

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2017**



**City of Morganton
North Carolina**

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2017

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



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CITY OF MORGANTON
NORTH CAROLINA

October 13, 2017

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, 2017. 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, 2017, 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, 2017. 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 16,665 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 88,842 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 initiating two master plan processes one in Downtown and the other in recreation. A water and sewer rate study as well as a master plan was completed during this fiscal year.

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, 2016. 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

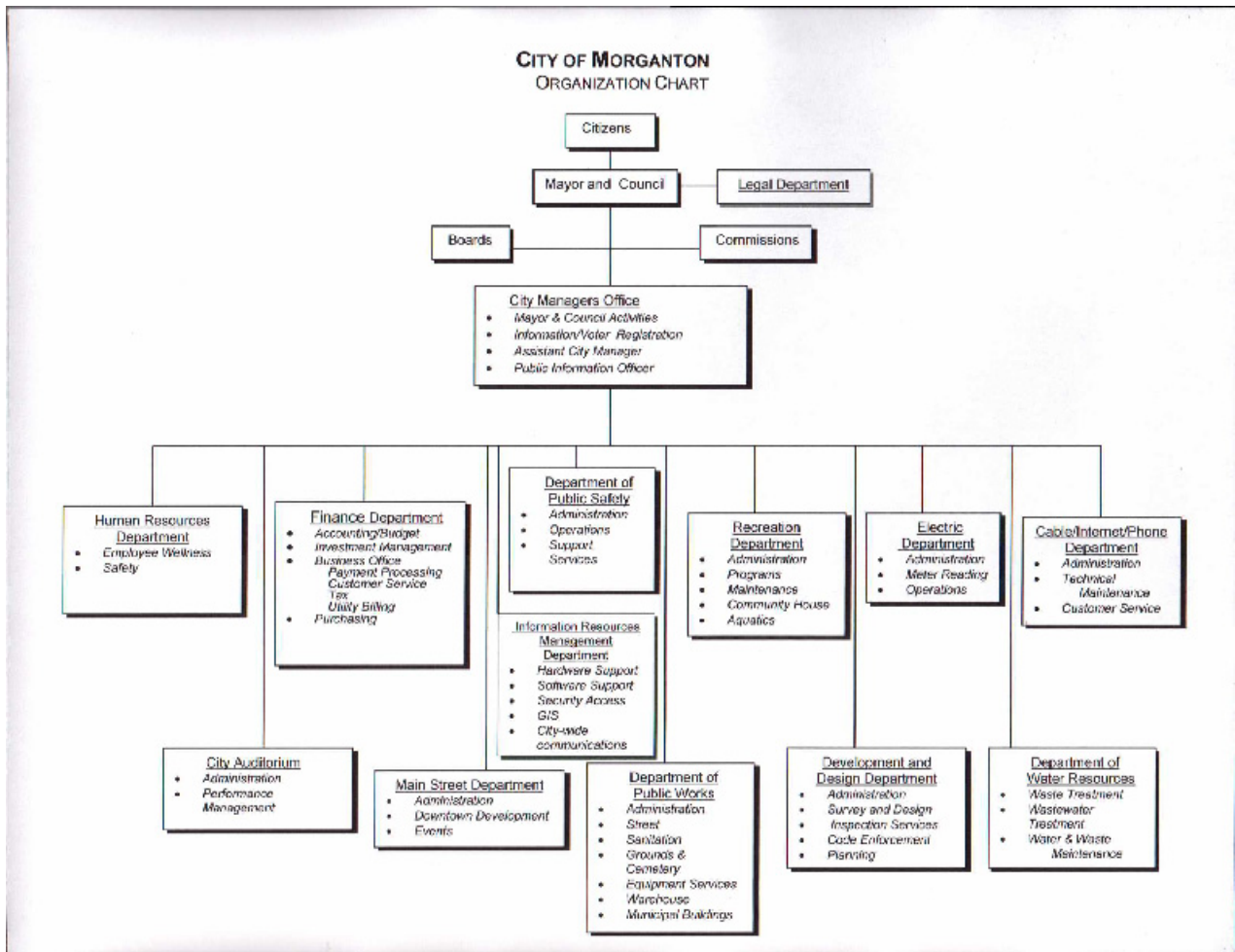
City of Morganton
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

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

Executive Director/CEO







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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standard

As discussed in Note VIII to the financial statements, the City adopted provisions of Governmental Accounting Standards Board (GASB) Statement Number 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective July 1, 2016. Our opinions are 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 Postemployment Benefits Schedules of Funding Progress and Employer Contributions, the Local Government Employees Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions and the Law Enforcement Officers Special Separation Allowance Schedules of Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, 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 federal and state awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements* and 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 federal and state 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 com 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 federal and state 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 13, 2017, 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.

Elliott Davis Decosimo, PLLC

Raleigh, North Carolina
October 13, 2017

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, 2017. 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.

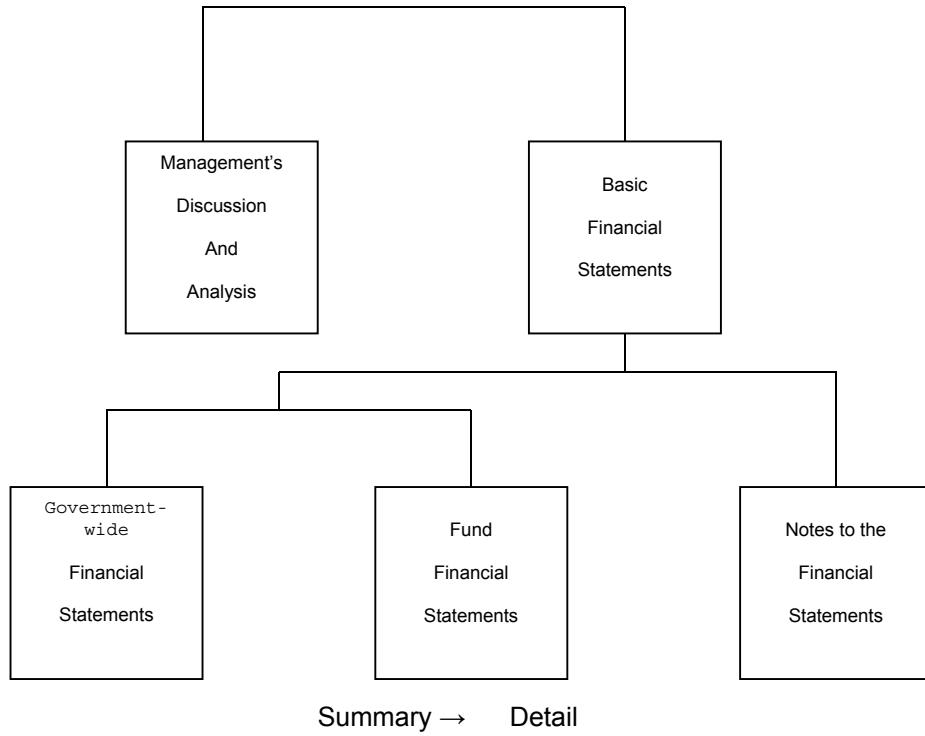
Financial Highlights

- 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 \$117,002,100.
- The government's total net position increased by \$2,211,970. Governmental activities had an increase of \$1,258,291 and business-type activities experienced an increase of \$953,679 in net position.
- As of the close of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balances of \$19,038,672, an increase of \$3,232,427 in comparison with the prior year. Approximately 78 percent of this amount, or \$14,928,259, 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 \$10,462,406, or 54 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt increased by \$10,967,564 (61%) during the current fiscal year. This increase includes two significant borrowings – the Community House renovations, \$1,290,000 and the improvements at the Waste Treatment Plant - \$9,716,370
- 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

City of Morganton’s Net Position

	Governmental-type		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and other assets	\$21,919,203	\$19,066,553	\$33,207,399	\$23,051,864	\$55,126,602	\$42,118,417
Capital assets	34,093,424	34,390,420	69,016,473	68,471,956	103,109,897	102,862,376
Deferred outflows of resources	2,673,689	577,367	1,001,007	224,532	3,674,696	801,899
Total assets and deferred outflows of resources	58,686,316	54,034,340	103,224,879	91,748,352	161,911,195	145,782,692
L T liabilities outstanding	14,977,436	6,911,930	24,110,568	11,967,846	39,088,004	18,879,776
Other liabilities	1,218,189	3,406,637	4,317,027	5,860,410	5,535,216	9,267,047
Deferred inflows of resources	220,294	369,468	65,581	142,072	285,875	511,540
Total liabilities and deferred inflows of resources	16,415,919	10,688,035	28,493,176	17,970,328	44,909,095	28,658,363
Net position:						
Net investment in capital assets	27,910,238	29,363,037	47,303,662	56,570,906	75,213,900	85,933,943
Restricted	3,953,135	7,896,819			3,953,135	7,896,819
Unrestricted	10,407,024	6,086,449	27,428,041	17,207,118	37,835,065	23,293,567
Total net position	\$42,207,397	\$43,346,305	\$74,731,703	\$73,778,024	\$117,002,100	\$117,124,329

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 \$117,002,100 as of June 30, 2017. 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, \$3,953,135 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$37,835,065 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 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	Total
	Activities		Activities			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$2,919,067	\$2,842,025	\$47,478,750	\$48,776,975	\$50,397,817	\$51,619,000
Operating grants and Contributions	1,550,179	1,455,215			1,550,179	1,455,215
Capital grants and Contributions	159,558	129,196			159,558	129,196
General revenues:						
Ad valorem taxes	9,045,679	9,088,863			9,045,679	9,088,863
Occupancy tax	110,727	91,224			110,727	91,224
Privilege license tax		48			0	48
Carbon City fire tax	9,579	9,259			9,579	9,259
Sales tax	3,839,698	3,522,743			3,839,698	3,522,743
Unrestricted Intergovernmental	2,540,423	2,527,391			2,540,423	2,527,391
Investment earnings	107,644	77,325	87,291	92,821	194,935	170,146
Other	76,862	194,633	220,711	228,450	297,573	423,083
Total revenues	20,359,416	19,937,922	47,786,752	49,098,246	68,146,168	69,036,168
Expenses:						
General government	3,222,746	3,343,228			3,222,746	3,343,228
Public safety	7,582,613	6,651,717			7,582,613	6,651,717
Transportation	2,497,040	2,730,653			2,497,040	2,730,653
Economic and physical development	165,678	285,783			165,678	285,783
Environmental protection	1,209,929	1,046,082			1,209,929	1,046,082
Culture and recreation	4,992,109	5,186,423			4,992,109	5,186,423
Interest on long-term debt	119,363	138,427			119,363	138,427
Water			5,195,893	5,029,465	5,195,893	5,029,465
Wastewater			4,397,099	4,425,170	4,397,099	4,425,170
Electric			32,176,623	32,438,473	32,176,623	32,438,473
Cable			4,375,105	4,417,630	4,375,105	4,417,630
Total expenses	19,789,478	19,382,313	46,144,720	46,310,738	65,934,198	65,693,051
Increase (decrease) in net assets before transfers	569,938	555,609	1,642,032	2,787,508	2,211,970	3,343,117
Change in reserve for prepaid insurance		(152,416)				(152,416)
Transfers	688,353	667,428	(688,353)	(667,428)		
Increase(decrease) in net assets	1,258,291	1,070,621	953,679	2,120,080	2,211,970	3,190,701
Net assets, July 1 as originally reported	43,346,305	42,275,684	73,778,024	72,007,959	117,124,329	114,283,643
Restatement	(2,334,199)			(350,015)	(2,334,199)	(350,015)
Net assets, July 1, as restated	41,012,106	42,275,684	73,778,024	71,657,944	114,790,130	113,933,628
Net assets, June 30	\$42,270,397	\$43,346,305	\$74,731,703	\$73,778,024	\$117,002,100	\$117,124,329

Governmental activities: Governmental activities increased the City's net position by \$1,292,746, 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:

- Continued concerted effort to control costs and manage expenditures responsibly
- Continued review of all non-essential programs and implementation of cost saving strategies when feasible
- Review and renegotiation of existing contracts
- Investment in infrastructure/capital assets to maximize current and future revenue streams and cost-savings when possible
- Maximization of tax collections
- Annual review and re-prioritizing of Capital outlay
- Continued growth in sales tax revenue
- Master plan updates for Main Street and Recreation are in process

Business-type activities: Business-type activities increased the City of Morganton's net position by \$953,679.

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
- Water and Wastewater master plan and rate study completed
- Extensive upgrades have begun at the Waste Treatment plant

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 \$14,179,540, while total fund balance was \$18,091,501. 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 73.00% of general fund expenditures, while total fund balance represents 93.14% of the same amount.

At June 30, 2017, 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 Permanent Fund.

General Fund Budgetary Highlights: During the fiscal year, there was a \$1,486,474 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 \$27,428,041, an increase in unrestricted net position of 10,220,923.

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, 2017 totals \$103,109,897 (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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land and Buildings	\$17,540,731	\$17,977,893	\$20,213,836	\$20,559,394	\$37,754,567	\$38,537,287
Plant and system			31,799,775	30,284,299	31,799,775	30,284,299
Equipment	8,762,336	8,423,590	16,329,759	17,033,912	25,092,095	25,457,502
Infrastructure	6,292,954	7,227,233			6,292,954	7,227,233
Construction in Progress	1,497,403	761,704	673,103	594,351	2,170,506	1,356,055
Total assets	<u>\$34,093,424</u>	<u>\$34,390,420</u>	<u>\$69,016,473</u>	<u>\$68,471,956</u>	<u>\$103,109,897</u>	<u>\$102,862,376</u>

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

Major capital asset transactions during the year include the following:

- Several large truck purchases
- Extensive manhole rehabilitation
- Significant electric meter purchase to replace much of the systems old meters
- Downtown master plan
- Recreation master plan
- Rehabilitation of the Bethel Road basin
- Completion of renovations/enhancements at the Mountain View recreation center

Long-term Debt. As of June 30, 2017, the City of Morganton had \$17,450,893 of installment debt and \$10,445,104 in State revolving loan fund debt. The debt is backed by security interest in the property for which it was issued.

Outstanding Liabilities

City of Morganton's Outstanding Debt

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Installment debt	\$6,183,186	\$5,027,383	\$11,267,707	\$1,793,828	\$17,450,893	\$6,821,211
Loans			10,445,104	10,107,222	10,445,104	10,107,222
Compensated absences	782,181	768,137	271,189	289,069	1,053,370	1,057,206
OPEB	2,418,730	2,070,832	940,617	805,323	3,359,347	2,876,155
Pension related debt (LGERS)	3,049,592	652,855	1,185,951	253,887	4,235,543	906,742
Pension related debt (LEO)	2,543,747	89,530			2,543,747	89,530
Total	\$14,977,436	\$8,608,737	\$24,110,568	\$13,249,329	\$39,088,004	\$21,858,066

City of Morganton's Outstanding Debt

The City of Morganton's total debt increased by \$17,229,938 (56%) during the past fiscal year, primarily due to the \$9,716,370 installment purchase financing for the waste plant improvements project.

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 \$114,965,195.

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, 2018

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 1.64% decrease or \$384,969 less than the 2016-2017 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2017-2018 business-type activities budget overall is .53% or \$388,615 higher than the 2016-2017 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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board
ASSETS				
Equity in Pooled Cash and Investments	\$17,852,964	\$27,518,483	\$45,371,447	\$222,996
Accrued Interest on Investments	45,942	71,676	117,618	
Ad Valorem Taxes Receivable, net	103,471		103,471	
Accrued Interest receivable on taxes	5,950		5,950	
Accounts Receivable, net	1,323,355	4,736,102	6,059,457	
Inventories	857,260		857,260	195,119
Prepaid Assets	169,119	55,125	224,244	
Equity in Pooled Cash and Investments - Restricted	1,561,142	826,013	2,387,155	
Capital Assets:				
Land	12,803,783	15,040,621	27,844,404	11,000
Other capital assets, net of depreciation	19,792,238	53,302,749	73,094,987	18,622
Construction in progress	1,497,403	673,103	2,170,506	
TOTAL ASSETS	56,012,627	102,223,872	158,236,499	447,737
DEFERRED OUTFLOWS OF RESOURCES				
Amounts to Pension Plans	2,673,689	1,001,007	3,674,696	63,286
LIABILITIES				
Accounts Payable and Accrued Liabilities	1,218,189	3,491,014	4,709,203	257,371
Deposits		826,013	826,013	
Long-term liabilities:				
Portion Due Within One Year				
Installment Purchases	1,673,751	1,404,398	3,078,149	
Loans		637,243	637,243	
Compensated Absences	297,233	108,476	405,709	
Portion Due After One Year				
Installment Purchases	4,509,435	9,863,309	14,372,744	
Loans		9,807,861	9,807,861	
Compensated Absences	484,948	162,713	647,661	
Net Pension Liability (LGMERS)	3,049,592	1,185,951	4,235,543	56,666
Total Pension Liability (LEO)	2,543,747		2,543,747	
OPEB, net	2,418,730	940,617	3,359,347	
TOTAL LIABILITIES	16,195,625	28,427,595	44,623,220	314,037
DEFERRED INFLOWS OF RESOURCES				
Prepaid Taxes	4,501		4,501	
Pension Deferrals	215,793	65,581	281,374	1,986
TOTAL DEFERRED INFLOWS OF RESOURCES	220,294	65,581	285,875	1,986
NET POSITION				
Net Investment in Capital Assets	27,910,238	47,303,662	75,213,900	29,622
Restricted for:				
Stabilization by State Statute	3,760,096		3,760,096	
Transportation	151,866		151,866	
Economic development	41,173		41,173	
Unrestricted	10,407,024	27,428,041	37,835,065	165,378
Total net position	\$42,270,397	\$74,731,703	\$117,002,100	\$195,000

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, 2017

<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	\$3,222,746	\$568,422	\$105,729	\$96,107
Public safety	7,582,613		64,147	63,451
Transportation	2,497,040		475,833	
Economic and physical development	165,678		164,992	
Environmental protection	1,209,929	1,210,766	11,229	
Culture and recreation	4,992,109	1,139,879	728,249	
Interest on long-term debt	119,363			
Total governmental activities	<u>19,789,478</u>	<u>2,919,067</u>	<u>1,550,179</u>	<u>159,558</u>
Business-type activities:				
Water	5,195,893	5,612,687		
Wastewater	4,397,099	4,753,049		
Electric	32,176,623	32,767,824		
Cable	4,375,105	4,345,190		
Total business-type activities	<u>46,144,720</u>	<u>47,478,750</u>		
Total primary government	<u>65,934,198</u>	<u>50,397,817</u>	<u>1,550,179</u>	<u>159,558</u>
Component units:				
Morganton ABC board	3,232,508	3,232,508		
Total component units	<u>\$3,232,508</u>	<u>3,232,508</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			Morganton ABC Board
	Primary Government		Total	
	Governmental Activities	Business-type Activities		
Primary government:				
Governmental activities				
General government	(\$2,452,488)		(\$2,452,488)	
Public safety	(7,455,015)		(7,455,015)	
Transportation	(2,021,207)		(2,021,207)	
Economic and physical development	(686)		(686)	
Environmental protection	12,066		12,066	
Culture and recreation	(3,123,981)		(3,123,981)	
Interest on long-term debt	(119,363)		(119,363)	
Total governmental activities	(15,160,674)		(15,160,674)	
Business-type activities:				
Water		\$416,794	416,794	
Wastewater		355,950	355,950	
Electric		591,201	591,201	
Cable		(29,915)	(29,915)	
Total business-type activities		1,334,030	1,334,030	
Total primary government	(15,160,674)	1,334,030	(13,826,644)	
Component units:				
Morganton ABC board				
Total component units				
General revenues:				
Ad valorem taxes	9,045,679		9,045,679	
Occupancy tax	110,727		110,727	
Carbon City fire tax	9,579		9,579	
Sales tax	3,839,698		3,839,698	
Unrestricted intergovernmental revenues	2,540,423		2,540,423	
Investment earnings	107,644	87,291	194,935	
Other revenues	76,862	220,711	297,573	
Transfers	688,353	(688,353)		
Total general revenues and transfers	16,418,965	(380,351)	16,038,614	
Change in net position	1,258,291	953,679	2,211,970	
Net position, beginning, as originally reported	43,346,305	73,778,024	117,124,329	195,000
Restatement	(2,334,199)		(2,334,199)	
Net position, beginning, as restated	41,012,106	73,778,024	114,790,130	195,000
Net position, ending	\$42,270,397	\$74,731,703	\$117,002,100	\$195,000

CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	CDBG Entitlement Fund	Cemetery Fund	Capital Project Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$16,162,068	\$36,107		\$861,076	\$17,059,251
Restricted cash	1,344,773		\$216,369		1,561,142
Prepaid Insurance	157,278				157,278
Taxes receivable (net)	103,471				103,471
Accounts receivable (net)	1,318,289	5,066			1,323,355
Interest receivable	44,596		1,346		45,942
Total assets	<u>\$19,130,475</u>	<u>\$41,173</u>	<u>\$217,715</u>	<u>\$861,076</u>	<u>\$20,250,439</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$931,002			\$172,793	\$1,103,795
Total liabilities	<u>931,002</u>			<u>\$172,793</u>	<u>1,103,795</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	103,471				103,471
Prepaid taxes	4,501				4,501
Total deferred inflows of resources	<u>107,972</u>				<u>107,972</u>
FUND BALANCES					
Nonspendable					
Prepaid Insurance	157,278				157,278
Restricted					
Stabilization by State Statute	3,760,096				3,760,096
Streets - Powell Bill	151,866				151,866
Economic Development		41,173			41,173
Committed					
Canteen Operations	5,464				5,464
Drug Enforcement	11,472				11,472
Capital Projects	1,900,012				1,900,012
Economic Development	1,192,907				1,192,907
Other	450,000				450,000
Community House				688,283	688,283
Cemetery			217,715		217,715
Unassigned	10,462,406				10,462,406
Total fund balances	<u>18,091,501</u>	<u>41,173</u>	<u>217,715</u>	<u>688,283</u>	<u>19,038,672</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$19,130,475</u>	<u>\$41,173</u>	<u>\$217,715</u>	<u>\$861,076</u>	<u>\$20,250,439</u>

Amounts reported for governmental activities in the Statement of Net Position are different because:		19,038,672
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	106,781,219	
Accumulated depreciation	<u>(73,212,387)</u>	33,568,832
Deferred outflows of resources of resources related to pensions are not reported in the funds		2,530,688
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.		5,950
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.		1,916,467
Earned revenue considered deferred inflows of resources in fund statements		103,471
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Installment purchase debt	(6,183,186)	
Compensated absences	(743,083)	
LEO pension	(2,543,747)	
OPEB	(2,284,357)	
Net pension liability	<u>(2,880,170)</u>	(14,634,543)
Deferred inflows of resources related to pensions are not reported in the funds		(206,424)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		<u>(52,716)</u>
Net position of governmental activities		<u><u>\$42,270,397</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, 2017

REVENUES	General	CDBG Entitlement Fund	Cemetery Fund	Capital Project Fund	Total Governmental Funds
Ad valorem taxes	\$9,009,716				\$9,009,716
Other taxes and licenses	3,960,004				3,960,004
Unrestricted intergovernmental revenues	2,551,652				2,551,652
Restricted intergovernmental revenues	698,738	\$164,992			863,730
Other restricted revenues	529,138			\$199,111	728,249
Permits and fees	398,174				398,174
Sales and services	2,586,405		\$12,150		2,598,555
Investment earnings	106,191		1,403	50	107,644
Other revenues	99,917			5,812	105,729
Total revenues	<u>19,939,935</u>	<u>164,992</u>	<u>13,553</u>	<u>204,973</u>	<u>20,323,453</u>
EXPENDITURES					
Current					
General government	3,070,281				3,070,281
Public safety	7,259,946				7,259,946
Transportation	1,588,015				1,588,015
Environmental protection	1,230,240				1,230,240
Cultural and recreational	4,765,644			735,699	5,501,343
Economic and physical development		165,678			165,678
Debt service					
Principal retirement	1,389,552				1,389,552
Interest and fees	119,679				119,679
Total expenditures	<u>19,423,357</u>	<u>165,678</u>	<u></u>	<u>735,699</u>	<u>20,324,734</u>
Revenues over (under) expenditures	<u>516,578</u>	<u>(686)</u>	<u>13,553</u>	<u>(530,726)</u>	<u>(1,281)</u>
OTHER FINANCING SOURCES (USES)					
Transfers	920,853			(232,500)	688,353
Installment purchase issued	1,255,355			1,290,000	2,545,355
Total other financing sources (uses)	<u>2,176,208</u>	<u></u>	<u></u>	<u>1,057,500</u>	<u>3,233,708</u>
Net change in fund balances	2,692,786	(686)	13,553	526,774	3,232,427
Fund balances - beginning	<u>15,398,715</u>	<u>41,859</u>	<u>204,162</u>	<u>161,509</u>	<u>15,806,245</u>
Fund balances - ending	<u>\$18,091,501</u>	<u>\$41,173</u>	<u>\$217,715</u>	<u>\$688,283</u>	<u>\$19,038,672</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, 2017

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

Net change in fund balances - total governmental funds		\$3,232,427
<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	3,152,149	
Depreciation expense for governmental assets	<u>(3,395,270)</u>	(243,121)
<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		35,963
<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	(2,545,355)	
Principal payments on long-term debt	1,389,552	
Decrease in accrued interest payable	<u>315</u>	(1,155,488)
<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	(12,101)	
Pension expense	(192,099)	
Total pension obligation (LEO) expense	(67,502)	
Other postemployment benefits expense	<u>(328,571)</u>	(600,273)
<p>The net expense of certain activities of the internal service fund is reported with governmental activities</p>		
		<u>(11,217)</u>
Total changes in net position of governmental activities		<u><u>\$1,258,291</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Ad valorem taxes				
Current year	\$8,834,934	\$8,885,858	\$8,923,015	\$37,157
Prior years	60,000	60,000	53,181	(6,819)
Special tax - Main Street	116,094	116,094	116,666	572
Interest	31,700	31,700	29,913	(1,787)
Discounts	(101,000)	(101,000)	(113,059)	(12,059)
Total	<u>8,941,728</u>	<u>8,992,652</u>	<u>9,009,716</u>	<u>17,064</u>
Other taxes and licenses				
Carbon city fire tax	9,600	9,600	9,579	(21)
Occupancy tax	90,000	100,915	110,727	9,812
One-half cent sales tax	2,608,000	2,608,000	2,680,887	72,887
One cent sales tax	1,140,000	1,140,000	1,158,811	18,811
Total	<u>3,847,600</u>	<u>3,858,515</u>	<u>3,960,004</u>	<u>101,489</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	28,155	28,155	29,158	1,003
Section eight in lieu of taxes	3,405	3,405	3,527	122
Payments in lieu of taxes	390,406	390,406	390,074	(332)
Utility sales tax	1,865,000	1,865,000	1,794,685	(70,315)
Beer and wine	78,867	78,867	75,660	(3,207)
Solid waste disposal	10,622	10,622	11,229	607
Alcohol Beverage Commission	245,980	245,980	247,319	1,339
Total	<u>2,622,435</u>	<u>2,622,435</u>	<u>2,551,652</u>	<u>(70,783)</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	63,323	63,323	63,347	24
State appropriation			96,107	96,107
State and federal grants	620,591	620,591	63,451	(557,140)
Powell bill street aid allocation	478,917	478,917	475,833	(3,084)
Total	<u>1,162,831</u>	<u>1,162,831</u>	<u>698,738</u>	<u>(464,093)</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, 2017

	<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	520,700	538,300	\$529,138	(9,162)
Total	<u>525,700</u>	<u>543,300</u>	<u>529,138</u>	<u>(14,162)</u>
Permits and fees				
Building permits	35,000	35,000	56,465	21,465
Plumbing permits	18,000	18,000	44,026	26,026
Electric permits	29,000	29,000	46,954	17,954
HVAC permits	29,000	29,000	35,038	6,038
Variance/planning/zoning requests	2,900	2,900	3,520	620
Vehicle tag fee	240,000	240,000	212,171	(27,829)
Total	<u>353,900</u>	<u>353,900</u>	<u>398,174</u>	<u>44,274</u>
Sales and services				
Parking revenue	12,000	12,000	9,359	(2,641)
Reimbursement for services	5,000	6,266	2,473	(3,793)
Solid waste user fees	1,142,000	1,142,000	1,163,288	21,288
Rough trash fees	7,500	7,500	24,342	16,842
Solid waste late charges	14,500	14,500	10,986	(3,514)
Curb cuts	4,000	4,000	5,045	1,045
Civil citations	500	500	319	(181)
Engineering inspections	3,000	3,000	17,103	14,103
Rent	31,000	31,000	30,790	(210)
Fire protection	500	500	400	(100)
False alarm violations	25,000	25,000	17,790	(7,210)
Recreation revenue	594,610	594,610	597,136	2,526
Food sales and services	258,000	258,000	204,217	(53,783)
Bad check charges/verification fee	7,300	7,300	6,180	(1,120)
Canteen sales	1,870	1,870	1,496	(374)
Main street revenue	29,000	29,000	26,415	(2,585)
Façade loan program	2,500	2,500	3,106	606
DARE program	3,800	3,800	800	(3,000)
Municipal auditorium ticket sales	343,150	343,150	317,320	(25,830)
Surplus sale	26,000	41,000	76,862	35,862
Reimbursements				
Burke County			10,403	10,403
Insurance	5,000	45,205	39,573	(5,632)
Stormwater	10,000	10,000	10,000	
Court cost and fees	9,000	9,000	11,002	2,002
Total	<u>2,535,230</u>	<u>2,591,701</u>	<u>2,586,405</u>	<u>(5,296)</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES - (continued)				
Investment earnings	\$36,000	\$42,341	\$101,930	\$59,589
Other revenue				
Revolving loan principal			13,031	13,031
Revolving loan interest			8,175	8,175
Miscellaneous	60,013	74,013	76,198	2,185
Contributions	500	3,575	2,513	(1,062)
Total	<u>60,513</u>	<u>77,588</u>	<u>99,917</u>	<u>22,329</u>
Total revenue	<u>20,085,937</u>	<u>20,245,263</u>	<u>19,935,674</u>	<u>(309,589)</u>
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			38,039	
Operating expenditures			176,580	
Donations/economic development			540,562	
Pro rata administrative services			(380,074)	
Total	<u>339,019</u>	<u>753,971</u>	<u>375,107</u>	<u>378,864</u>
Legal				
Salaries and employee benefits			187,114	
Operating expenditures			64,392	
Pro rata administrative services			(189,923)	
Total	<u>63,308</u>	<u>69,402</u>	<u>61,583</u>	<u>7,819</u>
Executive				
Salaries and employee benefits			479,519	
Operating expenditures			43,688	
Pro rata administrative services			(414,671)	
Total	<u>103,668</u>	<u>112,168</u>	<u>108,536</u>	<u>3,632</u>
Human resources				
Salaries and employee benefits			261,903	
Operating expenditures			824,677	
Pro rata administrative services			(745,296)	
Total	<u>556,788</u>	<u>557,287</u>	<u>341,284</u>	<u>216,003</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Accounting				
Salaries and employee benefits			\$273,350	
Operating expenditures			357,922	
Pro rata administrative services			(543,118)	
Total	<u>\$95,844</u>	<u>\$95,844</u>	<u>88,154</u>	<u>\$7,690</u>
Main street				
Salaries and employee benefits			157,341	
Operating expenditures			231,686	
Capital outlay			176,967	
Total	<u>638,885</u>	<u>688,589</u>	<u>565,994</u>	<u>122,595</u>
Canteen operations				
Operating expenditures	<u>2,100</u>	<u>3,100</u>	<u>3,034</u>	<u>66</u>
Business office/tax				
Salaries and employee benefits			335,702	
Operating expenditures			157,163	
Pro rata administrative services			(496,683)	
Total	<u>28,063</u>	<u>28,063</u>	<u>(3,818)</u>	<u>31,881</u>
Development				
Salaries and employee benefits			468,248	
Operating expenditures			98,680	
Capital outlay			143,463	
Total	<u>799,489</u>	<u>829,489</u>	<u>710,391</u>	<u>119,098</u>
Municipal buildings				
Operating expenditures			(18,370)	
Pro rata administrative services			(105,528)	
Capital outlay			51,444	
Total	<u>(56,103)</u>	<u>(48,095)</u>	<u>(72,454)</u>	<u>24,359</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, 2017

	<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			\$365,029	
Operating expenditures			50,320	
Pro rata administrative services			(255,796)	
Total	<u>\$170,531</u>	<u>\$170,531</u>	<u>159,553</u>	<u>\$10,978</u>
Public works				
Salaries and employee benefits			157,422	
Operating expenditures			20,761	
Total	<u>178,196</u>	<u>178,196</u>	<u>178,183</u>	<u>13</u>
Cemetery and grounds				
Salaries and employee benefits			479,550	
Operating expenditures			64,194	
Capital outlay			10,990	
Total	<u>634,335</u>	<u>635,601</u>	<u>554,734</u>	<u>80,867</u>
Total general government	<u>3,554,123</u>	<u>4,074,146</u>	<u>3,070,281</u>	<u>1,003,865</u>
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,346,344	
Operating expenditures			1,374,046	
Pro rata administrative services			(19,200)	
Capital outlay			558,756	
Total public safety	<u>9,067,851</u>	<u>9,175,662</u>	<u>7,259,946</u>	<u>1,915,716</u>
Transportation				
Street department				
Salaries and employee benefits			833,272	
Operating expenditures			140,950	
Capital outlay			32,751	
Total	<u>\$1,063,580</u>	<u>\$1,079,012</u>	<u>1,006,973</u>	<u>72,039</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
Powell bill				
Operating expenditures			145,309	
Capital outlay			435,733	
Total	<u>\$576,930</u>	<u>\$779,327</u>	<u>581,042</u>	<u>\$198,285</u>
Total transportation	<u>1,640,510</u>	<u>1,858,339</u>	<u>1,588,015</u>	<u>270,324</u>
Environmental protection - sanitation				
Salaries and employee benefits			598,032	
Operating expenditures			347,270	
Capital outlay			284,938	
Total environmental protection	<u>1,256,529</u>	<u>1,315,274</u>	<u>1,230,240</u>	<u>85,034</u>
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			286,779	
Operating expenditures			627,067	
Capital outlay			141,462	
Total	<u>1,094,543</u>	<u>1,101,518</u>	<u>1,055,308</u>	<u>46,210</u>
Recreation				
Salaries and employee benefits			1,555,747	
Operating expenditures			1,224,780	
Pro rata administrative services			(22,080)	
Capital outlay			579,946	
Total	<u>3,813,481</u>	<u>4,387,328</u>	<u>3,338,393</u>	<u>1,048,935</u>
Community House				
Salaries and employee benefits			230,801	
Operating expenditures			141,142	
Total	<u>436,696</u>	<u>437,940</u>	<u>371,943</u>	<u>65,997</u>
Total cultural and recreational	<u>5,344,720</u>	<u>5,926,786</u>	<u>4,765,644</u>	<u>1,161,142</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$1,396,110	\$1,396,110	\$1,389,552	\$6,558
Interest	129,982	129,982	119,679	10,303
Total debt service	<u>1,526,092</u>	<u>1,526,092</u>	<u>1,509,231</u>	<u>16,861</u>
Total expenditures	<u>22,389,825</u>	<u>23,876,299</u>	<u>19,423,357</u>	<u>4,452,942</u>
Revenues over (under) expenditures	<u>(2,303,888)</u>	<u>(3,631,036)</u>	<u>512,317</u>	<u>4,143,353</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	173,642	1,452,290		(1,452,290)
Installment purchase issued	1,213,000	1,261,500	1,255,355	(6,145)
Transfer from Economic Deveopment fu	228,893	228,893	228,893	
Transfer from Electric fund	688,353	688,353	688,353	
Total other financing sources	<u>2,303,888</u>	<u>3,631,036</u>	<u>2,172,601</u>	<u>(1,458,435)</u>
Revenues and other sources over expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>2,684,918</u>	<u>\$2,684,918</u>
Net change in fund balances			2,684,918	
Fund balances - beginning			14,213,676	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			4,261	
Transfers			3,607	
Fund balances - beginning			<u>1,185,039</u>	
Fund balances - ending			<u>\$18,091,501</u>	

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

CITY OF MORGANTON
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-type Activities - Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
ASSETS						
CURRENT ASSETS :						
Cash and cash equivalents	\$1,776,295	\$10,133,619	\$1,980,904		\$13,890,818	\$793,713
Investments	4,101,404	4,054,110	5,472,151		13,627,665	
Accounts receivable (net)	577,552	394,259	3,747,258	\$17,033	4,736,102	
Inventories						857,260
Prepaid insurance	17,449	17,147	17,405	\$3,124	55,125	11,841
Interest receivable	20,991	22,035	28,650		71,676	
Restricted Cash	109,252	111,647	605,114		826,013	
Total current assets	<u>6,602,943</u>	<u>14,732,817</u>	<u>11,851,482</u>	<u>20,157</u>	<u>33,207,399</u>	<u>1,662,814</u>
NONCURRENT ASSETS :						
Due from other funds	2,941,027				2,941,027	
Capital assets:						
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	17,629,784	21,932,381	9,728,326	4,012,258	53,302,749	491,275
Construction in progress		673,103			673,103	
Total noncurrent assets	<u>21,482,828</u>	<u>36,672,552</u>	<u>9,784,276</u>	<u>4,017,844</u>	<u>71,957,500</u>	<u>524,592</u>
TOTAL ASSETS	<u>28,085,771</u>	<u>51,405,369</u>	<u>21,635,758</u>	<u>4,038,001</u>	<u>105,164,899</u>	<u>2,187,406</u>
DEFERRED OUTFLOWS OF RESOURCES						
Amounts to pension plan	286,002	286,002	321,752	107,251	1,001,007	143,001
LIABILITIES						
CURRENT LIABILITIES :						
Accounts payable and accrued liabilities	111,624	219,782	2,900,385	259,223	3,491,014	61,678
Compensated absences-current	29,395	27,866	36,180	15,035	108,476	15,639
Installment purchase - current	268,471	869,263	107,181	159,483	1,404,398	
Loan payable - current	62,306	574,937			637,243	
Liabilities payable from restricted assets:						
Customer deposits	109,252	111,647	605,114		826,013	
Total current liabilities	<u>581,048</u>	<u>1,803,495</u>	<u>3,648,860</u>	<u>433,741</u>	<u>6,467,144</u>	<u>77,317</u>
NONCURRENT LIABILITIES :						
Due to other funds				2,941,027	2,941,027	
Other postemployment benefits	268,748	268,748	302,341	100,780	940,617	134,373
Compensated absences-noncurrent	44,092	41,799	54,270	22,552	162,713	23,459
Net pension liability	338,843	338,843	381,199	127,066	1,185,951	169,422
Installment purchase - noncurrent	683,916	8,847,107	263,247	69,039	9,863,309	
Loan payable - noncurrent	1,183,809	8,624,052			9,807,861	
Total noncurrent liabilities	<u>2,519,408</u>	<u>18,120,549</u>	<u>1,001,057</u>	<u>3,260,464</u>	<u>24,901,478</u>	<u>327,254</u>
TOTAL LIABILITIES	<u>3,100,456</u>	<u>19,924,044</u>	<u>4,649,917</u>	<u>3,694,205</u>	<u>31,368,622</u>	<u>404,571</u>
DEFERRED INFLOWS OF RESOURCES						
Pension deferrals	18,737	18,737	21,080	7,027	65,581	9,369
NET POSITION						
Net Investment in capital assets	16,343,299	17,757,193	9,413,848	3,789,322	47,303,662	524,592
Unrestricted	8,909,281	13,991,397	7,872,665	(3,345,302)	27,428,041	1,391,875
TOTAL NET POSITION	<u>\$25,252,580</u>	<u>\$31,748,590</u>	<u>\$17,286,513</u>	<u>\$444,020</u>	<u>\$74,731,703</u>	<u>\$1,916,467</u>

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

CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<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	\$5,612,687	\$4,753,049	\$32,767,824	\$4,345,190	\$47,478,750	\$1,737,622
OPERATING EXPENSES :						
Water treatment and maintenance	4,028,892				4,028,892	
Wastewater treatment and maintenance		2,863,275			2,863,275	
Operations			31,353,768		31,353,768	
Operations and maintenance MIS, Garage and Warehouse operations				4,045,140	4,045,140	1,640,583
Depreciation	1,146,090	1,330,343	819,229	325,444	3,621,106	109,472
Total	5,174,982	4,193,618	32,172,997	4,370,584	45,912,181	1,750,055
OPERATING INCOME (LOSS)	437,705	559,431	594,827	(25,394)	1,566,569	(12,433)
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	35,812	21,790	29,689		87,291	
Sale of materials						1,216
Interest expense	(20,911)	(203,481)	(3,626)	(4,521)	(232,539)	
Miscellaneous	33,239	4,449	18,542	164,481	220,711	
Total	48,140	(177,242)	44,605	159,960	75,463	1,216
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	485,845	382,189	639,432	134,566	1,642,032	(11,217)
TRANSFERS :						
Out			(688,353)		(688,353)	
Total			(688,353)		(688,353)	
Change in net position	485,845	382,189	(48,921)	134,566	953,679	(11,217)
TOTAL NET POSITION - beginning,	24,766,735	31,366,401	17,335,434	309,454	73,778,024	1,927,684
TOTAL NET POSITION - ending	<u>\$25,252,580</u>	<u>\$31,748,590</u>	<u>\$17,286,513</u>	<u>\$444,020</u>	<u>\$74,731,703</u>	<u>\$1,916,467</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, 2017

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2017	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
CASH FLOWS FROM						
OPERATING ACTIVITIES :						
Receipts from customers	\$5,668,661	\$4,808,773	\$32,966,999	\$4,363,578	\$47,808,011	\$1,737,784
Payments to suppliers	(3,041,162)	(1,574,593)	(30,142,777)	(3,549,202)	(38,307,734)	(892,739)
Payments to employees	(1,076,345)	(1,185,529)	(1,351,686)	(471,989)	(4,085,549)	(712,368)
Net cash provided by operating activities	<u>1,551,154</u>	<u>2,048,651</u>	<u>1,472,536</u>	<u>342,387</u>	<u>5,414,728</u>	<u>132,677</u>
CASH FLOWS FROM NONCAPITAL						
FINANCING ACTIVITIES :						
Transfers			(688,353)		(688,353)	
Interfund borrowings	(2,941,027)		3,017,326	(76,299)		
Proceeds from sale of materials						1,216
Miscellaneous	33,239	4,449	18,542	164,481	220,711	
Net cash provided (used) by noncapital financing activities	<u>(2,907,788)</u>	<u>4,449</u>	<u>2,347,515</u>	<u>88,182</u>	<u>(467,642)</u>	<u>1,216</u>
CASH FLOWS FROM CAPITAL						
AND RELATED FINANCING						
ACTIVITIES:						
Acquisition and construction of capital assets	(1,899,553)	(1,030,704)	(966,101)	(269,265)	(4,165,623)	(55,597)
Installment purchase debt issued/loan proceeds	1,246,115	9,716,370	348,428		11,310,913	
Principal paid on capital debt	(364,466)	(574,936)	(69,670)	(156,783)	(1,165,855)	
Interest paid on capital debt	(20,911)	(203,481)	(3,626)	(4,521)	(232,539)	
Net cash provided (used) by capital and related financing activities	<u>(1,038,815)</u>	<u>7,907,249</u>	<u>(690,969)</u>	<u>(430,569)</u>	<u>5,746,896</u>	<u>(55,597)</u>
CASH FLOWS FROM INVESTING						
ACTIVITIES :						
Proceeds from sales and maturities of investments	1,771,458	2,062,795	2,999,722		6,833,975	
Purchases of investments	(4,101,404)	(4,054,110)	(5,472,151)		(13,627,665)	
Interest on investments	22,954	9,786	14,791		47,531	
Net cash used by investing activities	<u>(2,306,992)</u>	<u>(1,981,529)</u>	<u>(2,457,638)</u>		<u>(6,746,159)</u>	
NET INCREASE (DECREASE)						
IN CASH AND CASH						
EQUIVALENTS	(4,702,441)	7,978,820	671,444		3,947,823	78,296
CASH AND CASH EQUIVALENTS						
AT BEGINNING 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>
CASH AND CASH EQUIVALENTS						
AT END OF YEAR	<u>\$1,885,547</u>	<u>\$10,245,266</u>	<u>\$2,586,018</u>	Nil	<u>\$14,716,831</u>	<u>\$793,713</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Business-type Activities - Enterprise Funds</u>				<u>Totals</u> <u>June 30,</u> <u>2017</u>	<u>Governmental</u> <u>Activities -</u> <u>Internal</u> <u>Service Fund</u>
	<u>Water</u> <u>Fund</u>	<u>Wastewater</u> <u>Fund</u>	<u>Electric</u> <u>Fund</u>	<u>Cable</u> <u>Fund</u>		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$437,705	\$559,431	\$594,827	(\$25,394)	1,566,569	(\$12,433)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	1,146,090	1,330,343	819,229	325,444	3,621,106	109,472
Changes in assets and liabilities :						
Decrease in accounts receivable	50,717	48,975	171,489	18,388	289,569	162
(Increase) decrease in prepaid insurance	856	(931)	1,636	1,311	2,872	(1,778)
Decrease in inventories						27,777
(Increase) in deferred outflows of resources for pensions	(221,850)	(221,850)	(249,581)	(83,194)	(776,475)	(110,925)
Increase (decrease) in accounts payable and accrued liabilities	(154,008)	45,709	(203,273)	9,980	(301,592)	(23,093)
Increase in customer deposits	5,257	6,749	27,686		39,692	
Increase in OPEB	38,656	38,656	43,487	14,495	135,294	19,327
(Decrease) in deferred inflows of resources for pensions	(21,855)	(21,855)	(24,586)	(8,195)	(76,491)	(10,927)
Increase in net pension liability	266,304	266,304	299,592	99,864	932,064	133,152
Increase (decrease) in accrued vacation pay	3,282	(2,880)	(7,970)	(10,312)	(17,880)	1,943
Net cash provided (used) by operating activities	<u>\$1,551,154</u>	<u>\$2,048,651</u>	<u>\$1,472,536</u>	<u>\$342,387</u>	<u>\$5,414,728</u>	<u>\$132,677</u>

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Morganton ABC Board

The members of the ABC Board's governing board are appointed by the City. 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 a proprietary fund (discrete presentation). 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. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary are presented.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The City reports the following governmental funds:

General Fund. The general fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, streets maintenance and construction, sanitation, and parks and recreation 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.

CDBG Entitlement Special Revenue Fund. This fund is used to account for federal funds used to benefit low and moderate-income individuals.

Cemetery Special Revenue Fund. This fund is used to account for transactions related to the City Cemetery.

Capital Project Fund. This fund is used to account for the revenue and expenditures of the Community House renovation project.

The government reports the following major enterprise funds:

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

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

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

Cable Fund. The cable fund is used to account for the City's cable/internet/telephone operation.

The City reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year which the taxes are levied. Revenue from

grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary fund distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are 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 and certain intergovernmental revenues, such as beer and wine tax, 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. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Economic Development Fund, the Cemetery Fund and the Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Entitlement Fund, the Capital Project Fund and the Enterprise Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. The City's Internal Service Fund operates under a financial plan that was adopted by the governing board at the time the City's budget ordinance was approved, as is required by the General Statutes. All budgets

are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for multi-year funds. 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, 2017 are included in the financial statements.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. 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 State law [G.S. 159-31]. The City and the ABC Board may designate, as an official depository, any bank or savings 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 Government 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.

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.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be 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.

3. Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Money in the Economic Development Fund is classified as restricted assets because its use is restricted to the Economic Development Fund per NC G.S. Chapter 159, Article 3, Part 2. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

City of Morganton Restricted Cash

Governmental Activities:	
General Fund - Streets	\$151,866
Cemetary Fund	216,369
Economic Development Fund	<u>1,192,907</u>
Total governmental activities	<u>1,561,142</u>
Business-type Activities:	
Water Fund - Customer deposits	109,252
Wastewater Fund - Customer deposits	111,647
Electric Fund - Customer deposits	<u>605,114</u>
Total Business-type Activities	<u>826,013</u>
Total Restricted Cash	<u><u>\$2,387,155</u></u>

4. 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 property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2017. 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.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventories and Prepaid Items

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 costs 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.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of one year. Minimum capitalization cost is \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the donation date. Donated capital assets received after June 30, 2015 are recorded at acquisition value.

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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

Capital assets of the ABC Board are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	35
Improvements	15
Equipment	5

8. 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, pension plan deferrals for the 2017 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 pension deferrals.

9. 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. Prepaid insurance costs are expensed over the life of the debt.

10. Compensated Absences

The vacation policy of the City and the ABC Board provides for the accumulation of up to thirty 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. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of the time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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.

11. Net Position/Fund Balances

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 Other – portion of fund balance committed by the governing board for future trust possibility.

Committed for Community House - portion of fund balance committed 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 the 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.

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, 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.

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the City and the ABC Board 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 formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2017, the City's deposits had a carrying amount of \$16,077,547 and a bank balance of \$16,345,934. Of the bank balance, \$750,000 was insured by federal depository insurance and \$15,595,934 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 \$216,491 and the bank balance was \$306,788. Of the bank balance, \$250,000 was covered by Federal depository insurance and the remainder was covered by collateral held under the pooling method.

2. Investments

At June 30, 2017 the City's investments were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2017	Maturity	Rating
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$1,225,000	October 16, 2017	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$1,000,000	November 24, 2017	AAA
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$1,000,000	December 11, 2017	Unrated
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$1,000,000	March 20, 2018	AAA
Government Agency: Federal Home Loan Bank	Fair Value Level 2	\$1,000,000	March 29, 2018	AAA
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$996,689	August 2, 2018	Unrated
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$995,784	October 29, 2018	Unrated

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2017	Maturity	Rating
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$993,958	June 13, 2019	AAA
Government Agency: Federal National Mortgage Assn	Fair Value Level 2	\$994,027	July 26, 2019	Unrated
Government Agency: Federal National Mortgage Assn	Fair Value Level 2	\$996,220	July 26, 2019	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$998,031	July 26, 2019	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$997,649	August 16, 2019	AAA
Government Agency: Federal Home Loan Bank	Fair Value Level 2	\$987,855	September 30, 2019	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$998,970	October 25, 2019	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$997,593	December 13, 2019	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$1,000,024	January 30, 2020	Unrated
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$1,348,595	February 10, 2020	AA+
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$999,581	February 28, 2020	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$999,147	March 20, 2018	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$998,102	June 5, 2020	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$998,323	June 12, 2020	AAA
NC Capital Management Trust- Government Portfolio	Amortized Cost	\$3,104,300	N/A	AAAm
NC Capital Management Trust- Term Portfolio	Fair Value Level 1	\$7,051,207	0.09 years	Unrated
Total:		\$31,681,055		

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 are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities benchmark quoted prices.

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 Government Portfolio carried a credit rating of AAAM by Standard & Poor’s as of June 30, 2017. 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.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts:

General Fund:	
Allowance for uncollectible property taxes	\$134,263
Allowance for revolving loans	97,609
Allowance for uncollectible charges	6,700
Water Fund:	
Allowance for uncollectible charges	18,700
Electric Fund:	
Allowance for uncollectible charges	86,500
Wastewater Fund:	
Allowance for uncollectible charges	8,200
Cable Fund	
Allowance for uncollectible charges	<u>14,000</u>
Total	<u>\$365,972</u>

4. Capital assets

Capital asset activity for the year ended June 30, 2017 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	761,704	735,699		1,497,403
Capital assets being depreciated:				
Buildings	23,438,665	176,296	36,072	23,578,889
Equipment	24,120,446	2,076,299	1,668,761	24,527,984
Infrastructure	44,242,622	163,855		44,406,477
Total capital assets being depreciated	<u>91,801,733</u>	<u>2,416,450</u>	<u>1,704,833</u>	<u>92,513,350</u>
Less accumulated depreciation for:				
Buildings	18,404,950	597,193	36,072	18,966,071
Equipment	16,101,611	1,699,943	1,668,761	16,132,793
Infrastructure	37,015,389	1,098,134		38,113,523
Total accumulated depreciation	<u>71,521,950</u>	<u>3,395,270</u>	<u>1,704,833</u>	<u>73,212,387</u>
Total capital assets being depreciated, net	<u>20,279,783</u>	<u>(978,820)</u>		<u>19,300,963</u>
Governmental activity Capital assets, net	<u>\$33,811,953</u>	<u>(\$243,121)</u>		<u>\$33,568,832</u>

Internal Service Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$33,317			\$33,317
Capital assets being depreciated:				
Buildings	711,419			711,419
Equipment	1,182,218	55,597	10,545	1,227,270
Total capital assets being depreciated	1,893,637	55,597	10,545	1,938,689
Less accumulated depreciation for:				
Buildings	571,024	16,265		587,289
Equipment	777,463	93,207	10,545	860,125
Total accumulated depreciation	1,348,487	109,472	10,545	1,447,414
Total capital assets being depreciated, net	545,150	(53,875)		491,275
Internal service fund capital assets, net	\$578,467	(\$53,875)		\$524,592

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

General Government	\$ 392,283
Public Safety	588,499
Transportation	1,323,940
Environmental Protection	220,728
Culture and Recreational	869,820
Internal Service	109,472
Total depreciation expense	<u>\$3,504,742</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	21,086,187	1,988,622		23,074,809
Equipment	4,490,638	271,728	159,933	4,602,433
Total capital assets being depreciated	35,683,191	2,260,350	159,933	37,783,608
Less accumulated depreciation for:				
Buildings	6,696,938	193,451		6,890,389
Plant and System	9,858,432	679,819		10,538,251
Equipment	2,612,297	272,820	159,933	2,725,184
Total accumulated depreciation	19,167,667	1,146,090	159,933	20,153,824
Total capital assets being depreciated, net	16,515,524	1,114,260		17,629,784
Water fund capital assets, net	\$17,788,338	\$1,114,260	\$360,797	\$18,541,801

Wastewater Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$14,067,068			\$14,067,068
Construction in Progress	233,554	439,549		673,103
Capital assets being depreciated:				
Buildings	3,928,538			3,928,538
Plant and System	21,227,679	591,155		21,818,834
Equipment	17,872,396		374,940	17,497,456
Total capital assets being depreciated	43,028,613	591,155	374,940	43,244,828
Less accumulated depreciation for:				
Buildings	3,047,026	60,493		3,107,519
Plant and System	12,569,712	505,409		13,075,121
Equipment	4,740,306	764,441	374,940	5,129,807
Total accumulated depreciation	20,357,044	1,330,343	374,940	21,312,447
Total capital assets being depreciated, net	22,671,569	(739,188)		21,932,381
Wastewater fund capital assets, net	\$36,972,191	(\$299,639)		\$36,672,552

Electric Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$55,950			\$55,950
Capital assets being depreciated:				
Buildings	2,677,695			2,677,695
Plant and System	15,898,529	590,969		16,489,498
Equipment	4,852,913	375,132		5,228,045
Total capital assets being depreciated	23,429,137	966,101		24,395,238
Less accumulated depreciation for:				
Buildings	1,902,195	65,923		1,968,118
Plant and System	8,898,933	452,905		9,351,838
Equipment	3,046,555	300,401		3,346,956
Total accumulated depreciation	13,847,683	819,229		14,666,912
Total capital assets being depreciated, net	9,581,454	146,872		9,728,326
Electric fund capital assets, net	\$9,637,404	\$146,872		\$9,784,276

Cable Fund:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$5,586			\$5,586
Capital assets being depreciated:				
Buildings	945,700		44,401	901,299
Plant and System	12,608,595	237,734		12,846,329
Equipment	995,881	31,531	92,829	934,583
Total capital assets being depreciated	14,550,176	269,265		14,682,211
Less accumulated depreciation for:				
Buildings	493,367	25,691	44,401	474,657
Plant and System	9,209,614	254,871		9,464,485
Equipment	778,758	44,882	92,829	730,811
Total accumulated depreciation	10,481,739	325,444		10,669,953
Total capital assets being depreciated, net	4,068,437	(56,179)		4,012,258
Cable fund capital assets, net	\$4,074,023	(\$56,179)		\$4,017,844

Construction commitments

The City has active construction projects as of June 30, 2017. At year-end, the City's commitments with contractors are as follows:

General Fund - Community House

Vendor	Contract Price	Paid to date	Remaining
Glazer Architecture	\$52,750	\$35,290	\$17,460
WC Construction	1,137,213	313,355	823,858
	1,189,963	348,645	841,318

Wastewater Fund - Plant Improvements

Vendor	Contract Price	Paid to date	Remaining
Freese & Nichols	\$568,200	\$51,933	\$516,267
Haren Construction	8,527,000		8,527,000
	9,095,200	51,933	9,043,267

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending 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	12,999		176,750
Total capital assets being depreciated	392,884	12,999		405,883
Less accumulated depreciation for:				
Buildings	77,980			77,980
Improvements	151,153			151,153
Equipment	149,345	8,783		158,128
Total accumulated depreciation	378,478	8,783		387,261
Total capital assets being depreciated, net	14,406	4,216		18,622
ABC Board capital assets, net	\$25,406	\$4,216		\$29,622

B. Liabilities

1. Pension plan and Postemployment Obligations

a. 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, or at www.osc.nc.gov.

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, 2017, was 8.14% of compensation for law enforcement officers and 7.25% 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 \$842,339 for the year ended June 30, 2017.

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, 2017, the City reported a liability of \$4,235,543 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability 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, 2016, the City's proportion was 0.19957%, which was a decrease of 0.00243% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$1,118,019. At June 30, 2017, 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
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$79,579	\$148,418
Changes in assumptions	290,097	
Net difference between projected and actual earnings on pension plan investments	2,341,723	
Changes in proportion and differences between City contributions and proportionate share of contributions	21,281	85,796
City contributions subsequent to the measurement date	<u>842,339</u>	
Total	<u>\$3,575,019</u>	<u>\$234,214</u>

\$842,339 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. 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:	
2018	\$375,013
2019	375,228
2020	1,088,613
2021	659,612
Thereafter	

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 liability 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)	\$10,052,922	\$4,235,543	(\$623,562)

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.

b. Law Enforcement Officers Special Separation Allowance

1. 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 under the age of 62 who have completed five or more years of creditable service. 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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	
Inactive Members Currently Receiving Benefits	14
Active Members	<u>59</u>
Total	<u>73</u>

2. 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 73.

3. Actuarial Assumptions

The entry age actuarial cost method was used in December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions - The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The City paid \$189,343 as benefits came due for the reporting period.

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

At June 30, 2017, the City reported a total pension liability of \$2,543,747. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$167,177.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		
Changes of assumptions		\$47,160
City benefit payments and plan administrative expense made subsequent to the measurement date	<u>\$99,677</u>	
Total	<u><u>\$99,677</u></u>	<u><u>\$47,160</u></u>

\$99,677 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$10,077
2019	10,077
2020	10,077
2021	10,077
2022	6,852
Thereafter	

\$99,399 paid as benefits came due and \$278 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the City's total pension liability to changes in the discount rate - The following presents the City's total pension liability calculated using the discount rate of 3.86 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.86 percent) or one percentage point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$2,747,982	\$2,543,747	\$2,358,272

Schedule of Changes in Total Pension Liability
Law Enforcement Officers Special Separation Allowance

Total Pension Liability as of December 31, 2015	\$2,613,350
Changes for the year:	
Service Cost at End of year	87,059
Interest	89,917
Change of assumptions and other inputs	(57,236)
Benefit payments	<u>(189,343)</u>
Net changes	<u>(\$69,603)</u>
Total Pension Liability as of December 31, 2016	<u>\$2,543,747</u>

The plan currently uses mortality tables that vary by age, 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. 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. The law enforcement officers may also make voluntary contributions to the plan.

The City made contributions of \$129,301 for the reporting year. No amounts were forfeited.

d. Other Post-Employment Benefit

Plan Description - 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%

Funding Policy - The City's contribution will cease when the retiree reaches age 65. Employees pay varying amounts depending on the plan they choose as the cost of their coverage. Retirees pay according to the scale listed above. Employees and retirees have the option of purchasing dependent coverage. Coverage for all retirees ceases when they are eligible for Medicare. The City has chosen to fund healthcare benefits on a pay as you go basis. A separate report was not issued for the plan.

The current annual required contribution (ARC) rate is 10.9% of annual covered payroll. For the current year, the City contributed \$762,150, or 6.68% of annual covered payroll. The City participated in the State Health Plan for active employees and provides private insurance for its covered retirees. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers

Represented 5.6% and 1.8% of covered payroll, respectively. The City's obligation to contribute to HCB Plan is established and may be amended by the City Council.

Summary of Significant Accounting Policies – Postemployment expenditures are made from the funds in which the retiree worked, 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 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	\$1,240,202
Interest on net OPEB obligation	115,046
Adjustment to annual required contribution	<u>109,904</u>
Annual OPEB cost (expense)	\$1,245,342
Contributions made for year ended 6/30/17	<u>762,150</u>
Increase (decrease) in net OPEB obligation	\$ 483,192
Net OPEB obligation, beginning of year	<u>2,876,155</u>
Net OPEB obligation, end of year	<u>\$3,359,347</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, 2017 were as follows:

<u>For Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2015	1,021,952	73.1%	\$2,389,314
2016	1,181,683	58.8%	\$2,876,155
2017	1,245,342	61.2%	\$3,359,347

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.

3. Deferred Outflows and Inflows of Resources

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

Contributions and other pension plan deferrals in current year	<u>\$3,674,696</u>
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Deferred inflows of resources at year-end is comprised of the following:

Pension deferrals	\$281,374
Prepaid taxes	<u>4,501</u>
Total	<u>\$285,875</u>

4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City 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 liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess stop loss 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.

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. To mitigate the risk of flood, the City 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.

5. 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.

6. Long-Term Obligations

a. 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, 2017, including \$144,375 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	222,647	45,937
2019	222,647	37,188
2020	222,647	28,438
2021	222,647	19,688
2022	222,647	10,938
2023	<u>111,322</u>	<u>2,186</u>
Total	<u>\$1,224,557</u>	<u>\$144,375</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, 2017, including \$14,857 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	139,000	9,905
2019	<u>139,000</u>	<u>4,952</u>
Total	<u>\$278,000</u>	<u>\$14,857</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, 2017, including \$509 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$52,726	\$509

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, 2017, including \$19,682 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	114,388	8,132
2019	116,503	6,017
2020	118,656	3,864
2021	<u>120,850</u>	<u>1,669</u>
Total	<u>\$470,397</u>	<u>\$19,682</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, 2017, including \$1,480 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$139,825	\$1,480

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, 2017, including \$3,710 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	65,153	2,589
2019	66,620	1,121
Total	<u>\$131,773</u>	<u>\$3,710</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, 2017, including \$22,962 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	266,332	11,970
2019	270,625	7,677
2020	274,988	3,315
Total	<u>\$811,945</u>	<u>\$22,962</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, 2017, including \$2,240 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	188,926	2,090
2019	47,604	150
Total	<u>\$236,530</u>	<u>\$2,240</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, 2017, including \$896 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	75,570	836
2019	19,042	60
Total	<u>\$94,612</u>	<u>\$896</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, 2017, including \$8,358 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	47,919	3,538
2019	48,870	2,587
2020	49,839	1,617
2021	50,838	616
Total	<u>\$197,466</u>	<u>\$8,358</u>

In October 2016, the City entered into an installment purchase contract to finance a garbage truck and a sweeper. \$436,855 was borrowed for 4 years at an interest rate of 1.352%.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$14,189 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	120,589	8,280
2019	125,226	3,643
2020	126,928	1,941
2021	64,112	325
Total	<u>\$436,855</u>	<u>\$14,189</u>

In January 2017, the City entered into an installment purchase contract to finance the renovation of the Community House. \$1,290,000 was borrowed for 15 years at an interest rate of 3.23%.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$322,757 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	86,000	41,088
2019	86,000	38,889
2020	86,000	36,111
2021	86,000	33,334
2022	86,000	30,556
2023 - 2032	860,000	152,779
Total	<u>\$1,290,000</u>	<u>\$332,757</u>

In February 2017, the City entered into an installment purchase contract to finance Public Safety cars and a fire truck. \$818,500 was borrowed for 5 years at an interest rate of 2.14%.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$49,519 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	154,676	18,929
2019	160,682	12,922
2020	164,148	9,456
2021	167,689	5,915
2022	<u>171,305</u>	<u>2,297</u>
Total	<u>\$818,500</u>	<u>\$49,519</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, 2017, including \$1,118 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Electric Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	11,000	746
2019	<u>11,000</u>	<u>372</u>
Total	<u>\$22,000</u>	<u>\$1,118</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, 2017, including \$53,529 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	170,000	17,761
2019	170,000	14,225
2020	170,000	10,689
2021	170,000	7,153
2022	170,000	3,617
2023	<u>3,916</u>	<u>84</u>
Total	<u>\$853,916</u>	<u>\$53,529</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, 2017, including \$601 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$98,471	\$601

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, 2017, including \$3,235 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Cable Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	136,468	2,692
2019	69,039	543
Total	<u>\$205,507</u>	<u>\$3,235</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, 2017, including \$331 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Cable Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$23,015	\$331

In October 2016, the City entered into an installment purchase contract to finance two electric department trucks. \$348,428 was borrowed for 4 years at an interest rate of 1.352%.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$11,317 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Electric Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	96,181	6,604
2019	99,879	2,905
2020	101,237	1,548
2021	51,131	260
Total	<u>\$348,428</u>	<u>\$11,317</u>

In June 2017, the City entered into an installment purchase contract to finance sewer plant upgrades. \$9,716,370 was borrowed for 10 years at an interest rate of 2.45%.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$1,356,770 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Wastewater Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	869,263	238,051
2019	890,560	216,754
2020	912,379	194,935
2021	934,732	172,582
2022	957,633	149,681
2023 - 2027	5,151,803	384,767
Total	<u>\$9,716,370</u>	<u>\$1,356,770</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, 2017, including \$1,563,828 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Wastewater Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2018	574,937	183,980
2019	574,937	172,481
2020	574,937	160,982
2021	574,937	149,484
2022	574,937	137,985
2023-2033	6,324,304	758,916
Total	<u>\$9,198,989</u>	<u>\$1,563,828</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. \$1,246,115 was borrowed for 20 years at an interest rate of 0%.

Annual debt service payments of the installment purchase as of June 30, 2017, are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>
	<u>Principal</u>
2018	62,306
2019	62,306
2020	62,306
2021	62,306
2022	62,306
2021-2033	<u>934,585</u>
Total	<u>\$1,246,115</u>

Debt Margin

At June 30, 2016, the City of Morganton had a legal debt margin of \$114,965,195 (unaudited).

b. Changes in long-term liabilities

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>30-Jun-16</u>	<u>Increases</u>	<u>Decreases</u>	<u>30-Jun-17</u>	<u>Portion of</u>
					<u>Balance</u>
Governmental activities:					
Installment purchase	\$5,027,383	\$2,545,355	\$1,389,552	\$6,183,186	\$1,673,751
Compensated absences	768,137	370,398	356,354	782,181	297,233
Other postemployment benefits	2,070,832	347,898		2,418,730	
Net pension liability (LGERS)	652,855	2,396,737		3,049,592	
Total pension liability (LEO)		2,543,747		2,543,747	
Net pension obligation	89,530		89,530		
Governmental activities long-term liabilities	<u>8,608,737</u>	<u>8,204,135</u>	<u>1,835,436</u>	<u>14,977,436</u>	<u>1,970,984</u>

	Balance <u>30-Jun-16</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>30-Jun-17</u>	Current Portion of <u>Balance</u>
Business-type activities:					
Installment purchase	1,793,828	10,064,798	590,919	11,267,707	1,404,398
Clean water revolving loan	9,773,925		574,936	9,198,989	574,937
Drinking water revolving loan		1,246,115		1,246,115	62,306
Net pension liability (LGERS)	253,887	932,064		1,185,951	
Other postemployment benefits	805,323	135,294		940,617	
Compensated absences	289,069	147,372	165,252	271,189	108,476
<hr/>					
Business-type activities long-term liabilities	\$12,916,032	\$12,192,346	\$1,331,107	\$24,110,568	\$2,150,117

c. Interfund Balances and Activity

Balances due to/due from other funds at June 30, 2017, consist of the following:

	<u>Receivables</u>	<u>Payables</u>
Water fund - due from Cable Fund	\$2,941,027	
Cable fund – due to Water fund		\$2,941,027
Total interfund receivables and payables	<u>\$2,941,027</u>	<u>\$2,941,027</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, 2017 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, 2017 is as follows:

	Transfers From	Transfers To
General Fund :		
From Electric Fund	\$688,353	
From Economic Development Fund	228,893	
	<u>917,246</u>	
Capital Projects Fund:		
To Economic Development Fund		\$232,500
Economic Development Fund:		
From Capital Projects Fund	232,500	
To General Fund		228,893
Electric Fund :		
To General Fund		<u>688,353</u>
Grand Totals	<u>\$1,149,746</u>	<u>\$1,149,746</u>

d. 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	\$18,091,501
Less:	
Stabilization by state statute	(\$3,760,096)
Streets – Powell bill	(151,866)
Economic development	(1,192,907)
Capital projects	(1,900,012)
Canteen operations	(5,464)
Drug enforcement	(11,472)
Prepaid Insurance	(157,278)
Other	(450,000)
Working capital/fund balance policy	<u>(3,513,472)</u>
Remaining fund balance	<u>\$6,948,934</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	\$2,136,462
Water fund	56,522
Electric fund	30,192
Wastewater fund	322,600
Wastewater capital project fund	9,043,267
Cable fund	39,045
Internal Service fund	455,316
Special Revenue fund	11,940
Capital Projects fund	835,318

Subsequent Events

Subsequent events have been evaluated through October 13, 2017 which is the date the financial statements were available to be issued.

III. 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, 2017 were \$28,030,193.

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 \$17,030 to WPCOG during the fiscal year ended June 30, 2017.

IV. 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 \$46,774 to the Airport during the fiscal year ended June 30, 2017. 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, 2017. 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, 2017, the City reported revenues of \$14,337 and expenditures of \$12 for the payments made through the Fireman's Relief fund. The Firemen's supplemental fund expended \$2,830 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, 2017. 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. Summary Disclosure of Significant Contingencies

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 moneys 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 moneys.

VIII. Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$2,334,199.

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

Actuarial Valuation Date	Actuarial Value of Assets [A]	Actuarial Accrued Liability (AAL) [B]	Unfunded AAL (UAAL) [B-A]	Funded Ratio [A/B]	Covered Payroll [C]	UAAL as a Percentage of Covered Payroll [(B-A)/C]
12/31/2005	\$0	\$8,573,522	\$8,573,522	0.0%	\$9,843,896	87.1%
12/31/2007	\$0	\$10,919,744	\$10,919,744	0.0%	\$10,858,443	100.6%
12/31/2010	\$0	\$14,022,125	\$14,022,125	0.0%	\$11,160,151	125.6%
12/31/2012	\$0	\$11,915,941	\$11,915,941	0.0%	\$10,602,247	112.4%
12/31/2014	\$0	\$13,644,337	\$13,644,337	0.0%	\$11,291,375	120.8%
12/31/2015	\$0	\$15,300,174	\$15,300,174	0.0%	\$11,405,156	134.2%

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

Year Ended 30-Jun	Annual Required Contribution	Percentage Contributed
2017	\$1,245,342	61.2%
2016	\$1,181,683	58.8%
2015	\$1,021,952	73.1%

Notes to the Required Schedules:

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

Valuation date	12/31/15
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 FOUR FISCAL YEARS

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	2017	2016	2015	2014
Morganton's proportion of the net pension liability (asset) %	0.19957%	0.20200%	0.20660%	0.20140%
Morganton's proportion of the net pension liability (asset) \$	4,235,543	906,742	(1,218,415)	2,427,643
Morganton's covered-employee payroll	11,353,548	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	37.31%	8.02%	10.51%	23.29%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	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 FOUR FISCAL YEARS

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	2017	2016	2015	2014
Contractually required contribution	\$842,339	\$769,923	\$819,571	\$806,235
Contributions in relation to the contractually required contribution	842,339	769,923	819,571	806,235
Contribution deficiency (excess)	-	-	-	-
Morganton's covered-employee payroll	11,353,548	11,312,359	11,592,235	10,422,226
Contributions as a percentage of covered-employee payroll	7.42%	6.81%	7.07%	7.74%

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
LAW ENFORCEMENT OFFICERS SPECIAL SEPARATION ALLOWANCE
SCHEDULE OF TOTAL PENSION LIABILITY

	<u>2017</u>
Beginning balance	\$2,613,350
Service cost	87,059
Interest on total pension liability	89,917
Changes of benefit terms	
Differences between expected and actual experience in the measurement of the total pension liability	
Changes of assumptions or other inputs	(57,236)
Benefit payments	(189,343)
Other changes	
Ending balance of the total pension liability	<u>\$2,543,747</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
LAW ENFORCEMENT OFFICERS SPECIAL SEPARATION ALLOWANCE
SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL

	<u>2017</u>
Total pension liability	\$2,543,747
Covered payroll	2,872,388
Total pension liability as a percentage of covered payroll	88.56%

Notes to the schedules:

The City of Morganton has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

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, 2017

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total To Date	
REVENUES					
Interest earned			\$50	\$50	\$50
Miscellaneous			5,812	5,812	5,812
Restricted contributions	\$310,750	\$138,075	199,111	337,186	26,436
Total revenues	<u>310,750</u>	<u>138,075</u>	<u>204,973</u>	<u>343,048</u>	<u>32,298</u>
EXPENDITURES					
Budgetary appropriation:					
Capital outlay	<u>2,153,388</u>	<u>761,704</u>	<u>735,699</u>	<u>1,497,403</u>	<u>655,985</u>
Total expenditures	<u>2,153,388</u>	<u>761,704</u>	<u>735,699</u>	<u>1,497,403</u>	<u>655,985</u>
Excess of revenues over expenditures	<u>(1,842,638)</u>	<u>(623,629)</u>	<u>(530,726)</u>	<u>(1,154,355)</u>	<u>(688,283)</u>
OTHER FINANCING SOURCES (USES)					
Installment purchase debt issued	1,290,000		1,290,000	1,290,000	
Transfer to Capital Reserve	(232,500)		(232,500)	(232,500)	
Transfer from General Fund	453,888	453,888		453,888	
Transfer from Economic Development Func	331,250	331,250		331,250	
Total other financing sources (uses)	<u>1,842,638</u>	<u>785,138</u>	<u>1,057,500</u>	<u>1,842,638</u>	
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>\$161,509</u>	526,774	<u>\$688,283</u>	<u>(\$688,283)</u>
Fund balances - beginning			<u>161,509</u>		
Fund balances - ending			<u>\$688,283</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest earned			\$4,261	\$4,261
Total revenues			<u>4,261</u>	<u>4,261</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	228,893	228,893		
Transfers	<u>(228,893)</u>	<u>(228,893)</u>	3,607	232,500
Total other financing sources (uses)			<u>3,607</u>	<u>3,607</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	7,868	<u>\$7,868</u>
Fund balances - beginning			<u>1,185,039</u>	
Fund balances - ending			<u>\$1,192,907</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, 2017

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Years</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total To</u> <u>Date</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
REVENUES					
Restricted intergovernmental revenues - community development block grants	\$4,069,198	\$3,803,499	\$120,919	\$3,924,418	\$144,780
Program income	315,102	276,606	44,073	320,679	(5,577)
Total revenues	<u>4,384,300</u>	<u>4,080,105</u>	<u>164,992</u>	<u>4,245,097</u>	<u>139,203</u>
EXPENDITURES					
Economic and physical development					
Land acquisition	304,673	171,423		171,423	133,250
Rehabilitation	396,600	525,117		525,117	(128,517)
Construction	979,454	770,269	68,171	838,440	141,014
Administration	656,990	654,189	33,404	687,593	(30,603)
Credit counseling	32,253	32,253		32,253	
Deposit assistance	19,162	19,162		19,162	
Grant assistance	438,245	389,113	22,600	411,713	26,532
Interest expense	133,109	119,500		119,500	13,609
Small business loan	683,916	622,322	30,000	652,322	31,594
Bad debts			11,503	11,503	(11,503)
Section 108 loan repayment	380,000	375,000		375,000	5,000
Total expenditures	<u>4,024,402</u>	<u>3,678,348</u>	<u>165,678</u>	<u>3,844,026</u>	<u>180,376</u>
Excess of revenues over (under) expenditures	<u>359,898</u>	<u>401,757</u>	<u>(686)</u>	<u>401,071</u>	<u>(41,173)</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	<u>(663,057)</u>	<u>(663,057)</u>		<u>(663,057)</u>	
	<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>\$41,859</u>	<u>(\$686)</u>	<u>\$41,173</u>	<u>(\$41,173)</u>
Fund balances - beginning			<u>\$41,859</u>		
Fund balances - ending			<u>\$41,173</u>		

CITY OF MORGANTON
CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<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	\$9,605	(\$395)
Cemetery lot marker service	1,000	1,000	2,545	1,545
Total	<u>11,000</u>	<u>11,000</u>	<u>12,150</u>	<u>1,150</u>
Investment earnings - interest earned	750	750	1,403	653
Total revenues	<u>11,750</u>	<u>11,750</u>	<u>13,553</u>	<u>1,803</u>
EXPENDITURES				
Cemetery improvements	<u>11,750</u>	<u>11,750</u>		<u>11,750</u>
Excess of revenues over (under) expenditures	<u>Nil</u>	<u>Nil</u>	13,553	<u>13,553</u>
Fund balances - beginning			<u>\$204,162</u>	
Fund balances - ending			<u>\$217,715</u>	

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$12,000	\$8,376	(\$3,624)
Water rents	5,349,500	5,157,667	(191,833)
Penalties	60,000	53,226	(6,774)
Water taps	50,000	57,145	7,145
Reconnect fees	22,000	27,000	5,000
Rental income	375,000	309,273	(65,727)
Total	<u>5,868,500</u>	<u>5,612,687</u>	<u>(255,813)</u>
Nonoperating revenues (expenditures) :			
Interest on investments	17,000	35,812	18,812
Miscellaneous	5,000	33,239	28,239
Interest expenditures	(24,976)	(20,911)	4,065
Total	<u>(2,976)</u>	<u>48,140</u>	<u>51,116</u>
Total revenues	<u>5,865,524</u>	<u>5,660,827</u>	<u>(204,697)</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,076,345	
Operating expenditures		2,875,071	
Total	<u>\$4,214,215</u>	<u>\$3,951,416</u>	<u>\$262,799</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$364,467	\$364,466	1
Capital outlay	1,357,083	1,014,236	\$342,847
Total budgetary appropriations	1,721,550	1,378,702	342,848
Total expenditures	5,935,765	5,330,118	605,647
REVENUES OVER (UNDER) EXPENDITURES	(70,241)	330,709	400,950
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	70,241		(70,241)
Total other financing sources (uses)	70,241		(70,241)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$330,709	\$330,709
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$330,709
Reconciling items:			
Capital outlays		1,014,236	
Debt principal		364,466	
Depreciation		(1,146,090)	
Increase in accrued vacation pay		(3,282)	
Increase in deferred outflows of resources - pensions		221,850	
Increase in net pension liability		(266,304)	
Decrease in deferred inflows of resources - pensions		21,855	
Increase in accrued OPEB liability		(38,656)	
Bad debts		(12,939)	155,136
Change in Net Position		\$485,845	\$485,845

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, 2017

		<u>Actual</u>			
	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Years</u>	<u>Current</u> <u>Year</u>	<u>Total To</u> <u>Date</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
EXPENDITURES					
Retainage		27,500		27,500	(27,500)
Construction	2,118,089	333,298	885,317	1,218,615	899,474
Total expenditures	<u>2,118,089</u>	<u>360,798</u>	<u>885,317</u>	<u>1,246,115</u>	<u>871,974</u>
OTHER FINANCING SOURCES					
Appropriated fund balance	868,138				868,138
Loan proceeds	1,249,951	333,297	912,818	1,246,115	3,836
	<u>2,118,089</u>	<u>333,297</u>	<u>912,818</u>	<u>1,246,115</u>	<u>871,974</u>
Excess of expenditures (over) other financial uses	<u>Nil</u>	(27,501)	27,501	<u>\$0</u>	<u>\$0</u>
Fund balances - beginning			<u>(27,501)</u>		
Fund balances - ending			<u>\$0</u>		

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$2,500	\$977	(\$1,523)
Sewer rents	5,234,028	4,687,965	(546,063)
Late payment penalties	40,000	30,812	(9,188)
Sewer taps	10,000	4,000	(6,000)
Septage revenue	28,000	27,650	(350)
Sale of materials	1,000	5	(995)
Sale of sludge	6,500	1,640	(4,860)
	<u>5,322,028</u>	<u>4,753,049</u>	<u>(568,979)</u>
Nonoperating revenues (expenditures) :			
Interest earned	11,300	21,790	10,490
Miscellaneous	11,967	4,449	(7,518)
Interest expenditures	(195,479)	(203,481)	(8,002)
	<u>(172,212)</u>	<u>(177,242)</u>	<u>(5,030)</u>
Total revenues	<u>5,149,816</u>	<u>4,575,807</u>	<u>(574,009)</u>
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,185,529	
Operating expenditures		1,617,776	
		<u>2,803,305</u>	
Total wastewater treatment	<u>\$3,170,353</u>	<u>\$2,803,305</u>	<u>\$367,048</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$574,937	\$574,936	\$1
Capital outlay	835,755	591,155	244,600
Total budgetary appropriations	1,410,692	1,166,091	244,601
Total expenditures	4,581,045	3,969,396	611,649
REVENUES OVER (UNDER) EXPENDITURES	568,771	606,411	37,640
OTHER FINANCING SOURCES (USES) :			
Transfer to wastewater capital project	(600,000)		600,000
Appropriated retained earnings	31,229		(31,229)
Total other financing sources (uses)	(568,771)		568,771
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$606,411	\$606,411
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under)			
Expenditures and Other Uses			\$606,411
Reconciling items:			
Capital outlays		591,155	
Debt principal		574,936	
Depreciation		(1,330,343)	
Decrease in accrued vacation pay		2,880	
Increase in deferred outflows of resources - pensions		221,850	
Increase in net pension liability		(266,304)	
Decrease in deferred inflows of resources - pensions		21,855	
Increase in accrued OPEB liability		(38,656)	
Bad debts		(1,595)	(224,222)
Change in Net Position			\$382,189

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, 2017

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total To Date	
EXPENDITURES					
Construction	<u>\$11,353,986</u>	<u>\$233,554</u>	<u>\$439,549</u>	<u>\$673,103</u>	<u>10,680,883</u>
OTHER FINANCING SOURCES					
Appropriated retained earnings	387,616				(387,616)
Transfer from wastewater	600,000				(600,000)
Installment purchase debt issued	<u>10,366,370</u>		<u>9,716,370</u>	<u>\$9,716,370</u>	<u>(650,000)</u>
Total	<u>11,353,986</u>		<u>9,716,370</u>	<u>9,716,370</u>	<u>(1,637,616)</u>
Excess of expenditures (over) other financial uses	<u>Nil</u>	<u>(233,554)</u>	9,276,821	<u>9,043,267</u>	<u>\$9,043,267</u>
Fund balances - beginning			<u>(233,554)</u>		
Fund balances - ending			<u>\$9,043,267</u>		

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$35,000	\$58,554	\$23,554
Sale of power	32,317,000	31,816,417	(500,583)
Late payment penalties	280,000	232,497	(47,503)
Security light rental	500,000	530,239	30,239
Street lighting	74,000	74,000	
Reconnection fees	48,000	49,875	1,875
Pole rental	13,000	6,242	(6,758)
	<u>33,267,000</u>	<u>32,767,824</u>	<u>(499,176)</u>
Total			
Nonoperating revenues (expenditures) :			
Interest expenditures	(1,727)	(3,626)	(1,899)
Interest earned	14,500	29,689	15,189
Miscellaneous	9,500	18,542	9,042
	<u>22,273</u>	<u>44,605</u>	<u>22,332</u>
Total			
Total revenues	<u>33,289,273</u>	<u>32,812,429</u>	<u>(476,844)</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,351,686	
Operating expenditures		1,850,856	
Purchases of power		28,030,193	
		<u>31,232,735</u>	
Total	<u>\$32,123,450</u>	<u>\$31,232,735</u>	<u>\$890,715</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$69,670	\$69,670	
Capital Outlay	800,514	966,101	(\$165,587)
	870,184	1,035,771	(165,587)
Total budgetary appropriations			
Total expenditures	32,993,634	32,268,506	725,128
REVENUES OVER (UNDER) EXPENDITURES	295,639	543,923	248,284
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	42,589		(42,589)
Installment purchase debt issued	350,125	348,428	(1,697)
Transfer to general fund	(688,353)	(688,353)	
	(295,639)	(339,925)	(44,286)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$203,998	\$203,998
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$203,998
Reconciling items:			
Capital outlays		966,101	
Debt principal		69,670	
Depreciation		(819,229)	
Installment purchase debt issued		(348,428)	
Decrease in accrued vacation pay		7,970	
Increase in deferred outflows of resources - pensions		249,581	
Increase in net pension liability		(299,592)	
Decrease in deferred inflows of resources - pensions		24,586	
Increase in accrued OPEB liability		(43,487)	
Bad debts		(60,091)	(252,919)
Change in Net Position		(60,091)	(\$48,921)

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$15,000	\$19,774	\$4,774
Studio revenues	1,200	1,200	
Telephone revenues	350,000	348,874	(1,126)
Internet revenues	1,370,000	1,466,403	96,403
Cable rents	<u>2,636,000</u>	<u>2,508,939</u>	<u>(127,061)</u>
Total	<u>4,372,200</u>	<u>4,345,190</u>	<u>(27,010)</u>
Nonoperating revenues (expenditures) :			
Penalties	60,000	55,627	(4,373)
Reconnect fees	18,000	22,590	4,590
Ad sales	67,000	68,350	1,350
Bad check charges	2,000	1,620	(380)
Miscellaneous revenue	15,800	16,294	494
Interest expenditures	<u>(5,724)</u>	<u>(4,521)</u>	<u>1,203</u>
Total	<u>157,076</u>	<u>159,960</u>	<u>2,884</u>
Total revenues	<u>4,529,276</u>	<u>4,505,150</u>	<u>(24,126)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		471,989	
Operating expenditures		<u>3,528,689</u>	
Total cable operations and maintenance	<u>\$4,222,038</u>	<u>\$4,000,678</u>	<u>\$221,360</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$156,784	\$156,783	\$1
Capital outlay	153,200	269,265	(\$116,065)
Total budgetary appropriations	<u>309,984</u>	<u>426,048</u>	<u>(116,064)</u>
Total expenditures	<u>4,532,022</u>	<u>4,426,726</u>	<u>105,296</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,746)</u>	<u>78,424</u>	<u>81,170</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	<u>2,746</u>		<u>(2,746)</u>
Total other financing sources (uses)	<u>2,746</u>		<u>(2,746)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$78,424</u>	<u>\$78,424</u>
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$78,424
Reconciling items:			
Capital outlays		269,265	
Debt principal		156,783	
Depreciation		(325,444)	
Decrease in accrued vacation pay		10,312	
Increase in deferred outflows of resources - pensions		83,194	
Increase in net pension liability		(99,864)	
Decrease in deferred inflows of resources - pensions		8,195	
Increase in accrued OPEB liability		(14,495)	
Bad debts		<u>(31,804)</u>	<u>56,142</u>
Change in Net Position			<u>\$134,566</u>

CITY OF MORGANTON
IRMS, WAREHOUSE AND GARAGE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
FINANCIAL PLAN AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Financial Plan	Actual	Variance
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	\$532,165	\$532,165	
Electric Fund	82,231	82,231	
Water Fund	42,680	42,680	
Wastewater Fund	39,883	39,883	
Cable Fund	101,972	101,972	
Internal Service Fund	26,134	26,134	
Total	825,065	825,065	
Warehouse :			
General Fund sales	30,000	19,256	(\$10,744)
Electric Fund sales	225,000	225,260	260
Water Fund sales	65,000	64,259	(741)
Wastewater Fund sales	2,000	837	(1,163)
Cable Fund sales	30,000	28,072	(1,928)
Total	352,000	337,684	(14,316)
Garage :			
General Fund sales	179,500	228,792	49,292
Electric Fund sales	20,000	24,908	4,908
Water Fund sales	23,000	23,220	220
Wastewater Fund sales	10,000	6,096	(3,904)
Cable Fund sales	22,500	13,220	(9,280)
Sale of fuel	475,000	278,637	(196,363)
Total	730,000	574,873	(155,127)
Total operating revenues	1,907,065	1,737,622	(169,443)
Nonoperating revenues :			
Other revenue	30,783		(30,783)
Sale of materials/surplus		1,216	1,216
Total revenues	\$1,937,848	\$1,738,838	(\$199,010)

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, 2017

	Financial Plan	Actual	Variance
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$368,065	
Operating expenditures		438,469	
Total IRMS	<u>\$946,430</u>	<u>806,534</u>	<u>\$139,896</u>
Warehouse :			
Salaries and employee benefits		122,600	
Operating expenditures		33,410	
Purchases of inventory		322,596	
Pro rata administrative services		(176,181)	
Total warehouse	<u>352,399</u>	<u>302,425</u>	<u>49,974</u>
Garage :			
Salaries and employee benefits		221,703	
Operating expenditures		80,084	
Purchases of inventory		255,603	
Purchases of fuel		273,278	
Pro rata administrative services		(359,391)	
Total garage	<u>682,000</u>	<u>471,277</u>	<u>210,723</u>
Budgetary appropriations :			
Capital outlay	<u>179,335</u>	<u>55,597</u>	<u>123,738</u>
Total budgetary appropriations	<u>179,335</u>	<u>55,597</u>	<u>123,738</u>
Total expenditures	<u>\$2,160,164</u>	<u>\$1,635,833</u>	<u>\$524,331</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, 2017

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(\$222,316)</u>	<u>\$103,005</u>	<u>(\$325,321)</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	<u>222,316</u>	<u> </u>	<u>222,316</u>
Total other financing sources (uses)	<u>222,316</u>	<u> </u>	<u>222,316</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$103,005)</u>	<u>\$103,005</u>
RECONCILIATION FROM FINANCIAL PLAN (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Reconciling items:			
Capital outlays		55,597	
Depreciation		(109,472)	
Increase in accrued vacation pay		(1,943)	
Increase in deferred outflows of resources - pensions		110,925	
Increase in net pension liability		(133,152)	
Decrease in deferred inflows of resources - pensions		10,927	
Increase in accrued OPEB liability		(19,327)	
Decrease in inventory		<u>(27,777)</u>	<u>(114,222)</u>
Change in Net Position			<u><u>(\$11,217)</u></u>

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2016</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017		\$9,139,021	\$9,035,550	\$103,471
2015-2016	\$69,464		36,782	32,682
2014-2015	29,806		11,298	18,508
2013-2014	26,754		5,619	21,135
2012-2013	17,999		2,631	15,368
2011-2012	10,778		495	10,283
2010-2011	9,696		146	9,550
2009-2010	9,694		125	9,569
2008-2009	9,852		153	9,699
2007-2008	7,603		134	7,469
2006-2007	8,863		8,863	
 TOTAL	 <u>\$200,509</u>	 <u>\$9,139,021</u>	 <u>\$9,101,796</u>	 <u>\$237,734</u>
Less Allowance for Doubtful Accounts				<u>134,263</u>
Net Property Tax Receivable (Exhibit 1)				<u>\$103,471</u>
 RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$9,009,716		
Less interest collected		<u>(29,913)</u>	\$ 8,979,803	
Discounts			113,059	
Releases - Prior years			170	
Amount written off for tax year 2006-2007 per statute of limitations			<u>8,764</u>	
 TOTAL COLLECTIONS AND CREDITS			 <u>\$ 9,101,796</u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2017

	<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	\$1,546,985,660	0.53	\$8,199,024	\$8,199,024	
Special district	83,470,000	0.14	116,858	116,858	
Vehicle Taxes	117,798,868	0.53	624,334		\$624,334
ADD DISCOVERIES :					
Current year	41,238,679	0.53	218,565	218,565	
Prior year	40,189	0.53	213	213	
LESS RELEASES	<u>(3,768,491)</u>		<u>(19,973)</u>	<u>(19,973)</u>	
TOTAL	<u>\$1,785,764,905</u>		<u>\$9,139,021</u>	<u>\$8,514,687</u>	<u>\$624,334</u>
LESS UNCOLLECTED TAXES AT June 30, 2017			<u>103,471</u>	<u>103,423</u>	<u>48</u>
CURRENT YEAR'S TAXES COLLECTED			<u>\$9,035,550</u>	<u>\$8,411,264</u>	<u>\$624,286</u>
PERCENT CURRENT YEAR COLLECTED			<u>98.87%</u>	<u>98.79%</u>	<u>99.99%</u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$688,353	
From Economic Development Fund	<u>228,893</u>	
	917,246	
Capital Projects Fund:		
To Economic Development Fund		\$232,500
Economic Development Fund:		
From Capital Projects Fund	232,500	
To General Fund		228,893
Electric Fund :		
To General Fund		<u>688,353</u>
Grand Totals	<u><u>\$1,149,746</u></u>	<u><u>\$1,149,746</u></u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2017

	<u>Carrying Value</u>	<u>Cost Value</u>	<u>Fair Value</u>
CASH :			
On hand	\$4,408	\$4,408	\$4,408
In time deposits - NOW, SuperNOW, money market and certificates of deposit	<u>16,073,138</u>	<u>16,073,138</u>	<u>16,073,138</u>
Total cash	<u>16,077,546</u>	<u>16,077,546</u>	<u>16,077,546</u>
INVESTMENTS :			
North Carolina Capital Management Trust	10,155,508	10,155,508	10,155,508
US Government agencies	<u>21,525,548</u>	<u>21,573,750</u>	<u>21,525,548</u>
Total investments (including cash equivalents)	<u>31,681,056</u>	<u>31,729,258</u>	<u>31,681,056</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$47,758,602</u></u>	 <u><u>\$47,806,804</u></u>	 <u><u>\$47,758,602</u></u>

CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2017

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.	91-100
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	101-104
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.	105-108
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.	109-110
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.	111-115

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)

	2008	2009	2010	2011
Governmental activities				
Invested in capital assets, net of related debt	\$40,439,879	\$39,304,208	\$37,897,550	\$36,335,474
Restricted	1,404,040	1,134,780	1,315,433	5,549,775
Unrestricted	15,287,650	13,048,121	11,272,201	4,231,094
Total governmental activities net assets	57,131,569	53,487,109	50,485,184	46,116,343
Business-type activities				
Invested in capital assets, net of related debt	48,204,805	49,218,328	50,256,119	51,016,008
Unrestricted	17,210,171	13,890,105	13,075,437	14,737,059
Total business-type activities net assets	65,414,976	63,108,433	63,331,556	65,753,067
Primary government				
Net investment in capital assets	88,644,684	88,522,536	88,153,669	87,351,482
Restricted	1,404,040	1,134,780	1,315,433	9,780,869
Unrestricted	32,497,821	26,938,226	24,347,638	18,968,153
Total primary government net assets	\$122,546,545	\$116,595,542	\$113,816,740	\$116,100,504

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$33,673,160	\$31,808,471	\$30,490,395	\$31,287,687	\$29,363,037	\$27,910,238
6,255,232	7,590,604	6,480,008	6,222,219	7,896,819	3,953,135
4,219,343	3,471,229	4,749,144	4,765,778	6,086,449	10,407,024
44,147,735	42,870,304	41,719,547	42,275,684	43,346,305	42,270,397
50,371,775	51,986,555	54,455,902	54,912,799	56,570,906	47,303,662
16,813,565	17,958,568	17,348,180	17,095,160	17,207,118	27,428,041
67,185,340	69,945,123	71,804,082	72,007,959	73,778,024	74,731,703
84,044,935	83,795,026	84,946,297	86,200,486	85,933,943	75,213,900
10,474,575	7,695,753	6,480,008	6,222,219	7,896,819	3,953,135
16,813,565	21,324,648	22,097,324	21,860,938	23,293,567	37,835,065
\$111,333,075	\$112,815,427	\$113,523,629	\$114,283,643	\$117,124,329	\$117,002,100

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

	Fiscal Year			
	2008	2009	2010	2011
Expenses				
Governmental activities:				
General government	\$2,853,101	\$3,607,537	\$3,630,766	\$3,609,198
Public Safety	7,094,187	8,483,992	7,408,112	8,020,152
Transportation	2,476,434	2,468,048	2,412,047	2,275,232
Economic and physical development	117,668	96,570	218,656	216,413
Environmental protection	1,216,620	1,307,076	1,176,135	1,210,998
Culture and recreation	4,236,367	4,655,871	4,183,063	4,765,491
Interest on long-term debt	103,428	212,829	201,570	177,894
Total governmental activities expenses	<u>18,097,805</u>	<u>20,831,923</u>	<u>19,230,349</u>	<u>20,275,378</u>
Business-type activities:				
Water	3,634,869	4,075,486	3,719,723	4,428,054
Wastewater	4,077,418	4,113,272	3,739,629	3,791,743
Electric	26,505,211	26,798,280	27,380,632	29,042,901
Cable	4,015,776	4,009,621	4,173,224	4,200,613
Community house	312,634	345,256	300,521	
Total business-type activities expenses	<u>38,545,908</u>	<u>39,341,915</u>	<u>39,313,729</u>	<u>41,463,311</u>
Total primary government expenses	<u>56,643,713</u>	<u>60,173,838</u>	<u>58,544,078</u>	<u>61,738,689</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	232,411	46,347	354,433	401,366
Public Safety	46,702	472,980	214,043	49,184
Transportation	7,656	529,095		468,136
Economic and physical development				
Environmental protection	1,062,990	1,035,070	1,024,768	1,094,518
Culture and recreation	677,243	888,946	861,029	970,297
Operating Grants and Contributions	1,100,958	286,720	724,637	425,492
Capital Grants and Contributions	258,646	12,291	323,177	934,725
Total governmental activities program rev's	<u>3,386,606</u>	<u>3,271,449</u>	<u>3,502,087</u>	<u>4,343,718</u>
Business-type activities:				
Charges for services:				
Water	4,011,287	4,662,378	4,894,472	4,643,110
Wastewater	4,138,754	4,288,210	4,274,993	4,677,572
Electric	23,422,320	23,925,934	26,192,614	29,170,119
Cable	3,496,493	3,823,539	3,973,907	4,087,798
Community house	223,929	215,865	175,332	
Operating Grants and Contributions	21,734	20,980	19,392	
Total business-type activities program rev's	<u>35,314,517</u>	<u>36,936,906</u>	<u>39,530,710</u>	<u>42,578,599</u>
Total primary government program rev's	<u>\$38,701,123</u>	<u>\$40,208,355</u>	<u>\$43,032,797</u>	<u>\$46,922,317</u>

Net (Expense)/Revenue

Governmental activities	(\$14,711,199)	(\$17,560,474)	(\$15,728,262)	(\$15,931,660)
Business-type activities	(3,231,391)	(2,405,009)	216,981	1,115,288
Total primary government net expense	<u>(17,942,590)</u>	<u>(19,965,483)</u>	<u>(15,511,281)</u>	<u>(14,816,372)</u>

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

Governmental activities:

Ad valorem taxes	7,769,020	7,862,442	7,820,692	7,708,574
Occupancy tax				
Privilege license tax				
Carbon City fire tax				
Sales tax				
Other taxes	3,353,209	2,976,369	2,641,496	3,064,831
Unrestricted intergovernmental revenues	1,936,451	1,993,844	1,713,894	1,719,297
Restricted intergovernmental revenues				24,701
Investment earnings	861,266	526,467	137,801	37,993
Other revenues	245,750	95,722	64,690	74,362
Change in reserve for prepaid insurance				
Transfers	585,795	461,170	337,467	(858,831)
Total governmental activities	<u>14,751,491</u>	<u>13,916,014</u>	<u>12,716,040</u>	<u>11,770,927</u>

Business-type activities:

Investment earnings	815,522	373,351	105,723	32,730
Other revenues	240,188	186,285	237,886	206,554
Transfers	(585,795)	(461,170)	(337,467)	858,831
Total business-type activities	<u>469,915</u>	<u>98,466</u>	<u>6,142</u>	<u>1,098,115</u>
Total primary government	<u>15,221,406</u>	<u>14,014,480</u>	<u>12,722,182</u>	<u>12,869,042</u>

Change in Net Position

Governmental activities	40,292	(3,644,460)	(3,012,222)	(4,160,733)
Business-type activities	(2,761,476)	(2,306,543)	223,123	2,213,403
Total primary government	<u>(\$2,721,184)</u>	<u>(\$5,951,003)</u>	<u>(\$2,789,099)</u>	<u>(\$1,947,330)</u>

2012	2013	2014	2015	2016	2017
\$3,982,814	\$3,912,009	\$3,440,468	\$1,849,269	\$3,343,228	\$3,222,746
7,331,704	7,416,835	7,660,604	7,852,782	6,651,717	7,582,613
2,396,894	2,277,238	2,576,293	2,312,432	2,730,653	2,497,040
200,710	119,035	136,785	141,751	285,783	165,678
1,105,025	1,155,375	1,047,375	1,097,467	1,046,082	1,209,929
4,680,010	4,724,850	4,811,792	5,455,971	5,186,423	4,992,109
132,767	127,653	122,825	124,446	138,427	119,363
19,829,924	19,732,995	19,796,142	18,834,118	19,382,313	19,789,478
4,626,908	4,803,191	4,949,707	5,070,715	5,029,465	5,195,893
3,465,124	3,723,556	4,091,744	4,280,212	4,425,170	4,397,099
30,455,928	32,061,280	33,682,364	34,719,580	32,438,473	32,176,623
4,201,231	4,433,307	4,472,432	4,347,245	4,417,630	4,375,105
42,749,191	45,021,334	47,196,247	48,417,752	46,310,738	46,144,720
62,579,115	64,754,329	66,992,389	67,251,870	65,693,051	65,934,198
474,238	561,709	624,519	817,679	532,812	568,422
38,273	33,898	38,499	49,396	61,180	
		7,557	3,240	1,120	
		125,549	155,545		
1,085,405	1,211,551	1,189,156	1,183,901	1,188,228	1,210,766
988,922	1,032,610	1,101,543	1,075,183	1,058,685	1,139,879
797,030	716,426	843,004	720,271	1,455,215	1,550,179
775,628	863,938		945,182	129,196	159,558
4,159,496	4,420,132	3,929,827	4,950,397	4,426,436	4,628,804
4,854,787	5,020,919	5,480,781	5,629,436	5,776,164	5,612,687
4,891,791	4,988,894	5,045,826	4,980,346	5,309,234	4,753,049
30,854,838	32,808,535	34,537,320	34,615,760	33,452,210	32,767,824
4,115,024	4,259,270	4,128,586	4,147,511	4,239,367	4,345,190
44,716,440	47,077,618	49,192,513	49,373,053	48,776,975	47,478,750
\$48,875,936	\$51,497,750	\$53,122,340	\$54,323,450	\$53,203,411	\$52,107,554

(\$15,670,428)	(\$15,312,863)	(\$15,866,315)	(\$13,883,721)	(\$14,955,877)	(\$15,160,674)
1,967,249	2,056,284	1,996,266	955,301	2,466,237	1,334,030
(13,703,179)	(13,256,579)	(13,870,049)	(12,928,420)	(12,489,640)	(13,826,644)

7,623,645	7,944,516	8,746,988	9,021,003	9,088,863	9,045,679
			79,879	91,224	110,727
			190,977	48	
			9,164	9,259	9,579
			3,275,403	3,522,743	3,839,698
3,517,569	3,460,242	3,339,080			
1,751,859	1,737,882	1,796,345	2,064,379	2,527,391	2,540,423
21,939	32,542	20,640	32,694	77,325	107,644
	64,550	130,903	291,330	194,633	76,862
				(152,416)	
786,808	795,700	681,602	642,442	667,428	688,353
13,701,820	14,035,432	14,715,558	15,607,271	16,026,498	16,418,965

31,769	46,163	34,987	37,703	92,821	87,291
220,063	215,785	509,308	307,310	228,450	220,711
(786,808)	(795,700)	(681,602)	(642,442)	(667,428)	(688,353)
(534,976)	(533,752)	(137,307)	(297,429)	(346,157)	(380,351)
13,166,844	13,501,680	14,578,251	15,309,842	15,680,341	16,038,614

(1,968,608)	(1,277,431)	(1,150,757)	1,723,550	1,070,621	1,258,291
1,432,273	1,522,532	1,858,959	657,872	2,120,080	953,679
(\$536,335)	\$245,101	\$708,202	\$2,381,422	\$3,190,701	\$2,211,970

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

	2008	2009	2010	2011*	2012
General Fund					
Reserved	\$4,465,357	\$2,894,718	\$1,872,310		
Unreserved	7,321,962	7,062,954	7,115,736		
Nonspendable					
Restricted				\$2,104,203	\$1,965,729
Committed				3,066,228	3,953,714
Unassigned				5,203,732	5,096,368
	11,787,319	9,957,672	8,988,046	10,374,163	11,015,811
Total general fund					
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	3,998,142	3,682,671	3,417,360		
Restricted				379,344	335,789
Committed					
Unassigned				3,163	13,580
Total all other governmental funds	\$3,998,142	\$3,682,671	\$3,417,360	\$382,507	\$349,369

Notes:

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

2013	2014	2015	2016	2017
			\$152,416	\$157,278
\$2,610,137	\$1,895,424	\$1,844,844	2,975,342	3,911,962
4,725,743	4,287,109	4,107,784	3,431,035	3,559,855
4,702,828	5,951,951	6,918,323	8,839,922	10,462,406
12,038,708	12,134,484	12,870,951	15,398,715	18,091,501
340,959	290,480	248,802	41,859	41,173
		161,800	365,671	905,998
18,231	6,995			
\$359,190	\$297,475	\$410,602	\$407,530	\$947,171

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

	2008	2009	2010	2011
Revenues				
Ad valorem taxes	\$7,787,684	\$7,811,407	\$7,786,282	\$7,707,971
Other taxes and licenses	3,353,209	2,984,770	2,649,525	3,064,831
Unrestricted intergovernmental revenues	1,936,451	1,996,276	1,851,812	1,863,644
Restricted intergovernmental revenues	1,304,340	993,723	1,164,160	1,708,071
Other restricted revenues	163,289	15,408	58,557	128,474
Permits and fees	176,939	235,419	168,853	219,976
Sales and services	1,850,063	2,045,014	1,964,570	2,167,551
Investment earnings	861,266	526,467	137,801	37,993
Other revenues	137,725	212,665	64,690	74,362
Total revenues	17,570,966	16,821,149	15,846,250	16,972,873
Expenditures				
General government	5,741,643	3,922,209	3,266,881	3,126,601
Public safety	7,032,648	8,477,428	6,693,223	7,221,357
Transportation	1,601,674	1,243,638	1,160,742	1,183,133
Environmental protection	1,344,758	1,208,846	1,005,097	1,044,297
Cultural and recreational	3,935,811	6,102,022	4,171,791	3,917,534
Economic and physical development	117,668	96,570	233,656	216,413
Debt service				
Principal	452,798	499,283	672,392	693,644
Interest	89,346	147,452	214,872	180,022
Total expenditures	20,316,346	21,697,448	17,418,654	17,583,001
Other Financing Sources (Uses)				
Installment purchase issued	3,593,660	2,320,000		196,540
Transfers in	1,141,940	1,015,561	749,167	724,676
Transfers out	(556,145)	(554,391)	(411,700)	(1,583,507)
Total other financing sources (uses)	4,179,455	2,781,170	337,467	(662,291)
Net change in fund balances	\$1,434,075	(\$2,095,129)	(\$1,234,937)	(\$1,272,419)
Debt service as a percentage of noncapital expenditures	3.53%	3.73%	5.37%	5.23%

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$7,630,208	\$7,936,870	\$8,732,981	\$9,054,942	\$9,105,965	\$9,009,716
3,517,569	3,460,242	3,339,080	3,555,423	3,623,274	3,960,004
1,891,276	1,957,471	2,045,038	2,487,639	2,538,025	2,551,652
1,528,865	1,539,846	914,592	848,220	1,413,916	863,730
34,098	17,894	29,808	141,319	113,582	728,249
168,538	252,293	143,282	181,362	137,285	398,174
2,215,061	2,410,889	2,593,452	3,256,986	2,842,025	2,598,555
21,939	32,542	20,640	32,694	77,325	107,644
73,517	118,481	130,903	390,580	103,627	105,729
17,081,071	17,726,528	17,949,776	19,949,165	19,955,024	20,323,453
3,479,442	3,709,428	3,322,629	3,171,885	3,424,337	3,070,281
6,908,659	7,052,196	8,123,787	7,813,649	7,144,444	7,259,946
1,230,622	1,255,466	1,546,120	1,397,533	1,570,530	1,588,015
1,168,448	987,112	1,081,299	1,181,444	1,153,858	1,230,240
3,882,803	4,010,149	4,558,063	5,668,844	5,303,790	5,501,343
200,710	119,035	136,785	141,751	306,479	165,678
682,564	708,746	796,859	953,035	981,041	1,389,553
150,661	136,978	121,928	119,111	111,049	119,678
17,703,909	17,979,110	19,687,470	20,447,252	19,995,528	20,324,734
836,808	489,600	1,090,153	705,239	1,897,768	2,545,355
(50,000)	891,775	681,602	1,288,080	806,928	920,853
444,540	(96,075)		(645,638)	(139,500)	(232,500)
1,231,348	1,285,300	1,771,755	1,347,681	2,565,196	3,233,708
\$608,510	\$1,032,718	\$34,061	\$849,594	\$2,524,692	\$3,232,427
4.93%	4.70%	5.34%	5.24%	6.26%	8.79%

**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>
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
2016-17	1,147,677,767	518,769,207	32,210,597	1,698,657,571	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>	
	Basic Tax Rate	Special Tax District	Burke County
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
2016-17	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 2016-2017</u>			<u>Fiscal Year 2006-2007</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.	\$114,336,739	1	6.40%	\$94,131,850	1	6.44%
SGL Carbon Corp	37,537,957	2	2.10%	30,060,037	4	2.06%
ARCP MT Morganton NC LL	32,287,131	3	1.81%			
Case Farms Processing	26,828,094	4	1.50%			
Leviton Manufacturing	21,238,752	5	1.19%	16,577,954	6	1.13%
Ice River Springs Morganton	20,577,756	6	1.15%			
Viscotec	19,815,056	7	1.11%	32,790,179	3	2.24%
Caterpillar Inc	18,351,096	8	1.03%	14,190,360	7	0.97%
American Roller Bearing	15,462,781	9	0.87%			
Gerresheimer Glass Inc.	15,438,937	10	0.86%			
Grace Properties				13,661,317	8	0.93%
Fiddlers Run LLC				13,121,096	9	0.90%
HDM Furniture Industries				35,085,615	2	2.40%
VPI INC				10,714,163	10	0.73%
Sypris Technologies Inc				29,666,263	5	2.03%
Total	\$321,874,299		18.02%	\$289,998,834		19.83%

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
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%	36,782	9,103,474	99.64%
2016-17	9,139,021	9,035,550	98.87%	0	9,035,550	98.87%

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			
2007-08	0	3,831,159	8,175,000	3,383,319	0	15,389,478	3.26%	889
2008-09	0	5,691,876	6,810,000	2,856,295	0	15,358,171	3.39%	898
2009-10	0	5,019,440	5,475,000	1,493,332	0	11,987,772	2.58%	704
2010-11	0	4,522,329	4,170,000	714,560	0	9,406,889	1.98%	555
2011-12	0	4,284,305	2,895,000	2,048,835	0	9,228,140	1.88%	545
2012-13	0	4,065,159	1,572,628	2,730,646	0	8,368,433	1.65%	496
2013-14	0	4,358,453	425,000	2,888,934	10,352,110	18,024,497	3.40%	1,072
2014-15	0	4,110,656	0	2,377,767	10,348,862	16,837,285	3.16%	994
2015-16	0	5,027,383	0	1,793,828	10,107,222	16,928,433	Not Available	1,001
2016-17	0	6,183,186	0	11,267,707	10,445,104	27,895,997	Not Available	1,674

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
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
2016-17	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, 2017**

Governmental Unit	Governmental Activities Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$55,051,074	27.25%	\$15,001,418
City of Morganton	<u>6,183,186</u>	100.00%	<u>6,183,186</u>
Total direct and overlapping debt	\$61,234,260		\$21,184,604

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, 2017**

Legal Debt Margin Calculation for Fiscal Year 2016-17	
Assessed Value	\$1,785,764,905
Debt Limit 8% of Assessed Value	142,861,192
Debt Applicable to Debt Limit:	27,895,997
Legal Debt Margin	114,965,195

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
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%
2016-17	142,861,192	27,895,997	114,965,195	19.53%

**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
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	508,173,679	30,139	10.4%
2014	16,807	530,344,885	31,555	7.5%
2015	16,932	532,646,856	31,458	6.2%
2016	16,918	Not available	Not available	5.0%
2017	16,665	Not available	Not available	4.0%

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**

<u>Employer</u>	<u>Fiscal Year 2016-17</u>			<u>Fiscal Year 2006-2007</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
State of North Carolina	2,225	1	5.88%	2,500	1	5.95%
Burke County	2,200	2	5.82%	2,300	2	5.47%
Carolinas Healthcare/Blue Ridge	1,400	3	3.70%	1,709	3	4.07%
Case Farms	725	4	1.92%	740	5	1.76%
Leviton	620	5	1.64%	617	6	1.47%
City of Morganton	607	6	1.61%	464	9	1.10%
Western Piedmont College	560	7	1.48%	550	8	1.31%
Burke County	499	8	1.32%	615	7	1.46%
Continental Teves	450	9	1.19%	457	10	1.09%
Viscotec Manufacturing	250	10	0.66%	800	4	1.90%
Total	9,536		25.22%	10,752		25.58%

Sources: Burke Development Inc. and North Carolina Employment

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	62	51	51	48	48	48	48	48	48	48
Public Safety	104	100	97.58	92	91	87	87	88	91	93
Transportation/Garage	31	24	22	23	22	22	23	23	23	23
Environmental Protection	13	17	16	13	13	13	13	13	13	13
Cultural & Recreation	26.25	26.5	26.2	23.5	22.5	19.5	25.25	26.25	26.25	27
IRMS	6	6	6	5	5	5	6	6	6	6
Electric	26	25	26	24	22	22	24	24	24	24
Cable	8	8	8	8	8	8	9	9	9	9
Water	22	22	22	21	20	20	20	20	20	20
Wastewater	27	24	23	21	21	23	22	22	22	22
Total	325.25	303.5	297.78	278.5	272.5	267.5	277.25	279.25	282.25	285.00

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
Last Ten Fiscal Years**

	Fiscal Year			
	2008	2009	2010	2011
General Government				
Building Permits Issued	354	275	252	273
Building Inspections Conducted	5,774	4,085	4,022	4,958
Full-Time Employees	292	303.5	295.5	276.5
Part-Time Employees	244	210.75	292	285
Police				
Physical Arrests (18 & over)(annual)	2,127	2,219	1,728	1,569
Parking Violations	1,060	1,409	739	278
Sworn Officers	65	65	63	59
Civilian Employees	33	33	32	17
Reserve Officers	2	1	3	3
Number of Calls Responded	27,018	28,293	23,916	24,275
Number of Traffic Accidents	1,096	1,089	1,245	1,203
Fire Protection				
Fire Calls	413	401	365	346
Paid Fire Personnel	16	16	16	16
Volunteer Fire Personnel	12	15	14	12
Fire Inspections	615	791	627	632
Electric				
Customers	8,253	8,230	8,230	8,089
Public Works				
Refuse Collection (tons per day)	32	32	32	32
Recyclables Collected (tons per day)	2	2	2	2
Residential Collection Trucks	3	3	3	3
Water Treatment Facility				
Customers	12,500	8,230	12,500	12,500
Consumptions (billions)	3.173	3.225	3.184	3.031
Wastewater				
Customers	6,600	6,600	6,700	6,300
Average Daily Sewage Treatment million gallons daily (mgd)	4.42	4.4	4.76	4.79
Cable Television				
Subscribers / Customers	4,986	4,712	4,554	4,477
Basic Channels	77	78	78	78
Premium Channels	64	65	65	65

Sources: Various City Departments

2012	2013	2014	2015	2016	2017
631	1,750	1,800	299	246	350
2,077	5,200	5,250	931	4,106	4,150
272.5	271.75	271.75	276.25	273	285
319	365	365	360	329	340
1,746	1,572	1,572	1,642	2,507	2,572
273	128	128	367	494	458
58	62	62	62	70	59
16	16	16	9	10	8
6	4	4	4	2	3
25,081	23,008	23,008	30,130	40,631	42,962
1,151	1,200	1,200	1,322	1,229	1,397
441	533	533	483	2,711	1,257
17	17	17	17	17	16
12	11	11	10	9	11
632	632	640	586	895	950
8,173	8,200	8,230	8,230	8,208	8,208
32	33.49	33.49	31.37	33	33
2	1.83	1.83	1.38	1.35	1.35
3	3	3	3	3	3
12,509	10,342	12,108	10,040	10,094	10,174
3.054	2.4	2.4	2.7	2.716	2.646
6,500	6,838	7,437	6,598	6,635	6,691
4.83	5.2	5.2	4.7	4.7	4.2
4,466	4,303	3,454	3,231	3,007	2,767
78	78	78	78	78	78
65	65	65	65	65	65

**City of Morganton
Capital Asset Statistics by Function / Program
Last Ten Fiscal Years**

	Fiscal Year				
	2008	2009	2010	2011	2012
Police					
Stations	1	1	1	1	1
Patrol Units	79	79	85	85	77
Fire Protection					
Fire Stations	3	3	3	3	3
Electric					
Miles of Service	269	269	269	270	270
Public Works					
Miles of Streets	87.88	87.88	87.88	87.88	87.88
Primary Streets	86.79	86.79	86.79	86.79	86.79
Secondary Streets	1.09	1.09	1.09	1.09	1.09
Streetlights	3,408	3,415	3,420	3,420	3,420
Traffic Signals	58	58	58	58	58
Water Treatment Facility					
Plants	1	1	1	1	1
Miles of Distribution Lines	311	320	322	322	322
Fire Hydrants	1,200	1,200	1,200	1,200	1,200
Storage Capacity (millions of gallons)	8.85	8.85	9.15	9.15	9.15
Wastewater					
Plants	1	1	1	1	1
Miles of Collection Lines	198	200	200	200	200
Cable Television					
Miles of Plant	161	161	161	162	162
Parks and Recreation					
Acreage	680	680	680	680	680
Playgrounds	9	9	9	9	9
Parks	13	13	12	12	12
Baseball Fields	15	15	15	15	15
Soccer Fields	4	4	4	4	4
Community Centers	2	2	2	2	2
Aquatic Facilities	2	2	2	2	2

Sources: Various City of Morganton Departments

2013	2014	2015	2016	2017
1	1	1	1	1
77	77	79	74	64
3	3	3	3	3
270	280	280	280	260
87.88	87.88	87.88	87.88	87.88
86.79	86.79	86.79	86.79	86.79
1.09	1.09	1.09	1.09	1.09
3,420	3,420	3,420	3,420	3,420
58	58	58	58	58
1	1	1	1	1
328	328	331	331	331
1,504	1,504	1,504	1,529	1,552
8.15	8.15	8.15	9.15	9.15
1	1	1	1	1
202	202	204	205	205
165	165	165	165	165
680	680	680	680	680
9	9	9	9	9
12	12	12	12	12
15	15	15	15	14
4	4	5	5	5
2	2	2	2	2
2	2	2	2	2

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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standard

As discussed in Note VIII to the financial statements, the City adopted provisions of Governmental Accounting Standards Board (GASB) Statement Number 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective July 1, 2016. Our opinions are 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 Postemployment Benefits Schedules of Funding Progress and Employer Contributions, the Local Government Employees Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions and the Law Enforcement Officers Special Separation Allowance Schedules of Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, 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 federal and state awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements* and 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 federal and state 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 com 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 federal and state 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 13, 2017, 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.

Elliott Davis Decosimo, PLLC

Raleigh, North Carolina
October 13, 2017



**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, 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, 2017, 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 13, 2017. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 style with a large, sweeping initial 'E'.

Raleigh, North Carolina
October 13, 2017



**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; in Accordance with
OMB Uniform Guidance; and 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 Federal Program

We have audited the City of Morganton, North Carolina's (the "City") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal 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 federal programs for the year ended June 30, 2017.

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 federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Elliott Davis Decosimo, PLLC

Raleigh, North Carolina
October 13, 2017



**Independent Auditor's Report on Compliance for Each Major State Program;
Report on Internal Control over Compliance; in Accordance with
OMB Uniform Guidance; and 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, 2017. 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; and applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance 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, 2017.

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 Uniform Guidance, 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Elliott Davis Decosimo, PLLC

Raleigh, North Carolina
October 13, 2017

City of Morganton, North Carolina
Schedule of Findings and Questioned Costs
For the year ended June 30, 2017

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

Federal 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
2 CFR 200.516(a): Yes No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	DWSRF Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? 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, 2017

II. FINANCIAL STATEMENT FINDINGS

No matters were reported

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported

IV. STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported

CITY OF MORGANTON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

2016-001 – Prior Period Adjustment for Cable Fund Receivables

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.

Current Status: Corrected. Procedures were implemented to recognize revenue on the date services were rendered. No similar findings were noted in the current year.

CITY OF MORGANTON
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

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>					
CDBG Entitlement Grants Cluster					
Direct Program:					
CDBG Entitlement Grants Cluster	14.218		<u>\$151,385</u>		
<u>US Department of Justice</u>					
Passed through NC Department of Public Safety:					
Internal Affairs Module	16.738	011092	10,200		
Tactical Robot	16.738	11610	<u>24,499</u>		
Total US Department of Justice			<u>34,699</u>		
<u>US Department of Transportation</u>					
Highway Safety Cluster					
Passed through NC Department of Transportation:					
Governor's Highway Safety Program	20.600	PT-2016-06-16	25,672		25,672
<u>US Environmental Protection Agency</u>					
Drinking Water State Revolving Fund Cluster					
Passed through NC Department of Environmental Quality:					
Drinking Water State Revolving Loan	66.468	WIF1788	912,818		
Total Federal Cash Awards			<u>\$1,124,574</u>		<u>\$25,672</u>

CITY OF MORGANTON
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

	<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		<u>\$581,042</u>	
Total State Cash Awards		<u>\$581,042</u>	
Total Federal and State Awards	<u>\$1,124,574</u>		<u>\$25,672</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.

The City has elected not to use the 10% de minimus cost rate as covered in CFR 200.414.

No awards were passed through to subrecipients.