26	24	22	22	24	24	24
Cable	8	8	8	8	8	8	8	9	9	9
Water	22	22	22	22	21	20	20	20	20	20
Wastewater	27	27	24	23	21	21	23	22	22	22
Total	318.25	325.25	303.5	297.78	278.5	272.5	267.5	277.25	279.25	282.25

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, 2016

Fiscal Year 2015-16	
General Government	
Building Permits Issued	246
Building Inspections Conducted	4,106
Total City Employees - Full-time	273
Total City Employees - Part-time	329
Police	
Physical Arrests (18 years and over) (annual)	2,507
Parking Violations	494
Number of Police Employees - Officers	70
Number of Police Employees - Civilians	10
Number of Police Employees - Reserves	2
Number of Calls Responded	40,631
Number of Traffic Accidents	1,229
Fire Protection	
Fire Calls	2,711
Number of Fire Personnel - Paid	17
Number of Fire Personnel - Volunteer	9
Fire Inspections	895
Electric	
Customers	8,208
Public Works	
Refuse Collection (tons per day)	33
Recyclables Collected (tons per day)	1.35
Residential Collection Trucks	3
Water Treatment Facility	
Customers	10,094
Consumptions	2,716,653,153
Wastewater	
Customers	6,635
Average Daily Sewage Treatment	4.70
Cable Television	
Subscribers / Customers	3,007
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, 2016

Fiscal Year 2015-16	
Police	
Stations	1
Patrol units	74
Fire Protection	
Fire Stations	3
Electric	
Miles of Service	280
Public Works	
Miles of Streets	87.88
Primary Streets	86.79
Secondary Streets	1.09
Streetlights	3,420
Traffic Signals	4
Water Treatment Facility	
Plants	1
Miles of Distribution Lines	331
Fire Hydrants	1,529
Storage Capacity (millions of gallons)	9.15
Wastewater	
Plants	1
Miles of Collection Lines	205
Cable Television	
Miles of plant	165
Parks and Recreation	
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.



**Independent Auditor’s 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***

The Honorable Mayor and
Members of City Council
City of Morganton, North Carolina

We have audited, 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, the financial statements of the governmental activities, business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Morganton, North Carolina (the “City”) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated October 18, 2016. Our report includes a reference to other auditors who audited the financial statements of the Morganton ABC Board, as described in our report on the City’s financial statements. This report does not include the results of other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the 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’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’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purposes 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 in internal control may exist that were not identified. Given these limitations, during our audit we did identify a deficiency in internal control, described as 2016-001 in the accompanying schedule of findings and questioned costs that we consider to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 that are required to be reported under *Government Auditing Standards*.

The City's Response to Finding

The City's response to the finding identified in our audit is 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, PLLC". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
October 18, 2016



**Independent Auditor's Report on Compliance for Each Major State Program;
Report on Internal Control over Compliance
in Accordance with the State Single Audit Implementation Act**

The Honorable Mayor and
Members of City Council
City of Morganton, North Carolina

Report on Compliance for Each Major State Program

We have audited the City of Morganton, North Carolina's (the "City") 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 each of the City's major state programs for the year ended June 30, 2016. The City's major state 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 state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major state 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; as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards 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'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 state program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major State Program

In our opinion, the City 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 state programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City 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, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of the City's 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 material weaknesses or significant deficiencies. 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 the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Elliott David Decosimo, PLLC

Raleigh, North Carolina
October 18, 2016

City of Morganton, North Carolina
Schedule of Findings and Questioned Costs
For the year ended June 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

 Material weakness(es) identified? Yes No

 Significant deficiency(ies) identified? Yes None reported

Noncompliance material to the financial statements noted? Yes No

State Awards

Internal control over major programs:

 Material weakness(es) identified? Yes No

 Significant deficiency(ies) identified? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act: Yes No

Identification of major state programs:

 Powell Bill

City of Morganton, North Carolina

Schedule of Findings and Questioned Costs

For the year ended June 30, 2016

II. FINANCIAL STATEMENT FINDINGS

2016-001 – Prior Period Adjustment for Cable Fund Receivables

Criteria: Governmental Accounting Standards Board (GASB) Codification Section 1600 paragraph 131 requires that revenues from exchange transactions should be recognized when an exchange is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured.

Condition: In the years prior to fiscal year ending June 30, 2016, management recognized revenue based on the billed date for Cable Fund revenue as opposed to the date the services were rendered. Since Cable Fund revenues are billed one month in advance management recorded revenue and accounts receivable of \$350,015 in excess of actual amounts at June 30, 2015. Upon completing the year-end close process management discovered the overstatement of prior year amounts and management corrected the prior year overstatement through prior period adjustment.

Effect: Management recorded a prior period adjustment to the Cable Fund of \$350,015.

Cause: The City was recognizing Cable Fund revenue based on billing date rather than at the time exchange was consummated.

Recommendation: We recommend that the City review revenue recognition criteria and periodically verify that exchange revenues are recorded only upon exchange completion.

Management Response: An internal process review revealed that cable fund revenue was being recorded in the month it was billed, not the month in which service was rendered. Once discovered, the inaccuracy was immediately brought to the attention of the auditor. Staff acknowledges the error and has made the appropriate correction.

III. STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported

City of Morganton, North Carolina

Summary Schedule of Prior Audit Findings

For the year ended June 30, 2015

2015-001 – No Internal Audit Function

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

Auditor's Recommendation: None

Current Status: The City has not hired additional staff to serve a dedicated internal audit function. The City has implemented internal control processes such that accounting and management personnel perform review and monitoring functions.

CITY OF MORGANTON
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Grantor Pass-Through Grantor Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Federal (Direct and Pass-Through) Expenditures	State Expenditures	Local Expenditures
Federal Awards:					
Cash Programs:					
<u>US Department of Housing and Urban Development</u>					
Direct Program:					
CDBG Grant	14.22		<u>\$270,173</u>		
<u>US Department of Justice</u>					
Passed through NC Department of Public Safety:					
Virtual Management for Disaster Recovery	16.74	011190	12,758		4,253
Internal Affairs Module		011092	12,060		
Direct Program:					
Office of Justice Programs					
Bulletproof Vest Partnership:					
50% Vest Reimbursement	16.61		2,273		2,273
50% Vest Reimbursement	16.61		<u>783</u>		<u>783</u>
Total US Department of Justice			<u>27,874</u>		<u>7,309</u>
<u>US Department of Transportation</u>					
Passed through NC Department of Transportation:					
Governor's Highway Safety Program	20.6	PT-2015-09-34	37,076		15,890
Governor's Highway Safety Program	20.6	PT-2016-06-16	<u>25,421</u>		<u>25,421</u>
Total US Department of Transportation			<u>62,497</u>		<u>41,311</u>
<u>US Environmental Protection Agency</u>					
Passed through NC Department of Environmental Quality:					
Drinking Water State Revolving Loan	66.47	WIF1788	333,297		
Total Federal Cash Awards			<u>\$693,841</u>		<u>\$48,620</u>

CITY OF MORGANTON
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Federal</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Local</u> <u>Expenditures</u>
State Awards:			
Cash Programs:			
<u>NC Department of Transportation</u>			
Powell Bill		\$824,771	
<u>NC Rural Economic Development Division</u>			
<u>Department of Commerce</u>			
Building Reuse		299,255	
<u>NC Department of Commerce</u>			
Main Street Solutions Fund		<u>150,000</u>	
Total State Cash Awards		<u>\$1,274,026</u>	
Total Federal and State Awards	<u>\$693,841</u>		<u>\$48,620</u>

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 Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) 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.