

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2018**



**City of Morganton
North Carolina**

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2018

City Council

**Ronnie M. Thompson, Mayor
Wendy Cato
Forrest Fleming
Christopher Hawkins
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

November 30, 2018

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, 2018. 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, 2018, 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 special revenue-building re-use fund, 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, CPA's, a licensed certified public accountant practice conducted the audits and concluded in an unqualified 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, 2018. 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 16,519 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 90,912 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 two master plan processes one in Downtown and the other in recreation.

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, 2017. 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**

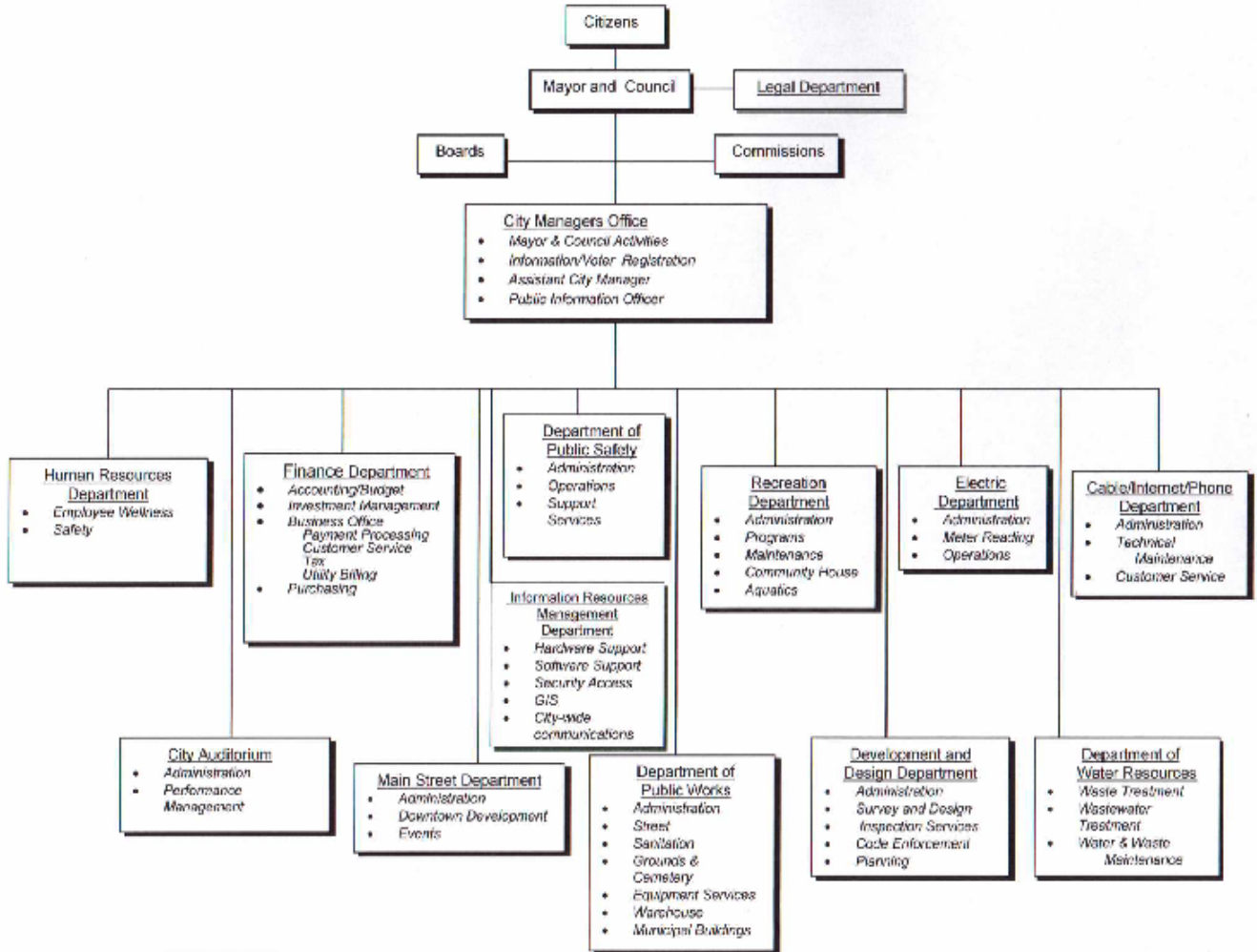
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

CITY OF MORGANTON ORGANIZATION CHART





Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina (the "City") as of and for the year ended June 30, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Cemetery Fund 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 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective July 1, 2017. 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 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, and the Schedule of Changes in the Total OPEB Liability and Related Ratios, 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 combining and individual fund financial statements, budget to actual comparisons, 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 combining and individual fund financial statements, budget to actual comparisons, 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. In our opinion, based on our audit, the procedures performed as previously described and the reports of other auditors, the combining and individual fund financial statements, budget to actual comparisons, 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 December 14, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Raleigh, North Carolina
December 14, 2018

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, 2018. 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.

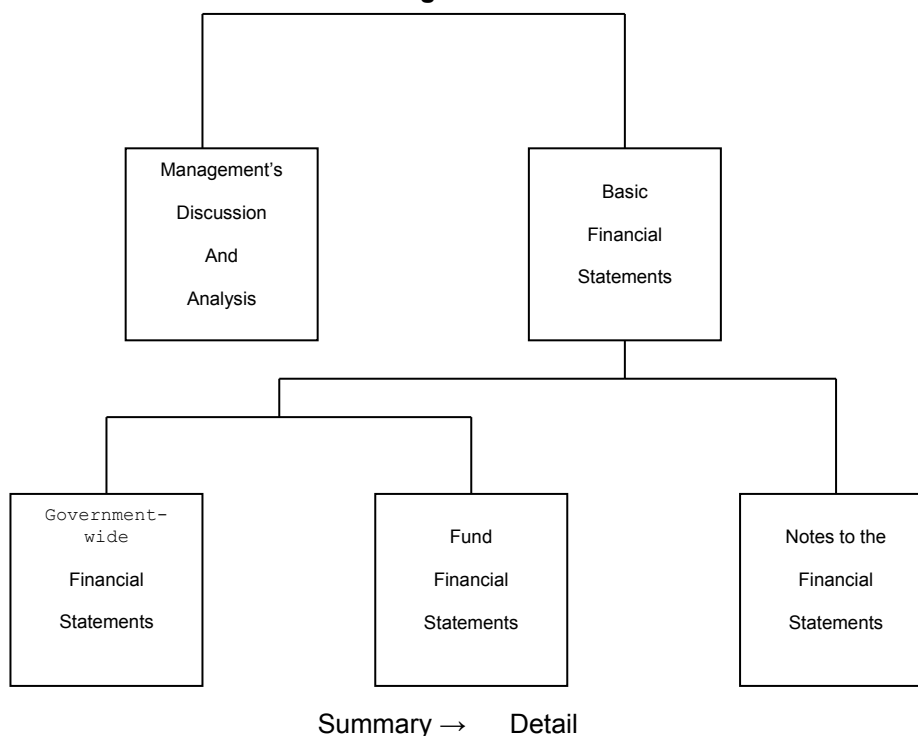
Financial Highlights

- 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 \$104,017,223.
- The government's total net position increased by \$2,434,855. Governmental activities had an increase of \$662,226 and business-type activities experienced an increase of \$1,772,629 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 \$19,002,883, a decrease of \$35,789 in comparison with the prior year. Approximately 72 percent of this amount, or \$13,797,168, 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 \$11,018,235, or 54 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt decreased by \$3,119,992 (9.7%) during the current fiscal year.
- Moody's Investors Service reviewed the City of Morganton bond ratings in 2003 at which time the City maintained its rating of A2. Standard and 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 it has 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			
	2018	2017	2018	2017	2018	2017
Current and other assets	\$21,900,373	\$21,919,203	\$30,458,562	\$33,207,399	\$52,358,935	\$55,126,602
Capital assets	33,373,320	34,093,424	72,729,087	69,016,473	106,102,407	103,109,897
Total assets	55,273,693	56,012,627	103,187,649	102,223,872	158,461,342	158,236,499
Deferred outflows of resources	2,490,478	2,673,689	820,333	1,001,007	3,310,811	3,674,696
Total assets and deferred outflows of resources	57,764,171	58,686,316	104,007,982	103,224,879	161,772,153	161,911,195
L T liabilities outstanding	22,067,837	14,977,436	24,506,737	24,110,568	46,574,574	39,088,004
Other liabilities	2,964,584	1,218,189	7,002,930	4,317,027	9,967,514	5,535,216
Total liabilities	25,032,421	16,195,625	31,509,667	28,427,595	56,542,088	44,623,220
Deferred inflows of resources	901,334	220,294	311,508	65,581	1,212,842	285,875
Total liabilities and deferred inflows of resources	25,933,755	16,415,919	31,821,175	28,493,176	57,754,930	44,909,095
Net position:						
Net investment in capital assets	28,863,885	27,910,238	52,462,517	47,303,662	81,326,402	75,213,900
Restricted	4,592,854	3,953,135			4,592,854	3,953,135
Unrestricted	(1,626,323)	10,407,024	19,724,290	27,428,041	18,097,967	37,835,065
Total net position	\$31,830,416	\$42,270,397	\$72,186,807	\$74,731,703	\$104,017,223	\$117,002,100

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 \$104,017,223 as of June 30, 2018. 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, \$4,592,854 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$18,097,967 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

The implementation of GASB statement 75 and the restatement of beginning net position negatively affected total governmental net position.

(Continued on next page)

City of Morganton's Changes in Net Position

	Governmental -type		Business- type		Total	Total
	Activities		Activities			
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>		
Revenues:						
Program revenues:						
Charges for services	\$2,938,440	\$2,919,067	\$47,994,002	\$47,478,750	\$50,932,442	\$50,397,817
Operating grants and Contributions	979,262	1,550,179			979,262	1,550,179
Capital grants and Contributions	320,312	159,558			320,312	159,558
General revenues:						
Ad valorem taxes	8,953,681	9,045,679			8,953,681	9,045,679
Occupancy tax	110,494	110,727			110,494	110,727
Carbon City fire tax	9,362	9,579			9,362	9,579
Sales tax	4,069,777	3,839,698			4,069,777	3,839,698
Unrestricted Intergovernmental	2,597,176	2,540,423			2,597,176	2,540,423
Investment earnings	219,318	107,644	147,262	87,291	366,580	194,935
Other	521,435	76,862	215,155	220,711	736,590	297,573
Total revenues	20,719,257	20,359,416	48,356,419	47,786,752	69,075,676	68,146,168
Expenses:						
General government	3,419,322	3,222,746			3,419,322	3,222,746
Public safety	7,998,165	7,582,613			7,998,165	7,582,613
Transportation	2,548,502	2,497,040			2,548,502	2,497,040
Economic and physical development	358,863	165,678			358,863	165,678
Environmental protection	1,217,912	1,209,929			1,217,912	1,209,929
Culture and recreation	5,082,336	4,992,109			5,082,336	4,992,109
Interest on long-term debt	136,483	119,363			136,483	119,363
Water			5,254,922	5,195,893	5,254,922	5,195,893
Wastewater			4,592,059	4,397,099	4,592,059	4,397,099
Electric			31,446,910	32,176,623	31,446,910	32,176,623
Cable			4,585,347	4,375,105	4,585,347	4,375,105
Total expenses	20,761,583	19,789,478	45,879,238	46,144,720	66,640,821	65,934,198
Increase (decrease) in net assets before transfers	(42,326)	569,938	2,477,181	1,642,032	2,434,855	2,211,970
Transfers	704,552	688,353	(704,552)	(688,353)		
Increase(decrease) in net assets	662,226	1,258,291	1,772,629	953,679	2,434,855	2,211,970
Net assets, July 1 as originally reported	42,270,397	43,346,305	74,731,703	73,778,024	117,002,100	117,124,329
Restatement	(11,102,207)	(2,334,199)	(4,317,525)		(15,419,732)	(2,334,199)
Net assets, July 1, as restated	31,168,190	41,012,106	70,414,178	73,778,024	101,582,368	114,790,130
Net assets, June 30	\$31,830,416	\$42,270,397	\$72,186,807	\$74,731,703	\$104,017,223	\$117,002,100

Governmental activities: Governmental activities increased the City's net position by \$662,226, 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

Business-type activities: Business-type activities increased the City of Morganton's net position by \$1,772,629.

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 reviewed annually
- 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. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Morganton itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Morganton's City Council.

At June 30, 2018, the governmental funds of the City of Morganton reported a combined fund balance of \$19,002,883 with a net decrease in fund balance of 35,789 in comparison with the prior year. Included in this change in fund balance are increases in fund balance in the General Fund, Entitlement Fund, Cemetery Fund, Building reuse Fund and the Capital Project-Connect Greenway Fund. The Capital Project Fund-Community House was closed out this fiscal year.

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 \$13,570,066, while total fund balance was \$18,333,205. 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 73.44% of general fund expenditures, while total fund balance represents 89.56% of the same amount.

The fund balance of the City of Morganton's General fund remained virtually constant with a net change in fund balance of \$241,704. An indicator of financial stability. The City continually puts forth a concerted effort to control costs and manage expenditures to minimize tax and other revenue increases.

Unlike many previous years, the City was able to pay for its General Fund capital purchases without issuing additional debt. \$1,673,751 of debt principal was retired this fiscal year.

The City continues to search out grant opportunities. A new special revenue fund, the Building Re-use fund, was established this year to enable proper accounting for State Building Reuse grant funds which provide funding to sustain economic development efforts for local businesses.

Two additional capital project funds were established this year. The greenway connector fund which will be funded through an ARC grant, is underway which will connect the City's Downtown corridor to a large park, Catawba Meadows. The other new special revenue fund, also funded by an ARC grant, will provide funds to develop a corridor off the interstate for access to hotels and restaurants.

General Fund Budgetary Highlights: During the fiscal year, there was a \$912,487 decrease 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.

A significant budgetary change was due to moving budget from the General Fund and establishing the new capital project and special revenue funds.

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 \$19,724,290, a decrease in unrestricted net position of \$7,703,751.

The largest project in the proprietary funds is reflected in the Wastewater fund. The 11 million dollar expansion/rebuild continues. It is expected to be completed in 2019.

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, 2018 totals \$106,102,407 (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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2016</u>
Land and Buildings	\$17,236,794	\$17,540,731	\$19,868,591	\$20,213,836	\$37,105,385	\$37,754,567
Plant and system			31,469,452	31,799,775	31,469,452	31,799,775
Equipment	10,945,802	8,762,336	15,891,043	16,329,759	26,836,845	25,092,095
Infrastructure Construction in Progress	5,190,724	6,292,954			5,190,724	6,292,954
		1,497,403	5,500,001	673,103	5,500,001	2,170,506
Total assets	\$33,373,320	\$34,093,424	\$72,729,087	\$69,016,473	\$106,102,407	\$103,109,897

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 substation upgrades
- Downtown master plan
- Recreation master plan
- Completion of renovations at the Community House

Long-term Debt. As of June 30, 2018, the City of Morganton had \$14,968,144 of installment debt and \$9,807,861 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Installment debt	\$4,509,435	\$6,183,186	\$10,458,709	\$11,267,707	\$14,968,144	\$17,450,893
Loans			9,807,861	10,445,104	9,807,861	10,445,104
Compensated absences	806,191	782,181	239,422	271,189	1,045,613	1,053,370
OPEB	13,683,853	2,418,730	5,321,499	940,617	19,005,352	3,359,347
Pension related debt (LGRS)	2,074,085	3,049,592	806,589	1,185,951	2,880,674	4,235,543
Pension related debt (LEO)	2,619,567	2,543,747			2,619,567	2,543,747
Total	\$23,693,131	\$14,977,436	\$26,634,080	\$24,110,568	\$50,327,211	\$39,088,004

City of Morganton's Outstanding Debt

The City of Morganton's total debt increased by \$11,239,207 (29%) during the past fiscal year, primarily due to the implementation of GASB Statement 75 which significantly increased the liability for OPEB. As indicated in the previous table the liability increased from \$3,359,347 to \$19,005,352.

As mentioned in the financial highlights section of this document, the City of Morganton continues to maintain its A2 rating from Moody's Investors Service and AA rating from Standard and Poor's. These bond ratings are a clear indication of the sound financial condition of the City of Morganton. These ratings are a primary factor in keeping interest costs low on the City's outstanding debt.

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 \$113,675,306.

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.

- Low unemployment - The Hickory-Morganton-Lenoir MSA's unemployment rate of 3.9% is lower than both the State's rate of 4.2% and the national rate of 4.0%.
- New jobs are being created within the City limits by both new and existing industry.

Budget Highlights for the Fiscal Year Ending June 30, 2019

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 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 2018-2019 represents a 19.28% decrease or \$4,705,024 less than the 2017-2018 budget. The main reason for difference is in fiscal year 2017-2018 the City received several Federal and State grants to support large projects totaling \$4,730,250.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2018-2019 business-type activities budget overall is 8.26% or \$1,366,775 lower than the 2017-2018 budget. The largest decrease is in the Electric Fund budget due to the rate reduction being passed onto the City by Electricities.

Requests for Information

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

CITY OF MORGANTON
STATEMENT OF NET POSITION

JUNE 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board
ASSETS				
Equity in Pooled Cash and Investments	\$17,147,303	\$24,390,597	\$41,537,900	\$233,145
Accrued Interest on Investments	75,335	82,935	158,270	
Ad Valorem Taxes Receivable, net	117,011		117,011	
Accrued Interest receivable on taxes	6,728		6,728	
Accounts Receivable, net	1,476,884	5,091,137	6,568,021	
Inventories	749,100		749,100	213,157
Prepaid Assets	182,761	67,582	250,343	
Equity in Pooled Cash and Investments - Restricted	2,145,251	826,311	2,971,562	
Capital Assets:				
Land	12,803,783	15,040,621	27,844,404	11,000
Other capital assets, net of depreciation	20,569,537	52,188,465	72,758,002	12,497
Construction in progress		5,500,001	5,500,001	
TOTAL ASSETS	55,273,693	103,187,649	158,461,342	469,799
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	1,812,492	615,951	2,428,443	45,250
OPEB deferrals	677,986	204,382	882,368	
	<u>2,490,478</u>	<u>820,333</u>	<u>3,310,811</u>	<u>45,250</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	1,339,290	4,049,276	5,388,566	267,902
Deposits		826,311	826,311	
Long-term liabilities:				
Portion Due Within One Year				
Installment Purchases	1,302,818	1,394,344	2,697,162	
Loans		637,243	637,243	
Compensated Absences	322,476	95,756	418,232	
Portion Due After One Year				
Installment Purchases	3,206,617	9,064,365	12,270,982	
Loans		9,170,618	9,170,618	
Compensated Absences	483,715	143,666	627,381	
Total Pension Liability (LEOSSA)	2,619,567		2,619,567	
Net Pension Liability (LGERs)	2,074,085	806,589	2,880,674	43,998
Total OPEB Liability	13,683,853	5,321,499	19,005,352	6,179
TOTAL LIABILITIES	25,032,421	31,509,667	56,542,088	318,079
DEFERRED INFLOWS OF RESOURCES				
Prepaid Taxes	22,375		22,375	
OPEB Deferrals	646,557	251,438	897,995	
Pension Deferrals	232,402	60,070	292,472	1,970
TOTAL DEFERRED INFLOWS OF RESOURCES	901,334	311,508	1,212,842	1,970
NET POSITION				
Net Investment in Capital Assets	28,863,885	52,462,517	81,326,402	23,497
Restricted for:				
Stabilization by State Statute	2,704,382		2,704,382	
Transportation	595,665		595,665	
Economic development	1,292,807		1,292,807	
Unrestricted	(1,626,323)	19,724,290	18,097,967	171,503
Total net position	\$31,830,416	\$72,186,807	\$104,017,223	\$195,000

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

CITY OF MORGANTON
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<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	\$3,419,322	\$333,057	\$21,826	
Public safety	7,998,165	21,346	65,550	
Transportation	2,548,502		474,922	
Economic and physical development	358,863		385,766	
Environmental protection	1,217,912	1,358,022		
Culture and recreation	5,082,336	1,226,015	31,198	\$320,312
Interest on long-term debt	136,483			
Total governmental activities	<u>20,761,583</u>	<u>2,938,440</u>	<u>979,262</u>	<u>320,312</u>
Business-type activities:				
Water	5,254,922	5,677,093		
Wastewater	4,592,059	5,602,873		
Electric	31,446,910	31,923,645		
Cable	4,585,347	4,790,391		
Total business-type activities	<u>45,879,238</u>	<u>47,994,002</u>		
Total primary government	<u>66,640,821</u>	<u>50,932,442</u>	<u>979,262</u>	<u>320,312</u>
Component units:				
Morganton ABC board	3,449,864	3,447,712		
Total component units	<u>\$3,449,864</u>	<u>3,447,712</u>		

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

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board
Primary government:				
Governmental activities				
General government	(\$3,064,439)		(\$3,064,439)	
Public safety	(7,911,269)		(7,911,269)	
Transportation	(2,073,580)		(2,073,580)	
Economic and physical development	26,903		26,903	
Environmental protection	140,110		140,110	
Culture and recreation	(3,504,811)		(3,504,811)	
Interest on long-term debt	(136,483)		(136,483)	
Total governmental activities	(16,523,569)		(16,523,569)	
Business-type activities:				
Water		\$422,171	422,171	
Wastewater		1,010,814	1,010,814	
Electric		476,735	476,735	
Cable		205,044	205,044	
Total business-type activities		2,114,764	2,114,764	
Total primary government	(16,523,569)	2,114,764	(14,408,805)	
Component units:				
Morganton ABC board				(2,152)
Total component units				(2,152)
General revenues:				
Ad valorem taxes	8,953,681		8,953,681	
Occupancy tax	110,494		110,494	
Carbon City fire tax	9,362		9,362	
Sales tax	4,069,777		4,069,777	
Unrestricted intergovernmental revenues	2,597,176		2,597,176	
Investment earnings	219,318	147,262	366,580	
Permits	492,527		492,527	
Miscellaneous	28,908	215,155	244,063	
Transfers	704,552	(704,552)		
Total general revenues and transfers	17,185,795	(342,135)	16,843,660	
Change in net position	662,226	1,772,629	2,434,855	(2,152)
Net position, beginning, as originally reported	42,270,397	74,731,703	117,002,100	195,000
Restatement	(11,102,207)	(4,317,525)	(15,419,732)	2,152
Net position, beginning, as restated	31,168,190	70,414,178	101,582,368	197,152
Net position, ending	\$31,830,416	\$72,186,807	\$104,017,223	\$195,000

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

CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	CDBG Entitlement Fund	Cemetery Fund
ASSETS			
Cash and cash equivalents	\$16,009,671	\$75,594	
Restricted cash	1,888,472		\$226,031
Prepaid Insurance	170,285		
Taxes receivable (net)	117,011		
Accounts receivable (net)	1,448,781	3,134	
Interest receivable	74,264		1,071
Total assets	\$19,708,484	\$78,728	\$227,102
LIABILITIES			
Accounts payable and accrued liabilities	\$1,235,893	\$19	
Total liabilities	1,235,893	19	
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	117,011		
Prepaid taxes	22,375		
Total deferred inflows of resources	139,386		
FUND BALANCES			
Nonspendable			
Prepaid Insurance	170,285		
Restricted			
Stabilization by State Statute	2,704,382		
Streets - Powell Bill	595,665		
Economic Development	1,292,807	78,709	
Committed			
Canteen Operations	5,758		
Drug Enforcement	13,939		
Capital Projects	2,082,134		
Other	450,000		
Cemetery			227,102
Unassigned	11,018,235		
Total fund balances	18,333,205	78,709	227,102
Total liabilities, deferred inflows of resources and fund balances	\$19,708,484	\$78,728	\$227,102

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

CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	Building Re-use Fund	Capital Project Fund Connect Greenway	Total Governmental Funds
ASSETS			
Cash and cash equivalents		\$333,750	\$16,419,015
Restricted cash	\$30,748		2,145,251
Prepaid Insurance			170,285
Taxes receivable (net)			117,011
Accounts receivable (net)	24,969		1,476,884
Interest receivable			75,335
Total assets	<u>\$55,717</u>	<u>\$333,750</u>	<u>\$20,403,781</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$25,600		\$1,261,512
Total liabilities	<u>25,600</u>		<u>1,261,512</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable			117,011
Prepaid taxes			22,375
Total deferred inflows of resources			<u>139,386</u>
FUND BALANCES			
Nonspendable			
Prepaid Insurance			170,285
Restricted			
Stabilization by State Statute			2,704,382
Streets - Powell Bill			595,665
Economic Development	30,117	333,750	1,735,383
Committed			
Canteen Operations			5,758
Drug Enforcement			13,939
Capital Projects			2,082,134
Other			450,000
Cemetery			227,102
Unassigned			11,018,235
Total fund balances	<u>30,117</u>	<u>333,750</u>	<u>19,002,883</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$55,717</u>	<u>\$333,750</u>	<u>\$20,403,781</u>

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

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total Fund Balance, Governmental Funds 19,002,883

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross capital assets at historical cost 109,339,299
Accumulated depreciation (76,472,528) 32,866,771

Deferred outflows of resources related to pensions are not reported in the funds 1,724,499

Deferred outflows of resources related to OPEB are not reported in the funds 613,700

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. 6,728

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. 1,149,271

Earned revenue considered deferred inflows of resources in fund statements 117,011

Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds

Installment purchase debt (4,509,436)
Compensated absences (765,224)
OPEB liability (12,923,639)
Total pension liability (2,619,567)
Net pension liability (1,958,858) (22,776,724)

Deferred inflows of resources related to pensions are not reported in the funds (223,820)

Deferred inflows of resources related to OPEB are not reported in the funds (610,637)

Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds. (39,266)

Net position of governmental activities \$31,830,416

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, 2018

REVENUES	General	CDBG Entitlement Fund	Cemetery Fund	Building Re-use Fund
Ad valorem taxes	\$8,939,363			
Other taxes and licenses	4,189,633			
Unrestricted intergovernmental revenues	2,597,176			
Restricted intergovernmental revenues	555,071	\$148,297		\$237,469
Other restricted revenues	248,560			
Permits and fees	492,527			
Sales and services	2,930,171		\$8,270	
Investment earnings	218,185		1,117	
Other revenues	36,134			
Total revenues	<u>20,206,820</u>	<u>148,297</u>	<u>9,387</u>	<u>237,469</u>
EXPENDITURES				
Current				
General government	3,093,337			
Public safety	8,197,966			
Transportation	1,244,199			
Environmental protection	1,086,274			
Cultural and recreational	5,023,931			
Economic and physical development		110,761		248,102
Debt service				
Principal retirement	1,673,751			
Interest and fees	149,933			
Total expenditures	<u>20,469,391</u>	<u>110,761</u>		<u>248,102</u>
Revenues over (under) expenditures	<u>(262,571)</u>	<u>37,536</u>	<u>9,387</u>	<u>(10,633)</u>
OTHER FINANCING SOURCES (USES)				
Transfers	504,275			40,750
Total other financing sources (uses)	<u>504,275</u>			<u>40,750</u>
Net change in fund balances	241,704	37,536	9,387	30,117
Fund balances - beginning	<u>18,091,501</u>	<u>41,173</u>	<u>217,715</u>	
Fund balances - ending	<u>\$18,333,205</u>	<u>\$78,709</u>	<u>\$227,102</u>	<u>\$30,117</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, 2018

	Capital Project Fund Community House	Capital Project Fund Connect Greenway	Total Governmental Funds
REVENUES			
Ad valorem taxes			\$8,939,363
Other taxes and licenses			4,189,633
Unrestricted intergovernmental revenues			2,597,176
Restricted intergovernmental revenues			940,837
Other restricted revenues	\$102,950		351,510
Permits and fees			492,527
Sales and services			2,938,441
Investment earnings	16		219,318
Other revenues			36,134
Total revenues	102,966		20,704,939
EXPENDITURES			
Current			
General government			3,093,337
Public safety			8,197,966
Transportation			1,244,199
Environmental protection			1,086,274
Cultural and recreational	617,026		5,640,957
Economic and physical development			358,863
Debt service			
Principal retirement			1,673,751
Interest and fees			149,933
Total expenditures	617,026		21,445,280
Revenues over (under) expenditures	(514,060)		(740,341)
OTHER FINANCING SOURCES (USES)			
Transfers	(174,223)	\$333,750	704,552
Total other financing sources (uses)	(174,223)	333,750	663,802
Net change in fund balances	(688,283)	333,750	(35,789)
Fund balances - beginning	688,283		19,038,672
Fund balances - ending		\$333,750	\$19,002,883

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, 2018

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

Net change in fund balances - total governmental funds		(\$35,789)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	2,711,379	
Depreciation expense for governmental assets	<u>(3,413,441)</u>	(702,062)
<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		14,318
<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>		
Principal payments on long-term debt	1,673,751	
Increase in accrued interest payable	<u>13,450</u>	1,687,201
<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	(22,141)	
Total pension obligation expense	21,907	
Other postemployment benefits expense	<u>(150,802)</u>	(151,036)
<p>The net expense of certain activities of the internal service fund is reported with governmental activities</p>		
		<u>(150,406)</u>
Total changes in net position of governmental activities		<u><u>\$662,226</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
ANNUAL BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUES				
Ad valorem taxes				
Current year	\$8,798,000	\$8,818,250	\$8,811,891	(\$6,359)
Prior years	60,000	76,275	80,677	4,402
Special tax - Main Street	117,000	117,000	116,378	(622)
Interest	30,000	30,000	29,624	(376)
Discounts	(114,000)	(114,000)	(99,207)	14,793
Total	<u>8,891,000</u>	<u>8,927,525</u>	<u>8,939,363</u>	<u>11,838</u>
Other taxes and licenses				
Carbon city fire tax	9,300	9,300	9,362	62
Occupancy tax	118,500	118,500	110,494	(8,006)
One-half cent sales tax	2,800,000	2,800,000	2,819,300	19,300
One cent sales tax	1,280,000	1,280,000	1,250,477	(29,523)
Total	<u>4,207,800</u>	<u>4,207,800</u>	<u>4,189,633</u>	<u>(18,167)</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	29,158	29,158	34,486	5,328
Section eight in lieu of taxes	3,527	3,527	2,225	(1,302)
Payments in lieu of taxes	401,775	401,775	401,775	0
Utility sales tax	1,856,000	1,856,000	1,782,049	(73,951)
Narcotics			2,468	2,468
Beer and wine	78,867	78,867	72,934	(5,933)
Solid waste disposal	11,890	11,890	11,477	(413)
Alcohol Beverage Commission	245,000	245,000	289,762	44,762
Total	<u>2,626,217</u>	<u>2,626,217</u>	<u>2,597,176</u>	<u>(29,041)</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	63,347	63,347	62,824	(523)
State and federal grants	2,061,068	726,502	17,326	(709,176)
Powell bill street aid allocation	470,278	470,278	474,921	4,643
Total	<u>2,594,693</u>	<u>1,260,127</u>	<u>555,071</u>	<u>(705,056)</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
REVENUES - (continued)				
Other restricted revenues				
Shared cost of curb and gutter	\$5,000	\$5,000		(\$5,000)
Restricted contributions	102,200	319,162	\$248,560	(70,602)
Total	<u>107,200</u>	<u>324,162</u>	<u>248,560</u>	<u>(75,602)</u>
Permits and fees				
Building permits	38,000	38,000	88,728	50,728
Plumbing permits	25,000	25,000	45,829	20,829
Electric permits	35,000	35,000	56,699	21,699
HVAC permits	30,000	30,000	34,587	4,587
Variance/planning/zoning requests	3,250	3,250	10,850	7,600
Vehicle tag fee	220,000	220,000	255,834	35,834
Total	<u>351,250</u>	<u>351,250</u>	<u>492,527</u>	<u>141,277</u>
Sales and services				
Parking revenue	14,800	14,800	946	(13,854)
Reimbursement for services	5,000	5,000	3,897	(1,103)
Solid waste user fees	1,317,800	1,317,800	1,322,351	4,551
Rough trash fees	18,000	18,000	22,021	4,021
Simply Green revenue			907	907
Solid waste late charges	11,500	11,500	12,742	1,242
Curb cuts	4,000	4,000	5,980	1,980
Civil citations	500	500		(500)
Engineering inspections	3,000	3,000	16,055	13,055
Rent	30,600	41,425	54,600	13,175
Fire protection	500	500	625	125
False alarm violations	25,000	25,000	20,400	(4,600)
Recreation revenue	597,000	612,000	565,924	(46,076)
Food sales and services	290,154	290,154	255,320	(34,834)
Bad check charges/verification fee	6,500	6,500	5,520	(980)
Canteen sales	1,300	1,300	1,102	(198)
Main street revenue	26,400	26,400	20,150	(6,250)
Façade loan program	2,500	2,500	3,786	1,286
DARE program	6,000	6,000		(6,000)
Municipal auditorium	365,000	365,000	404,771	39,771
Sale of Surplus	76,000	76,000	91,534	15,534
Reimbursements				
Burke County			11,343	11,343
Insurance	10,000	115,117	87,952	(27,165)
Stormwater	10,000	10,000	10,000	
Court cost and fees	9,000	9,000	12,245	3,245
Total	<u>2,830,554</u>	<u>2,961,496</u>	<u>2,930,171</u>	<u>(31,325)</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
REVENUES - (continued)				
Investment earnings	\$65,000	\$102,650	\$207,035	\$104,385
Other revenue				
Revolving loan principal	13,000	13,000	4,497	(8,503)
Revolving loan interest	3,400	3,400	2,729	(671)
Miscellaneous	60,180	60,180	28,908	(31,272)
Total	<u>76,580</u>	<u>76,580</u>	<u>36,134</u>	<u>(40,446)</u>
Total revenue	<u>21,750,294</u>	<u>20,837,807</u>	<u>20,195,670</u>	<u>(642,137)</u>
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			38,508	
Operating expenditures			119,788	
Donations/economic development			579,810	
Pro rata administrative services			(398,375)	
Total	<u>371,641</u>	<u>402,561</u>	<u>339,731</u>	<u>62,830</u>
Legal				
Salaries and employee benefits			195,188	
Operating expenditures			71,320	
Pro rata administrative services			(198,517)	
Total	<u>66,172</u>	<u>96,719</u>	<u>67,991</u>	<u>28,728</u>
Executive				
Salaries and employee benefits			449,598	
Operating expenditures			52,722	
Pro rata administrative services			(450,819)	
Total	<u>112,705</u>	<u>112,705</u>	<u>51,501</u>	<u>61,204</u>
Human resources				
Salaries and employee benefits			266,288	
Operating expenditures			896,836	
Pro rata administrative services			(661,161)	
Total	<u>540,949</u>	<u>540,949</u>	<u>501,963</u>	<u>38,986</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Accounting				
Salaries and employee benefits			\$276,800	
Operating expenditures			339,125	
Pro rata administrative services			(562,478)	
Total	<u>\$99,261</u>	<u>\$103,211</u>	<u>53,447</u>	<u>\$49,764</u>
Main street				
Salaries and employee benefits			165,658	
Operating expenditures			261,808	
Capital outlay			108,200	
Total	<u>667,837</u>	<u>790,478</u>	<u>535,666</u>	<u>254,812</u>
Canteen operations				
Operating expenditures	<u>3,700</u>	<u>3,700</u>	<u>808</u>	<u>2,892</u>
Business office/tax				
Salaries and employee benefits			356,235	
Operating expenditures			155,673	
Pro rata administrative services			(514,006)	
Total	<u>29,173</u>	<u>30,423</u>	<u>(2,098)</u>	<u>32,521</u>
Development				
Salaries and employee benefits			479,060	
Operating expenditures			129,791	
Capital outlay			62,566	
Total	<u>2,456,486</u>	<u>952,130</u>	<u>671,417</u>	<u>280,713</u>
Municipal buildings				
Operating expenditures			11,178	
Pro rata administrative services			(128,703)	
Capital outlay			14,376	
Total	<u>(68,278)</u>	<u>(68,278)</u>	<u>(103,149)</u>	<u>34,871</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, 2018

	<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			\$368,896	
Operating expenditures			52,360	
Pro rata administrative services			(265,255)	
Total	<u>\$176,836</u>	<u>\$159,201</u>	<u>156,001</u>	<u>\$3,200</u>
Public works				
Salaries and employee benefits			168,013	
Operating expenditures			20,857	
Total	<u>190,241</u>	<u>190,241</u>	<u>188,870</u>	<u>1,371</u>
Cemetery and grounds				
Salaries and employee benefits			505,407	
Operating expenditures			70,431	
Capital outlay			55,351	
Total	<u>641,390</u>	<u>682,521</u>	<u>631,189</u>	<u>51,332</u>
Total general government	<u>5,288,113</u>	<u>3,996,561</u>	<u>3,093,337</u>	<u>903,224</u>
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,723,335	
Operating expenditures			1,586,304	
Pro rata administrative services			(19,200)	
Capital outlay			907,527	
Total public safety	<u>8,557,277</u>	<u>9,273,610</u>	<u>8,197,966</u>	<u>1,075,644</u>
Transportation				
Street department				
Salaries and employee benefits			862,799	
Operating expenditures			139,713	
Capital outlay			25,602	
Total	<u>\$1,124,175</u>	<u>\$1,124,175</u>	<u>1,028,114</u>	<u>96,061</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
Powell bill				
Operating expenditures			216,085	
Total	\$221,500	\$406,020	216,085	\$189,935
Total transportation	1,345,675	1,530,195	1,244,199	285,996
Environmental protection - sanitation				
Salaries and employee benefits			612,511	
Operating expenditures			382,801	
Capital outlay			90,962	
Total environmental protection	1,136,470	1,203,790	1,086,274	117,516
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			304,143	
Operating expenditures			651,493	
Capital outlay			40,912	
Total	1,079,471	1,084,399	996,548	87,851
Recreation				
Salaries and employee benefits			1,541,992	
Operating expenditures			1,228,907	
Pro rata administrative services			(22,080)	
Capital outlay			575,729	
Total	3,490,131	4,345,794	3,324,548	1,021,246
Community House				
Salaries and employee benefits			280,519	
Operating expenditures			209,187	
Capital outlay			213,129	
Total	696,977	774,574	702,835	71,739
Total cultural and recreational	5,266,579	6,204,767	5,023,931	1,180,836

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$1,673,753	\$1,673,753	\$1,673,751	\$2
Interest	155,283	155,283	149,933	5,350
Total debt service	<u>1,829,036</u>	<u>1,829,036</u>	<u>1,823,684</u>	<u>5,352</u>
Total expenditures	<u>23,423,150</u>	<u>24,037,959</u>	<u>20,469,391</u>	<u>3,568,568</u>
Revenues over (under) expenditures	<u>(1,672,856)</u>	<u>(3,200,152)</u>	<u>(273,721)</u>	<u>2,926,431</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	824,662	2,734,520		(2,734,520)
Transfer from Economic Development fund	143,642	49,999		(49,999)
Transfer from Capital Projects fund		85,474	85,473	(1)
Transfer from Electric fund	704,552	704,552	704,552	
Transfer to Capital Projects fund		(333,643)	(333,750)	(107)
Transfer to Special Revenue fund		(40,750)	(40,750)	
Total other financing sources	<u>1,672,856</u>	<u>3,200,152</u>	<u>415,525</u>	<u>(2,784,627)</u>
Revenues and other sources over expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>141,804</u>	<u>\$141,804</u>
Net change in fund balances			141,804	
Fund balances - beginning			16,898,594	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			11,150	
Transfers			88,750	
Fund balances - beginning			<u>1,192,907</u>	
Fund balances - ending			<u>\$18,333,205</u>	

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

CITY OF MORGANTON
CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Sales and services:				
New cemetery lot sales	\$8,000	\$8,000	\$6,475	(\$1,525)
Cemetery lot marker service	1,000	1,000	1,795	795
Total	9,000	9,000	8,270	(730)
Investment earnings - interest earned	800	800	1,117	317
Total revenues	9,800	9,800	9,387	(413)
 EXPENDITURES				
Cemetery improvements	9,800	9,800		9,800
 Excess of revenues over (under) expenditures			9,387	9,387
 Fund balances - beginning			\$217,715	
 Fund balances - ending			\$227,102	

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, 2018

	<u>Business-type Activities - Enterprise Funds</u>				<u>Totals</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Electric Fund</u>	<u>Cable Fund</u>		
<u>ASSETS</u>						
CURRENT ASSETS :						
Cash and cash equivalents	\$2,551,267	\$6,591,860	\$2,554,483		\$11,697,610	\$728,288
Investments	4,019,504	3,788,401	4,885,082		12,692,987	
Accounts receivable (net)	603,347	531,523	3,898,477	\$57,790	5,091,137	
Inventories						749,100
Prepaid insurance	20,791	19,631	22,610	\$4,550	67,582	12,476
Interest receivable	26,928	25,445	30,562		82,935	
Restricted Cash	109,752	113,304	603,255		826,311	
Total current assets	<u>7,331,589</u>	<u>11,070,164</u>	<u>11,994,469</u>	<u>62,340</u>	<u>30,458,562</u>	<u>1,489,864</u>
NONCURRENT ASSETS :						
Due from other funds	2,711,441				2,711,441	
Capital assets:						
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	17,340,305	21,128,825	9,602,025	4,117,310	52,188,465	473,233
Construction in progress		5,500,001			5,500,001	
Total noncurrent assets	<u>20,963,763</u>	<u>40,695,894</u>	<u>9,657,975</u>	<u>4,122,896</u>	<u>75,440,528</u>	<u>506,550</u>
TOTAL ASSETS	<u>28,295,352</u>	<u>51,766,058</u>	<u>21,652,444</u>	<u>4,185,236</u>	<u>105,899,090</u>	<u>1,996,414</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
OPEB deferrals	92,140	58,734	53,508		204,382	64,286
Pension deferrals	175,986	175,986	197,984	65,995	615,951	87,993
TOTAL DEFERRED OUTFLOWS	<u>268,126</u>	<u>234,720</u>	<u>251,492</u>	<u>65,995</u>	<u>820,333</u>	<u>152,279</u>
<u>LIABILITIES</u>						
CURRENT LIABILITIES :						
Accounts payable and accrued liabilities	170,920	776,122	2,846,129	256,105	4,049,276	38,512
Compensated absences-current	24,595	29,051	28,003	14,107	95,756	16,387
Installment purchase - current	170,000	955,147	166,011	103,186	1,394,344	
Loan payable - current	62,306	574,937			637,243	
Liabilities payable from restricted assets:						
Customer deposits	109,752	113,304	603,255		826,311	
Total current liabilities	<u>537,573</u>	<u>2,448,561</u>	<u>3,643,398</u>	<u>373,398</u>	<u>7,002,930</u>	<u>54,899</u>
NONCURRENT LIABILITIES :						
Due to other funds				2,711,441	2,711,441	
Total OPEB liability	1,520,428	1,520,428	1,710,482	570,161	5,321,499	760,214
Compensated absences-noncurrent	36,893	43,608	42,005	21,160	143,666	24,580
Net pension liability	230,454	230,454	259,261	86,420	806,589	115,227
Installment purchase - noncurrent	513,916	8,041,960	377,636	130,853	9,064,365	
Loan payable - noncurrent	1,121,503	8,049,115			9,170,618	
Total noncurrent liabilities	<u>3,423,194</u>	<u>17,885,565</u>	<u>2,389,384</u>	<u>3,520,035</u>	<u>27,218,178</u>	<u>900,021</u>
TOTAL LIABILITIES	<u>3,960,767</u>	<u>20,334,126</u>	<u>6,032,782</u>	<u>3,893,433</u>	<u>34,221,108</u>	<u>954,920</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>						
OPEB deferrals	71,839	71,839	80,820	26,940	251,438	35,920
Pension deferrals	17,163	17,163	19,308	6,436	60,070	8,582
TOTAL DEFERRED INFLOWS	<u>89,002</u>	<u>89,002</u>	<u>100,128</u>	<u>33,376</u>	<u>311,508</u>	<u>44,502</u>
<u>NET POSITION</u>						
Net Investment in capital assets	16,384,597	23,074,735	9,114,328	3,888,857	52,462,517	506,550
Unrestricted	8,129,112	8,502,915	6,656,698	(3,564,435)	19,724,290	642,721
TOTAL NET POSITION	<u>\$24,513,709</u>	<u>\$31,577,650</u>	<u>\$15,771,026</u>	<u>\$324,422</u>	<u>\$72,186,807</u>	<u>\$1,149,271</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, 2018

	<u>Business-type Activities - Enterprise Funds</u>				<u>Totals</u>	<u>Governmental</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Cable</u>		<u>Activities -</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>		<u>Internal</u>
						<u>Service Fund</u>
OPERATING REVENUES :						
Charges for services	\$5,677,093	\$5,602,873	\$31,923,645	\$4,790,391	\$47,994,002	\$1,971,299
OPERATING EXPENSES :						
Water treatment and maintenance	4,046,683				4,046,683	
Wastewater treatment and maintenance		2,898,559			2,898,559	
Operations			30,605,679		30,605,679	
Operations and maintenance				4,250,945	4,250,945	
MIS, Garage and Warehouse operations						2,018,892
Depreciation	1,193,592	1,271,483	833,335	329,486	3,627,896	106,459
Total	<u>5,240,275</u>	<u>4,170,042</u>	<u>31,439,014</u>	<u>4,580,431</u>	<u>45,429,762</u>	<u>2,125,351</u>
OPERATING INCOME (LOSS)	<u>436,818</u>	<u>1,432,831</u>	<u>484,631</u>	<u>209,960</u>	<u>2,564,240</u>	<u>(154,052)</u>
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	67,995	44,564	34,672	31	147,262	
Sale of materials						3,646
Interest expense	(14,647)	(422,017)	(7,896)	(4,916)	(449,476)	
Miscellaneous	4,541	7,260	65,434	137,920	215,155	
Total	<u>57,889</u>	<u>(370,193)</u>	<u>92,210</u>	<u>133,035</u>	<u>(87,059)</u>	<u>3,646</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	<u>494,707</u>	<u>1,062,638</u>	<u>576,841</u>	<u>342,995</u>	<u>2,477,181</u>	<u>(150,406)</u>
TRANSFERS :						
Out			(704,552)		(704,552)	
Total			<u>(704,552)</u>		<u>(704,552)</u>	
Change in net position	494,707	1,062,638	(127,711)	342,995	1,772,629	(150,406)
TOTAL NET POSITION - previously reported,	25,252,580	31,748,590	17,286,513	444,020	74,731,703	1,916,467
Restatement	1,233,578	1,233,578	1,387,776	462,593	4,317,525	616,790
Beginning net position, restated	24,019,002	30,515,012	15,898,737	(18,573)	70,414,178	1,299,677
TOTAL NET POSITION - ending	<u>\$24,513,709</u>	<u>\$31,577,650</u>	<u>\$15,771,026</u>	<u>\$324,422</u>	<u>\$72,186,807</u>	<u>\$1,149,271</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, 2018

	Business-type Activities - Enterprise Funds				Totals June 30, 2018	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
CASH FLOWS FROM						
OPERATING ACTIVITIES :						
Receipts from customers	\$5,651,798	\$5,467,266	\$31,770,567	\$4,749,634	\$47,639,265	\$1,971,299
Payments to suppliers	(2,513,230)	(1,369,117)	(29,283,115)	(3,717,787)	(36,883,249)	(1,197,034)
Payments to employees	(1,491,644)	(941,332)	(1,354,732)	(506,275)	(4,293,983)	(754,919)
Net cash provided by operating activities	<u>1,646,924</u>	<u>3,156,817</u>	<u>1,132,720</u>	<u>525,572</u>	<u>6,462,033</u>	<u>19,346</u>
CASH FLOWS FROM NONCAPITAL						
FINANCING ACTIVITIES :						
Transfers			(704,552)		(704,552)	
Interfund borrowings (gross)	229,586			(229,586)		
Proceeds from sale of materials						3,646
Miscellaneous	4,541	7,260	65,434	137,920	215,155	
Net cash provided (used) by noncapital financing activities	<u>234,127</u>	<u>7,260</u>	<u>(639,118)</u>	<u>(91,666)</u>	<u>(489,397)</u>	<u>3,646</u>
CASH FLOWS FROM CAPITAL						
AND RELATED FINANCING						
ACTIVITIES:						
Acquisition and construction of capital assets	(904,113)	(5,294,825)	(707,034)	(434,538)	(7,340,510)	(88,417)
Installment purchase debt issued/loan proceeds		150,000	280,400	165,000	595,400	
Principal paid on capital debt	(330,777)	(1,444,200)	(107,181)	(159,483)	(2,041,641)	
Interest paid on capital debt	(14,647)	(422,017)	(7,896)	(4,916)	(449,476)	
Net cash provided (used) by capital and related financing activities	<u>(1,249,537)</u>	<u>(7,011,042)</u>	<u>(541,711)</u>	<u>(433,937)</u>	<u>(9,236,227)</u>	<u>(88,417)</u>
CASH FLOWS FROM INVESTING						
ACTIVITIES :						
Proceeds from sales and maturities of investments	4,101,404	4,054,110	5,472,151		13,627,665	
Purchases of investments	(4,019,504)	(3,788,401)	(4,885,082)		(12,692,987)	
Interest on investments	62,058	41,154	32,760	31	136,003	
Net cash used by investing activities	<u>143,958</u>	<u>306,863</u>	<u>619,829</u>	<u>31</u>	<u>1,070,681</u>	
NET INCREASE (DECREASE)						
IN CASH AND CASH						
EQUIVALENTS	775,472	(3,540,102)	571,720		(2,192,910)	(65,425)
CASH AND CASH EQUIVALENTS						
AT BEGINNING 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>
CASH AND CASH EQUIVALENTS						
AT END OF YEAR	<u>\$2,661,019</u>	<u>\$6,705,164</u>	<u>\$3,157,738</u>	Nil	<u>\$12,523,921</u>	<u>\$728,288</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, 2018

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2017	Governmental Activities - Internal Service Fund
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Electric Fund</u>	<u>Cable Fund</u>		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$436,818	\$1,432,831	\$484,631	\$209,960	2,564,240	(\$154,052)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	1,193,592	1,271,483	833,335	329,486	3,627,896	106,459
Changes in assets and liabilities :						
(Increase) in accounts receivable	(25,795)	(137,264)	(151,219)	(40,757)	(355,035)	
(Increase) in prepaid insurance	(3,342)	(2,484)	(5,205)	(1,426)	(12,457)	(635)
Decrease in inventories						108,160
(Increase) decrease in deferred outflows - pens	110,016	110,016	123,768	44,256	388,056	55,008
(Increase) decrease in deferred outflows - OPE	(30,370)	3,036	15,983	23,164	11,813	(33,401)
Increase (decrease) in accounts payable and accrued liabilities	59,296	556,340	(54,256)	(3,073)	558,307	(23,166)
Increase (decrease) in customer deposits	500	1,657	(1,859)		298	
(Decrease) in OPEB liability	(43,668)	(43,668)	(49,126)	(19,421)	(155,883)	(21,834)
Increase (decrease) in deferred inflows - pensio	(1,574)	(1,574)	(1,772)	(591)	(5,511)	(787)
Increase (decrease) in deferred inflows - OPEB	71,839	71,839	80,820	26,940	251,438	35,920
(Decrease) in net pension liability	(108,389)	(108,389)	(121,938)	(40,646)	(379,362)	(54,195)
Increase (decrease) in compensated absences	(11,999)	2,994	(20,442)	(2,320)	(31,767)	1,869
Net cash provided (used) by operating activities	<u>\$1,646,924</u>	<u>\$3,156,817</u>	<u>\$1,132,720</u>	<u>\$525,572</u>	<u>\$6,462,033</u>	<u>\$19,346</u>

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

Capital Project Fund – Community House. This fund is used to account for the revenue and expenditures of the City's Community House capital project.

Capital Project Fund – Greenway Connector. This fund is used to account for the revenue and expenditures of the City's Greenway Connector capital project.

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.

Building Reuse Special Revenue Fund. This fund is used to account for transactions related to the reuse of existing buildings within the City limits.

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 Statues. An annual budget is adopted for the General Fund, the Economic Development Fund, the Cemetary Fund and the Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the

Entitlement Special Revenue Fund, the Building Re-use Special Revenue Fund, the General Capital Project Fund – Connect Greenway and the Wastewater Capital Projects Fund. The enterprise fund project is consolidated with its 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, 2018 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	\$595,665
Cemetary Fund	226,031
Building Re-use Fund	30,748
Economic Development Fund	<u>1,292,807</u>
Total governmental activities	\$2,145,251
Business-type Activities:	
Water Fund - Customer deposits	109,752
Wastewater Fund - Customer deposits	113,304
Electric Fund - Customer deposits	<u>603,255</u>
Total Business-type Activities	\$826,311
Total Restricted Cash	<u>\$2,971,562</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 two items that meet this criteria, pension deferrals and OPEB deferrals for the 2018 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 four items that meet the criterion for this category – prepaid taxes, unavailable property tax receivable, pension deferrals and OPEB 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 Other – portion of fund balance committed by the governing board for future trust possibility.

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, 2018, the City's deposits had a carrying amount of \$14,189,655 and a bank balance of \$15,119,668. Of the bank balance, \$500,000 was insured by federal depository insurance and \$14,619,668 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 \$233,145 and the bank balance was \$303,257. 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, 2018 the City's investments were as follows:

Investments by Type	Valuation Measurement Method	Fair Value at 6/30/2018	Maturity	Rating
Commercial Paper: Credit Suisse First BSTN	Fair Value Level 2	\$988,504	July 24, 2018	Unrated
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$1,000,000	August 2, 2018	Unrated
Commercial Paper: JP Morgan SEC LLC	Fair Value Level 2	\$988,364	September 24, 2018	Unrated
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$1,000,000	October 29, 2018	Unrated
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$1,000,000	June 13, 2019	AAA
Government Agency: Federal National Mortgage Assn	Fair Value Level 2	\$998,608	July 26, 2019	Unrated
Government Agency: Federal National Mortgage Assn	Fair Value Level 2	\$996,734	July 26, 2019	AAA
Government Agency: Federal Home Loan Bank	Fair Value Level 2	\$984,162	September 30, 2019	AAA

Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$996,249	December 13, 2019	AAA
Government Agency: Federal National Mortgage Assn	Fair Value Level 2	\$986,813	December 30, 2019	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$990,893	June 5, 2020	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$993,256	June 12, 2020	AAA
Government Agency: Federal Farm Credit Bank	Fair Value Level 2	\$977,381	September 11, 2020	Unrated
Government Agency: Federal Home Loan Bank	Fair Value Level 2	\$985,456	September 29, 2020	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$986,876	October 27, 2020	Unrated
Government Agency: Federal Home Loan Bank	Fair Value Level 2	\$991,657	November 9, 2020	Unrated
Government Agency: Federal National Mortgage Assn	Fair Value Level 2	\$982,787	November 9, 2020	AAA
Government Agency: Federal Home Loan Bank	Fair Value Level 2	\$995,080	February 26, 2021	AAA
Government Agency: Federal Home Loan Bank	Fair Value Level 2	\$983,925	February 26, 2021	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$998,921	March 26, 2021	AAA
Government Agency: Federal Home Loan MTG Corp	Fair Value Level 2	\$998,152	March 29, 2021	AAA
NC Capital Management Trust- Cash Portfolio	Amortized Cost	\$4,361,894	N/A	AAAm
NC Capital Management Trust- Term Portfolio	Fair Value Level 1	\$5,134,093	0.09 years	Unrated
Total:		\$ 30,319,805		

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, 2018. 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, 2018 are net of the following allowances for doubtful accounts:

General Fund:	
Allowance for uncollectible property taxes	\$148,091
Allowance for revolving loans	116,072
Allowance for uncollectible charges	7,200
Water Fund:	
Allowance for uncollectible charges	18,700
Electric Fund:	
Allowance for uncollectible charges	65,000
Wastewater Fund:	
Allowance for uncollectible charges	5,500
Cable Fund	
Allowance for uncollectible charges	<u>14,000</u>
Total	<u>\$374,563</u>

4. Capital assets

Capital asset activity for the year ended June 30, 2018 was as follows:

Primary Government:	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$12,770,466			\$12,770,466
Construction in Progress	1,497,403		1,497,403	
Capital assets being depreciated:				
Buildings	23,578,889	266,542		23,845,431
Equipment	24,527,984	3,942,240	153,300	28,316,924
Infrastructure	44,406,477			44,406,477
Total capital assets being depreciated	<u>92,513,350</u>	<u>4,208,782</u>	<u>153,300</u>	<u>96,568,832</u>
Less accumulated depreciation for:				
Buildings	18,966,071	554,213		19,520,284
Equipment	16,132,793	1,756,998	153,300	17,736,491
Infrastructure	38,113,523	1,102,230		39,215,753
Total accumulated depreciation	<u>73,212,387</u>	<u>3,413,441</u>	<u>153,300</u>	<u>76,472,528</u>
Total capital assets being depreciated, net	<u>19,300,963</u>	<u>795,341</u>		<u>20,096,304</u>
Governmental activity Capital assets, net	<u>\$33,568,832</u>	<u>\$795,341</u>	<u>\$1,497,403</u>	<u>\$32,866,770</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	1,227,270	88,417		1,315,687
Total capital assets being depreciated	1,938,689	88,417		2,027,106
Less accumulated depreciation for:				
Buildings	587,289	16,266		603,555
Equipment	860,125	90,193		950,318
Total accumulated depreciation	1,447,414	106,459		1,553,873
Total capital assets being depreciated, net	491,275	(18,042)		473,233
Internal service fund capital assets, net	\$524,592	(\$18,042)		\$506,550

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

General Government	\$ 412,145
Public Safety	624,267
Transportation	1,315,316
Environmental Protection	206,176
Culture and Recreational	855,537
Internal Service	106,459
Total depreciation expense	<u>\$3,519,900</u>

Water Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$912,017			\$912,017
Capital assets being depreciated:				
Buildings	10,106,366			10,106,366
Plant and System	23,074,809	388,887	434,363	23,029,333
Equipment	4,602,434	515,226	264,689	4,852,971
Total capital assets being depreciated	37,783,609	904,113	699,052	37,988,670
Less accumulated depreciation for:				
Buildings	6,890,389	193,451		7,083,840
Plant and System	10,538,251	688,840	434,363	10,792,728
Equipment	2,725,185	311,301	264,689	2,771,797
Total accumulated depreciation	20,153,825	1,193,592	699,052	20,648,365
Total capital assets being depreciated, net	17,629,784	(289,479)		17,340,305
Water fund capital assets, net	\$18,541,801	(\$289,479)		\$18,252,322

Wastewater Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$14,067,068			\$14,067,068
Construction in Progress	673,103	4,826,898		5,500,001
Capital assets being depreciated:				
Buildings	3,928,538			3,928,538
Plant and System	21,818,834	267,142		22,085,976
Equipment	17,497,456	200,785	138,372	17,559,869
Total capital assets being depreciated	43,244,828	467,927	138,372	43,574,383
Less accumulated depreciation for:				
Buildings	3,107,519	60,180		3,167,699
Plant and System	13,075,121	434,520		13,509,641
Equipment	5,129,807	776,783	138,372	5,768,218
Total accumulated depreciation	21,312,447	1,271,483	138,372	22,445,558
Total capital assets being depreciated, net	21,932,381	(803,556)		21,128,825
Wastewater fund capital assets, net	\$36,672,552	\$4,023,342		\$40,695,894

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	16,489,498	435,228		16,924,726
Equipment	5,228,045	271,806	384,812	5,115,039
Total capital assets being depreciated	24,395,238	707,034	384,812	24,717,460
Less accumulated depreciation for:				
Buildings	1,968,118	65,923		2,034,041
Plant and System	9,351,838	474,563		9,826,401
Equipment	3,346,956	292,849	384,812	3,254,993
Total accumulated depreciation	14,666,912	833,335	384,812	15,115,435
Total capital assets being depreciated, net	9,728,326	(126,301)		9,602,025
Electric fund capital assets, net	\$9,784,276	(\$126,301)		\$9,657,975

Cable Fund:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$5,586			\$5,586
Capital assets being depreciated:				
Buildings	901,299			901,299
Plant and System	12,846,329	434,538		13,280,867
Equipment	934,583		201,151	733,432
Total capital assets being depreciated	14,682,211	434,538	201,151	14,915,598
Less accumulated depreciation for:				
Buildings	474,657	25,691		500,348
Plant and System	9,464,485	258,195		9,722,680
Equipment	730,811	45,600	201,151	575,260
Total accumulated depreciation	10,669,953	329,486	201,151	10,798,288
Total capital assets being depreciated, net	4,012,258	105,052		4,117,310
Cable fund capital assets, net	\$4,017,844	\$105,052		\$4,122,896

Construction commitments

The City has an active construction project as of June 30, 2018. At year-end, the City's commitments with contractors are as follows:

Wastewater Fund - Plant Improvements

Vendor	Contract Price	Paid to date	Remaining
Freese & Nichols	\$568,200	\$313,322	\$254,878
Haren Construction	8,527,000	3,963,528	4,563,472
	\$9,095,200	\$4,276,850	\$4,818,350

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2018, 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	176,750	640		177,390
Total capital assets being depreciated	405,883	640		406,523
Less accumulated depreciation for:				
Buildings	77,980			77,980
Improvements	151,153			151,153
Equipment	158,128	6,765		164,893
Total accumulated depreciation	387,261	6,765		394,026
Total capital assets being depreciated, net	18,622	(6,125)		12,497
ABC Board capital assets, net	\$29,622	(\$6,125)		\$23,497

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, 2018, was 8.25% of compensation for law enforcement officers and 7.50% 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 \$912,453 for the year ended June 30, 2018.

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, 2018, the City reported a liability of \$2,880,674 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017 the City's proportion was 0.18856%, which was a decrease of 0.01101% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$938,717. At June 30, 2018, 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	\$165,954	\$81,543
Changes in assumptions	411,400	
Net difference between projected and actual earnings on pension plan investments	699,431	
Changes in proportion and differences between City contributions and proportionate share of contributions	10,587	132,995
City contributions subsequent to the measurement date	<u>912,453</u>	
Total	<u>\$2,199,825</u>	<u>\$214,538</u>

\$912,453 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:

2019	\$121,072
2020	794,600
2021	389,829
2022	(232,667)

Actuarial Assumptions - The total pension liability in the December 31, 2016 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.2 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, 2016 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, 2017 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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
City's proportionate share of the net pension liability (asset)	\$8,647,850	\$2,880,674	(\$1,933,096)

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	15
Active Members	<u>59</u>
Total	<u>74</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, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 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, 2017.

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 \$113,442 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, 2018, the City reported a total pension liability of \$2,619,567. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the City recognized pension expense of \$(22,348).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$40,852
Changes of assumptions	115,176	37,082
City benefit payments and plan administrative expense made subsequent to the measurement date	113,442	
Total	\$228,618	\$77,934

\$113,442 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$4,077
2020	4,077
2021	4,077
2022	7,303
2023	17,708
Thereafter	

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 3.16 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 (2.16 percent) or one percentage point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$2,831,930	\$2,619,567	\$2,427,004

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

Total Pension Liability as of December 31, 2016	\$2,543,747
Changes for the year:	
Service Cost at End of year	82,676
Interest	94,486
Difference between expected and actual experience	(49,733)
Change of assumptions and other inputs	140,214
Benefit payments	(191,823)
Net changes	<u>75,820</u>
Total Pension Liability as of December 31, 2017	<u>\$2,619,567</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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$938,717	(\$22,348)	\$916,369
Pension Liability	2,880,674	2,619,567	5,500,241
Proportionate share of the net pension liability	0.18856%		
Deferred Outflows of Resources			
Differences between expected and actual experience	165,954		165,954
Changes of assumptions	411,400	115,176	526,576
Net difference between projected and actual earnings on plan investments	699,431		699,431
Changes in proportion and differences between contributions and proportionate share of contributions	10,587		10,587
Benefit payments and administrative costs paid subsequent to the measurement date	912,453	113,442	1,025,895

Deferred Inflows of Resources			
Differences between expected and actual experience	81,543	40,852	122,395
Changes of assumptions		37,082	37,082
Changes in proportion and differences between contributions and proportionate share of contributions	132,995		132,995

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 \$128,766 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Membership of the HCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation.

Retirees and dependents receiving benefits	55
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>267</u>
Total	<u>322</u>

The following schedule became effective July 1, 1997 and applies to employees hired prior to July 1, 2012:

Years of service with the <u>City of Morganton</u>	% of Retiree Health <u>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:

Years of service with the <u>City of Morganton</u>	% of Retiree Health <u>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.

Total OPEB Liability

The City's total OPEB liability of \$19,005,352 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General Employees	3.50% - 7.75%
Firefighters	3.50% - 7.75%
Law Enforcement Officers	3.50% - 7.35%
Municipal Bond Index Rate	
Prior Measurement Date	3.01%
Measurement Date	3.56%
Health Care Cost Trends	
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2017	\$19,551,179
Changes for the year:	
Service cost	686,630
Interest	577,105
Differences between expected and actual experience	(30,128)
Changes in assumptions or other inputs	(1,017,284)
Benefit payments	<u>(762,150)</u>
Net changes	<u>(\$545,827)</u>
Balance at June 30, 2018	<u>\$19,005,352</u>

The discount rate used to measure the TOL was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56% percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
TOTAL OPEB Liability	\$20,906,889	\$19,005,352	\$17,321,008

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
TOTAL OPEB Liability	\$17,059,133	\$19,005,352	\$21,293,401

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$1,124,268. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		(\$25,830)
Changes of assumptions		(872,165)
Benefit payments and administrative costs made subsequent to the measurement date	882,368	
Total	<u>\$882,368</u>	<u>(\$897,995)</u>

\$882,368 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	(149,417)
2019	(149,417)
2020	(149,417)
2021	(149,417)
2022	(149,417)
Thereafter	(150,910)

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, 2018, including \$87,417 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	222,647	33,024
2020	222,647	25,254
2021	222,647	17,483
2022	222,647	9,713
2023	111,322	1,943
Total	<u>\$1,001,910</u>	<u>\$87,417</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, 2018, including \$4,936 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$139,000	\$4,936

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, 2018, including \$11,551 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	116,503	6,017
2020	118,656	3,864
2021	120,850	1,670
Total	<u>\$356,009</u>	<u>\$11,551</u>

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

Annual debt service payments of the installment purchase as of June 30, 2018, including \$1,121 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$66,620	\$1,121

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, 2018, including \$10,992 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	270,624	7,677
2020	274,987	3,315
Total	<u>\$545,611</u>	<u>\$10,992</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, 2018, including \$150 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$47,604	\$150

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, 2018, including \$60 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$19,042	\$60

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, 2018, including \$4,820 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	48,870	2,587
2020	49,839	1,617
2021	50,839	616
Total	<u>\$149,548</u>	<u>\$4,820</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, 2018, including \$5,909 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	125,226	3,643
2020	126,928	1,941
2021	64,112	325
Total	<u>\$316,266</u>	<u>\$5,909</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, 2018, including \$291,669 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	86,000	38,889
2020	86,000	36,111
2021	86,000	33,334
2022	86,000	30,556
2023	86,000	27,778
2024 - 2032	774,000	125,001
Total	<u>\$1,204,000</u>	<u>\$291,669</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, 2018, including \$30,590 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	160,682	12,922
2020	164,148	9,456
2021	167,689	5,915
2022	171,306	2,297
Total	<u>\$663,825</u>	<u>\$30,590</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, 2018, including \$389 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Electric Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$11,000	\$389

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, 2018, including \$35,767 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	170,000	14,225
2020	170,000	10,689
2021	170,000	7,153
2022	170,000	3,617
2023	3,916	83
Total	<u>\$683,916</u>	<u>\$35,767</u>

In October 2013, the City entered into an installment purchase contract to finance a cable modem termination system for the Cable Department. \$600,000 was borrowed for 4.5 years at an interest rate of 1.57%.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$542 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Cable Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$69,039	\$542

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, 2018, including \$4,713 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Electric Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	99,879	2,905
2020	101,237	1,548
2021	51,131	260
Total	<u>\$252,247</u>	<u>\$4,713</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, 2018, including \$1,118,719 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Wastewater Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	890,560	216,754
2020	912,379	194,935
2021	934,732	172,582
2022	957,633	149,681
2023	981,095	126,219
2024 - 2027	4,170,708	258,548
Total	<u>\$8,847,107</u>	<u>\$1,118,719</u>

In August 2017, the City entered into an installment purchase contract to finance two sewer department trucks. \$150,000 was borrowed for 3 years at an interest rate of 2.19%.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$6,277 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Wastewater Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	64,587	4,869
2020	68,143	1,313
2021	17,270	95
Total	<u>\$150,000</u>	<u>\$6,277</u>

In September 2017, the City entered into an installment purchase contract to finance a cable DNCS system. \$165,000 was borrowed for 5 years at an interest rate of 2.42%.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$11,480 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Cable Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	34,147	5,071
2020	36,269	2,949
2021	37,152	2,065
2022	38,057	1,161
2023	19,375	234
Total	<u>\$165,000</u>	<u>\$11,480</u>

In February 2018, the City entered into an installment purchase contract to finance an electric digger derrick truck. \$280,400 was borrowed for 4 years at an interest rate of 2.67%.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$20,414 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Electric Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	55,132	8,198
2020	57,890	5,438
2021	59,452	3,877
2022	61,056	2,274
2023	46,870	627
Total	<u>\$280,400</u>	<u>\$20,414</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, 2018, including \$1,379,848 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Wastewater Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2019	574,937	172,481
2020	574,937	160,982
2021	574,937	149,484
2022	574,937	137,985
2023	574,937	126,486
2024-2033	<u>6,324,304</u>	<u>632,430</u>
Total	<u>\$8,624,052</u>	<u>\$1,379,848</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, 2018, are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>
	<u>Principal</u>
2019	62,306
2020	62,306
2021	62,306
2022	62,306
2023	62,306
2021-2033	<u>872,279</u>
Total	<u>\$1,183,809</u>

Debt Margin

At June 30, 2018, the City of Morganton had a legal debt margin of \$113,675,306 (unaudited).

b. Changes in long-term liabilities

	Beginning Balance, as restated	Increases	Decreases	Balance 30-Jun-18	Current Portion of Balance
Governmental activities:					
Installment purchase	\$6,183,186		\$1,673,751	\$4,509,435	\$1,302,818
Compensated absences	782,181	441,807	417,797	806,191	322,476
Net pension liability (LGERS)	3,049,592		975,507	2,074,085	
Total pension liability (LEO)	2,543,747	75,820		2,619,567	
Total OPEB Liability	2,418,730	13,683,853	2,418,730	13,683,853	
Governmental activities long-term liabilities	14,977,436	14,201,480	5,485,785	23,693,131	1,625,294

	Beginning Balance, as restated	Increases	Decreases	Balance 30-Jun-18	Current Portion of Balance
Business-type activities:					
Installment purchase	11,267,707	595,400	1,404,398	10,458,709	1,394,344
Revolving loans	10,445,104		637,243	9,807,861	637,243
Net pension liability (LGERS)	1,185,951		379,362	806,589	
Total OPEB Liability	940,617	5,321,499	940,617	5,321,499	
Compensated absences	271,189	168,703	200,470	239,422	95,756
Business-type activities long-term liabilities	\$24,110,568	\$6,085,602	\$3,562,090	\$26,634,080	\$2,127,343

c. Interfund Balances and Activity

Balances due to/due from other funds at June 30, 2018, consist of the following:

	<u>Receivables</u>	<u>Payables</u>
Water fund - due from Cable Fund	\$2,711,441	
Cable fund – due to Water fund		\$2,711,441
Total interfund receivables/payables	<u>\$2,711,441</u>	<u>\$2,711,441</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, 2018 transfers were used to:

- Subsidize the general fund to forestall a significant property tax increase
- Fund the Community House capital project
- Cover administrative costs for special revenue funds

A summary of interfund transfers by fund for the year ended June 30, 2018 is as follows:

	Transfers From	Transfers To
	<u> </u>	<u> </u>
General Fund :		
From Electric Fund	\$704,552	
From Capital Projects Fund	85,473	
To Special Revenue Fund		\$40,750
To Capital Projects Fund		333,750
	<u>790,025</u>	<u>374,500</u>
Capital Projects Fund:		
From General Fund	333,750	
To Economic Development Fund (a sub-fund of the general fund)		88,750
To General Fund		85,473
	<u>333,750</u>	<u>174,223</u>
Special Revenue Fund:		
From General Fund	40,750	
Economic Development Fund (a sub-fund of the general fund):		
From Capital Projects Fund	88,750	
Electric Fund :		
To General Fund		704,552
Grand Totals	<u><u>\$1,253,275</u></u>	<u><u>\$1,253,275</u></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	\$18,333,205
Less:	
Stabilization by state statute	(\$2,704,382)
Streets – Powell bill	(595,665)
Economic development	(1,292,807)
Capital projects	(2,082,134)
Canteen operations	(5,758)
Drug enforcement	(13,939)
Prepaid Insurance	(170,285)
Other	(450,000)
Working capital/fund balance policy	<u>(3,070,409)</u>
Remaining fund balance	<u><u>\$7,947,826</u></u>

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

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

General fund	\$1,172,813
Water fund	254,781
Electric fund	321,210
Wastewater fund	660,251
Wastewater capital project fund	4,393,784
Cable fund	14,846
Internal Service fund	428,228
Special Revenue fund	149,957

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, 2018 were \$27,227,149.

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 \$17,218 to WPCOG during the fiscal year ended June 30, 2018.

I. 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 \$47,137 to the Airport during the fiscal year ended June 30, 2018. 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, 2018. 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, 2018, the City reported revenues of \$12,752 and expenditures of \$12 for the payments made through the Fireman's Relief fund. The Firemen's supplemental fund expended \$2,807 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, 2018. 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 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in the fiscal year ending June 30, 2018. The implementation of the statement required the City to record beginning OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the City related to OPEB during the measurement period. Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position decreased \$11,102,207 for the governmental activities, \$1,233,578 for the Water Fund, \$1,233,578 for the Wastewater Fund, \$1,387,776 for the Electric Fund, \$462,593 for the Cable Fund, which totals \$4,317,525 for the business-type activities. Net position decreased \$616,790 for the Internal Service Fund.

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

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	2018	2017	2016	2015	2014
Morganton's proportion of the net pension liability (asset) %	0.18856%	0.19957%	0.20200%	0.20660%	0.20140%
Morganton's proportion of the net pension liability (asset) \$	2,880,674	4,235,544	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	10,063,585
Morganton's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.37%	37.44%	7.82%	-11.69%	24.12%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	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. This schedule will show ten years of information as it becomes available.

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MORGANTON'S CONTRIBUTIONS
LAST FIVE FISCAL YEARS

LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

	2018	2017	2016	2015	2014
Contractually required contribution	\$912,453	\$842,339	\$769,923	\$819,571	\$806,235
Contributions in relation to the contractually required contribution	912,453	842,339	769,923	819,571	806,235
Contribution deficiency (excess)	-	-	-	-	-
Morganton's covered-employee payroll	11,914,784	11,353,548	11,312,359	11,592,235	10,422,226
Contributions as a percentage of covered-employee payroll	7.66%	7.42%	6.81%	7.07%	7.74%

This schedule will show ten years of information as it becomes available.

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

	<u>2018</u>	<u>2017</u>
Beginning balance	\$2,543,747	\$2,613,350
Service cost	82,676	87,059
Interest on total pension liability	94,486	89,917
Changes of benefit terms		
Differences between expected and actual experience in the measurement of the total pension liability	(49,733)	
Changes of assumptions or other inputs	140,214	(57,236)
Benefit payments	(191,823)	(189,343)
Other changes		
Ending balance of the total pension liability	<u>\$2,619,567</u>	<u>\$2,543,747</u>

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

This schedule will show ten years of information as it becomes available.

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

	<u>2018</u>	<u>2017</u>
Total pension liability	\$2,619,567	\$2,543,747
Covered payroll	2,547,381	2,872,388
Total pension liability as a percentage of covered payroll	102.83%	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.

This schedule will show ten years of information as it becomes available.

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

	<u>2018</u>
Total OPEB Liability	
Service cost	\$686,630
Interest	577,105
Changes of benefit terms	
Differences between expected and actual experience	(30,128)
Changes of assumptions	(1,017,284)
Benefit payments	<u>(762,150)</u>
Net change in total OPEB liability	(545,827)
Total OPEB Liability - beginning	<u>19,551,179</u>
Total OPEB Liability - ending	<u>\$19,005,352</u>
Covered payroll	\$11,914,784
Total OPEB liability as a percentage of covered payroll	159.51%

Notes to Schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.56%

This schedule will show ten years of information as it becomes available.

CITY OF MORGANTON
CAPITAL PROJECTS FUND - COMMUNITY HOUSE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total To Date	
REVENUES					
Interest earned	\$67	\$50	\$16	\$66	(\$1)
Miscellaneous	5,812	5,812		\$5,812	
Restricted contributions	440,136	337,186	102,950	440,136	
Total revenues	<u>446,015</u>	<u>343,048</u>	<u>102,966</u>	<u>446,014</u>	<u>(1)</u>
EXPENDITURES					
Budgetary appropriation:					
Capital outlay	<u>2,114,429</u>	<u>1,497,403</u>	<u>617,026</u>	<u>2,114,429</u>	
Total expenditures	<u>2,114,429</u>	<u>1,497,403</u>	<u>617,026</u>	<u>2,114,429</u>	
Excess of revenues over expenditures	<u>(1,668,414)</u>	<u>(1,154,355)</u>	<u>(514,060)</u>	<u>(1,668,415)</u>	<u>1</u>
OTHER FINANCING SOURCES (USES)					
Installment purchase debt issued	1,290,000	1,290,000		1,290,000	
Transfer to Economic Development Fund	(380,000)	(232,500)	(147,500)	(380,000)	
Transfer to General Fund	(85,474)		(85,473)	(85,473)	(1)
Transfer from General Fund	453,888	453,888		453,888	
Transfer from Economic Development Fund	390,000	331,250	58,750	390,000	
Total other financing sources (uses)	<u>1,668,414</u>	<u>1,842,638</u>	<u>(174,223)</u>	<u>1,668,415</u>	<u>(1)</u>
Excess of revenues over (under) expenditures and other financial uses	<u></u>	<u>\$688,283</u>	<u>(688,283)</u>	<u></u>	<u></u>
Fund balances - beginning			<u>688,283</u>		
Fund balances - ending			<u></u>		

CITY OF MORGANTON
CAPITAL PROJECTS FUND - GREENWAY CONNECTOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		<u>Actual</u>			Variance
	<u>Project</u>	<u>Prior</u>	<u>Current</u>	<u>Total To</u>	<u>Favorable</u>
	<u>Authorization</u>	<u>Years</u>	<u>Year</u>	<u>Date</u>	<u>(Unfavorable)</u>
REVENUES					
ARC grant	1,335,000				(\$1,335,000)
Total revenues	<u>1,335,000</u>				<u>(1,335,000)</u>
EXPENDITURES					
Construction	1,668,750				1,668,750
Total expenditures	<u>1,668,750</u>				<u>1,668,750</u>
Excess of revenues over expenditures	<u>(333,750)</u>				<u>333,750</u>
OTHER FINANCING SOURCES (USES)					
Transfer from General Fund	<u>333,750</u>		<u>\$333,750</u>	<u>\$333,750</u>	
Total other financing sources (uses)	<u>333,750</u>		<u>333,750</u>	<u>333,750</u>	
Excess of revenues over (under) expenditures and other financial uses	<u> </u>	<u> </u>	<u>333,750</u>	<u>\$333,750</u>	<u>\$333,750</u>
Fund balances - beginning			<u> </u>		
Fund balances - ending			<u>\$333,750</u>		

CITY OF MORGANTON
CAPITAL PROJECTS FUND - EXIT 105 ROAD CONNECTOR
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		<u>Actual</u>			Variance
	<u>Project</u>	<u>Prior</u>	<u>Current</u>	<u>Total To</u>	<u>Favorable</u>
	<u>Authorization</u>	<u>Years</u>	<u>Year</u>	<u>Date</u>	<u>(Unfavorable)</u>
REVENUES					
ARC grant	\$1,375,000				
Total revenues	<u>1,375,000</u>				<u>0</u>
EXPENDITURES					
Site work	50,000				50,000
Construction	893,875				893,875
Demolition and removal	65,000				65,000
Traffic signals and lighting	59,286				59,286
Architectural/engineering	52,738				52,738
Project inspection	158,214				158,214
ContingencySite Work	<u>95,887</u>				<u>95,887</u>
Total expenditures	<u>1,375,000</u>				<u>1,375,000</u>
Excess of revenues over expenditures	<u></u>	<u></u>		<u></u>	<u></u>
Fund balances - beginning			<u></u>		
Fund balances - ending			<u></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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest earned			\$11,150	\$11,150
Total revenues			11,150	11,150
OTHER FINANCING SOURCES (USES)				
Transfers in		88,750	88,750	
Transfers out		(88,750)		88,750
Total other financing sources (uses)			88,750	88,750
Excess of revenues over (under) expenditures and other financial uses			99,900	\$99,900
Fund balances - beginning			1,192,907	
Fund balances - ending			\$1,292,807	

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, 2018

	<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	\$4,380,674	\$3,924,418	\$104,850	\$4,029,268	\$351,406
Program income	348,502	320,679	43,447	364,126	(15,624)
Total revenues	<u>4,729,176</u>	<u>4,245,097</u>	<u>148,297</u>	<u>4,393,394</u>	<u>335,782</u>
EXPENDITURES					
Economic and physical development					
Land acquisition	389,673	171,423	450	171,873	217,800
Rehabilitation	426,600	525,117		525,117	(98,517)
Construction	1,126,670	838,440	25,014	863,454	263,216
Administration	687,670	687,593	30,440	718,033	(30,363)
Credit counseling	32,253	32,253		32,253	
Deposit assistance	19,162	19,162		19,162	
Grant assistance	460,225	411,713	21,980	433,693	26,532
Interest expense	133,109	119,500		119,500	13,609
Small business loan	713,916	652,322	30,000	682,322	31,594
Bad debts		11,503	2,877	14,380	(14,380)
Section 108 loan repayment	380,000	375,000		375,000	5,000
Total expenditures	<u>4,369,278</u>	<u>3,844,026</u>	<u>110,761</u>	<u>3,954,787</u>	<u>414,491</u>
Excess of revenues over (under) expenditures	<u>359,898</u>	<u>401,071</u>	<u>37,536</u>	<u>438,607</u>	<u>(78,709)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of capital debt (108)	375,000	375,000		375,000	
Paid to State of North Carolina	(49,989)	(49,989)		(49,989)	
Transfers from general fund	3,439	3,439		3,439	
Transfer to electric fund	(8,331)	(8,331)		(8,331)	
Transfer to cable fund	(16,960)	(16,960)		(16,960)	
Transfer to component unit Redevelopment commission	(663,057)	(663,057)		(663,057)	
	<u>(359,898)</u>	<u>(359,898)</u>		<u>(359,898)</u>	
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>\$41,173</u>	<u>\$37,536</u>	<u>\$78,709</u>	<u>(\$78,709)</u>
Fund balances - beginning			<u>\$41,173</u>		
Fund balances - ending			<u>\$78,709</u>		

CITY OF MORGANTON
BUILDING RE-USE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Project</u>	<u>Actual</u>		<u>Variance</u>
	<u>Authorization</u>	<u>Prior</u>	<u>Current</u>	<u>Favorable</u>
		<u>Years</u>	<u>Year</u>	<u>(Unfavorable)</u>
			<u>Total To</u>	
			<u>Date</u>	
REVENUES				
Grant revenue	\$2,130,000		\$237,469	(\$1,892,431)
Burke County	40,750			(\$40,750)
Total revenues	<u>2,170,750</u>		<u>237,469</u>	<u>(\$1,933,181)</u>
EXPENDITURES				
Economic development	2,130,000		237,469	1,892,531
Administration	81,500		10,633	70,867
Total expenditures	<u>2,211,500</u>		<u>248,102</u>	<u>1,963,398</u>
Excess of revenues over (under) expenditures	<u>(40,750)</u>		<u>(10,633)</u>	<u>(30,117)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from general fund	40,750		40,750	
	<u>40,750</u>		<u>40,750</u>	
Excess of revenues over (under) expenditures and other financial uses			<u>\$30,117</u>	<u>(\$30,117)</u>
Fund balances - beginning				
Fund balances - ending			<u>\$30,117</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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$10,000	\$63,530	\$53,530
Water rents	5,303,500	5,159,270	(144,230)
Penalties	49,500	59,604	10,104
Water taps	50,000	53,855	3,855
Reconnect fees	28,000	18,675	(9,325)
Rental income	353,000	322,159	(30,841)
Total	<u>5,794,000</u>	<u>5,677,093</u>	<u>(116,907)</u>
Nonoperating revenues (expenditures) :			
Interest on investments	31,000	67,995	36,995
Miscellaneous	5,000	4,541	(459)
Interest expenditures	(18,363)	(14,647)	3,716
Total	<u>17,637</u>	<u>57,889</u>	<u>40,252</u>
Total revenues	<u>5,811,637</u>	<u>5,734,982</u>	<u>(76,655)</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,491,644	
Operating expenditures		2,547,204	
Total	<u>\$4,303,976</u>	<u>\$4,038,848</u>	<u>\$265,128</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, 2018

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$330,777	\$330,777	0
Capital outlay	1,217,275	904,113	\$313,162
	1,548,052	1,234,890	313,162
Total budgetary appropriations			
Total expenditures	5,852,028	5,273,738	578,290
REVENUES OVER (UNDER) EXPENDITURES	(40,391)	461,244	501,635
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	40,391		(40,391)
	40,391		(40,391)
Total other financing sources (uses)			
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(40,391)	\$461,244	\$461,244
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$461,244
Reconciling items:			
Capital outlays		904,113	
Debt principal		330,777	
Depreciation		(1,193,592)	
Accrued vacation pay		11,999	
Decrease in deferred outflows of resources - pensions		(110,016)	
Decrease in net pension liability		108,389	
Decrease in deferred inflows of resources - pensions		1,574	
Increase in deferred outflows of resources - OPEB		92,140	
Increase in deferred inflows of resources - OPEB		(71,839)	
Increase in OPEB liability		(286,850)	
Decrease in accrued OPEB liability		268,748	
Bad debts		(21,980)	33,463
Change in Net Position		(21,980)	\$494,707

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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Sewer rents	\$5,200,000	\$5,497,751	\$297,751
Late payment penalties	33,000	31,174	(1,826)
Sewer taps	5,000	12,000	7,000
Septage revenue	25,000	52,850	27,850
Sale of materials	6,000	8,163	2,163
Sale of sludge	5,500	935	(4,565)
	<u>5,274,500</u>	<u>5,602,873</u>	<u>328,373</u>
Nonoperating revenues (expenditures) :			
Interest earned	27,000	33,068	6,068
Miscellaneous	1,800	7,260	5,460
Interest expenditures	(422,032)	(422,017)	15
	<u>(393,232)</u>	<u>(381,689)</u>	<u>11,543</u>
Total revenues	<u>4,881,268</u>	<u>5,221,184</u>	<u>339,916</u>
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		941,332	
Operating expenditures		1,921,506	
		<u>2,862,838</u>	
Total wastewater treatment	<u>\$3,215,609</u>	<u>\$2,862,838</u>	<u>\$352,771</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, 2018

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$1,444,200	\$1,444,200	
Capital outlay	1,127,749	467,926	\$659,823
Total budgetary appropriations	2,571,949	1,912,126	659,823
Total expenditures	5,787,558	4,774,964	1,012,594
REVENUES OVER (UNDER) EXPENDITURES	(906,290)	446,220	1,352,510
OTHER FINANCING SOURCES (USES) :			
Installment purchase debt issued	190,000	150,000	(40,000)
Appropriated retained earnings	716,290		(716,290)
Total other financing sources (uses)	906,290	150,000	(756,290)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(906,290)	596,220	596,220
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under)			
Expenditures and Other Uses			\$596,220
Reconciling items:			
Capital outlays		467,926	
Debt principal		1,444,200	
Depreciation		(1,271,483)	
Installment purchase debt issued		(150,000)	
Accrued vacation pay		(2,993)	
Decrease in deferred outflows of resources - pensions		(110,016)	
Decrease in net pension liability		108,389	
Decrease in deferred inflows of resources - pensions		1,574	
Increase in deferred outflows of resources - OPEB		58,734	
Increase in deferred inflows of resources - OPEB		(71,839)	
Increase in OPEB liability		(275,354)	
Decrease in accrued OPEB liability		268,748	
Bad debts		(1,468)	466,418
Change in Net Position			\$1,062,638

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, 2018

		<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>
REVENUES :					
Interest earned			\$11,496	\$11,496	\$11,496
EXPENDITURES					
Construction	\$11,353,986	\$673,103	\$4,826,898	5,500,001	5,853,985
OTHER FINANCING SOURCES					
Appropriated retained earnings	387,616				(387,616)
Transfer from wastewater	600,000				(600,000)
Installment purchase debt issued	10,366,370	9,716,370		9,716,370	(650,000)
Total	11,353,986	9,716,370		9,716,370	(1,637,616)
Excess of expenditures (over) other financial uses		9,043,267	(4,815,402)	4,227,865	(4,227,865)
Fund balances - beginning			9,043,267		
Fund balances - ending			\$4,227,865		

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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$35,000	\$58,283	\$23,283
Sale of power	32,200,000	30,966,082	(1,233,918)
Late payment penalties	250,000	274,191	24,191
Security light rental	515,000	510,403	(4,597)
Street lighting	74,000	74,000	
Reconnection fees	48,000	34,425	(13,575)
Pole rental	6,000	6,261	261
Total	<u>33,128,000</u>	<u>31,923,645</u>	<u>(1,204,355)</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(7,350)	(7,896)	(546)
Interest earned	31,000	34,672	3,672
Miscellaneous	45,500	65,434	19,934
Total	<u>69,150</u>	<u>92,210</u>	<u>23,060</u>
Total revenues	<u>33,197,150</u>	<u>32,015,855</u>	<u>(1,181,295)</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,354,732	
Operating expenditures		1,964,965	
Purchases of power		27,227,149	
Total	<u>\$31,855,376</u>	<u>\$30,546,846</u>	<u>\$1,308,530</u>
Budgetary appropriations :			
Debt principal - installment purchase notes	\$107,181	\$107,181	
Capital Outlay	884,038	707,034	\$177,004
	<u>991,219</u>	<u>814,215</u>	<u>177,004</u>
Total budgetary appropriations	<u>991,219</u>	<u>814,215</u>	<u>177,004</u>
Total expenditures	<u>32,846,595</u>	<u>31,361,061</u>	<u>1,485,534</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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	350,555	654,794	304,239
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	26,497		(26,497)
Installment purchase debt issued	327,500	280,400	(47,100)
Transfer to general fund	<u>(704,552)</u>	<u>(704,552)</u>	
Total other financing sources (uses)	<u>(350,555)</u>	<u>(424,152)</u>	<u>(73,597)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u><u> </u></u>	<u>\$230,642</u>	<u>\$230,642</u>
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$230,642
Reconciling items:			
Capital outlays		707,034	
Debt principal		107,181	
Depreciation		(833,335)	
Installment purchase debt issued		(280,400)	
Accrued vacation pay		20,442	
Decrease in deferred outflows of resources - pensions		(123,768)	
Decrease in net pension liability		121,938	
Decrease in deferred inflows of resources - pensions		1,772	
Increase in deferred outflows of resources - OPEB		53,508	
Increase in deferred inflows of resources - OPEB		(80,820)	
Increase in OPEB liability		(322,706)	
Decrease in accrued OPEB liability		302,341	
Bad debts		<u>(31,540)</u>	<u>(358,353)</u>
Change in Net Position			<u><u>(\$127,711)</u></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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$15,000	\$46,500	\$31,500
Studio revenues	1,200		(1,200)
Telephone revenues	368,100	373,941	5,841
Internet revenues	1,545,859	1,908,408	362,549
Cable rents	<u>2,635,300</u>	<u>2,461,542</u>	<u>(173,758)</u>
Total	<u>4,565,459</u>	<u>4,790,391</u>	<u>224,932</u>
Nonoperating revenues (expenditures) :			
Interest earned		31	31
Penalties	55,000	64,490	9,490
Reconnect fees	20,000	28,200	8,200
Ad sales	67,000	35,624	(31,376)
Bad check charges	2,000	2,274	274
Miscellaneous revenue	8,000	7,332	(668)
Interest expenditures	<u>(3,024)</u>	<u>(4,916)</u>	<u>(1,892)</u>
Total	<u>148,976</u>	<u>133,035</u>	<u>(15,941)</u>
Total revenues	<u>4,714,435</u>	<u>4,923,426</u>	<u>208,991</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		506,275	
Operating expenditures		<u>3,718,583</u>	
Total cable operations and maintenance	<u>\$4,388,997</u>	<u>\$4,224,858</u>	<u>\$164,139</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, 2018

	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$159,483	\$159,483	
Capital outlay	370,000	434,537	(\$64,537)
Total budgetary appropriations	529,483	594,020	(64,537)
Total expenditures	4,918,480	4,818,878	99,602
REVENUES OVER (UNDER) EXPENDITURES	(204,045)	104,548	308,593
OTHER FINANCING SOURCES (USES) :			
Installment purchase debt issued	165,000	165,000	
Appropriated retained earnings	39,045		(39,045)
Total other financing sources (uses)	204,045	165,000	(39,045)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(204,045)	\$269,548	\$269,548
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$269,548
Reconciling items:			
Capital outlays		434,537	
Debt principal		159,483	
Installment purchase debt issued		(165,000)	
Depreciation		(329,486)	
Accrued vacation pay		2,319	
Decrease in deferred outflows of resources - pensions		(41,256)	
Decrease in net pension liability		40,646	
Decrease in deferred inflows of resources - pensions		591	
Increase in deferred inflows of resources - OPEB		(26,940)	
Increase in OPEB liability		(107,568)	
Decrease in accrued OPEB liability		100,780	
Bad debts		5,341	73,447
Change in Net Position			\$342,995

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, 2018

	Financial Plan	Actual	Variance
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	\$586,755	\$586,755	
Electric Fund	85,575	85,575	
Water Fund	46,052	46,052	
Wastewater Fund	41,277	41,277	
Cable Fund	107,487	107,487	
Internal Service Fund	27,053	27,053	
ARC grant		30,783	\$30,783
Total	894,199	924,982	30,783
Warehouse :			
General Fund sales	30,000	23,468	(\$6,532)
Electric Fund sales	235,000	285,195	50,195
Water Fund sales	65,000	73,460	8,460
Wastewater Fund sales	2,000	3,520	1,520
Cable Fund sales	30,000	43,459	13,459
Total	362,000	429,102	67,102
Garage :			
General Fund sales	207,900	213,289	5,389
Electric Fund sales	25,000	24,815	(185)
Water Fund sales	22,000	23,800	1,800
Wastewater Fund sales	10,000	2,702	(7,298)
Cable Fund sales	10,000	10,653	653
Sale of fuel	450,000	341,956	(108,044)
Total	724,900	617,215	(107,685)
Total operating revenues	1,981,099	1,971,299	(9,800)
Nonoperating revenues :			
Sale of materials/surplus		3,646	3,646
Total revenues	\$1,981,099	\$1,974,945	(\$6,154)

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, 2018

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$397,158	
Operating expenditures		567,068	
Total IRMS	<u>\$1,024,709</u>	<u>964,226</u>	<u>\$60,483</u>
Warehouse :			
Salaries and employee benefits		130,086	
Operating expenditures		40,493	
Purchases of inventory		382,574	
Pro rata administrative services		(188,618)	
Total warehouse	<u>397,241</u>	<u>364,535</u>	<u>32,706</u>
Garage :			
Salaries and employee benefits		227,675	
Operating expenditures		80,561	
Purchases of inventory		318,784	
Purchases of fuel		340,848	
Pro rata administrative services		(327,619)	
Total garage	<u>699,900</u>	<u>640,249</u>	<u>59,651</u>
Budgetary appropriations :			
Capital outlay	<u>225,116</u>	<u>88,417</u>	<u>136,699</u>
Total budgetary appropriations	<u>225,116</u>	<u>88,417</u>	<u>136,699</u>
Total expenditures	<u>\$2,346,966</u>	<u>\$2,057,427</u>	<u>\$289,539</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, 2018

	Financial Plan	Actual	Variance
REVENUES OVER (UNDER) EXPENDITURES	(\$365,867)	(\$82,482)	(\$283,385)
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	365,867		365,867
Total other financing sources (uses)	365,867		365,867
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		\$82,482	(\$82,482)
RECONCILIATION FROM FINANCIAL PLAN (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
Revenue and other sources Over Expenditures and other Uses			(\$82,482)
Reconciling items:			
Capital outlays		88,417	
Depreciation		(106,459)	
Accrued vacation pay		(1,869)	
Decrease in deferred outflows of resources - pensions		(55,008)	
Decrease in net pension liability		54,195	
Decrease in deferred inflows of resources - pensions		787	
Increase in deferred outflows of resources - OPEB		64,286	
Increase in deferred inflows of resources - OPEB		(35,920)	
Increase in OPEB liability		(143,424)	
Decrease in accrued OPEB liability		134,373	
Inventory		(67,302)	(67,924)
Change in Net Position			(\$150,406)

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2018

Fiscal Year	Uncollected Balance June 30, 2017	Additions	Collections and Credits	Uncollected Balance June 30, 2018
2017-2018		\$9,043,825	\$8,926,814	\$117,011
2016-2017	\$103,471		60,296	43,175
2015-2016	32,682		10,959	21,723
2014-2015	18,508		3,926	14,582
2013-2014	21,135		3,132	18,003
2012-2013	15,368		1,374	13,994
2011-2012	10,283		815	9,468
2010-2011	9,550		573	8,977
2009-2010	9,569		765	8,804
2008-2009	9,699		334	9,365
2007-2008	7,469		7,469	
TOTAL	<u>\$237,734</u>	<u>\$9,043,825</u>	<u>\$9,016,457</u>	<u>\$265,102</u>
Less Allowance for Doubtful Accounts				<u>148,091</u>
Net Property Tax Receivable (Exhibit 1)				<u>\$117,011</u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$8,939,363		
Less interest collected		<u>(29,582)</u>	\$ 8,909,781	
Discounts			99,207	
Amount written off for tax year 2007-2008 per statute of limitations			<u>7,469</u>	
TOTAL COLLECTIONS AND CREDITS			<u>\$ 9,016,457</u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2018

	<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	\$1,531,223,489	0.53	\$8,115,486	\$8,115,486	
Special district	83,516,693	0.14	\$116,923	\$116,923	
Vehicle Taxes	115,776,415	0.53	\$613,615		\$613,615
 ADD DISCOVERIES :					
Current year	40,081,132	0.53	\$212,430	212,430	
 LESS RELEASES	<u>(2,760,188)</u>		<u>(14,629)</u>	<u>(14,629)</u>	
 TOTAL	<u><u>\$1,767,837,541</u></u>		<u><u>\$9,043,825</u></u>	<u><u>\$8,430,210</u></u>	<u><u>\$613,615</u></u>
 LESS UNCOLLECTED TAXES AT June 30, 2018			<u>117,011</u>	<u>117,011</u>	
 CURRENT YEAR'S TAXES COLLECTED			<u><u>\$8,926,814</u></u>	<u><u>\$8,313,199</u></u>	<u><u>\$613,615</u></u>
 PERCENT CURRENT YEAR COLLECTED			<u><u>98.71%</u></u>	<u><u>98.61%</u></u>	<u><u>100.00%</u></u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$704,552	
From Capital Projects Fund	85,473	
To Special Revenue Fund		\$40,750
To Capital Projects Fund		333,750
	<u>790,025</u>	<u>374,500</u>
Capital Projects Fund:		
From General Fund	333,750	
To Economic Development Fund (a sub-fund of the general fund)		88,750
To General Fund		85,473
	<u>333,750</u>	<u>174,223</u>
Special Revenue Fund:		
From General Fund	40,750	
Economic Development Fund (a sub-fund of the general fund):		
From Capital Projects Fund	88,750	
Electric Fund :		
To General Fund		704,552
Grand Totals	<u>\$1,253,275</u>	<u>\$1,253,275</u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2018

	<u>Carrying Value</u>	<u>Cost Value</u>	<u>Fair Value</u>
CASH :			
On hand	\$6,571	\$6,571	\$6,571
In time deposits - NOW, SuperNOW, money market and certificates of deposit	<u>14,183,084</u>	<u>14,183,084</u>	<u>14,183,084</u>
Total cash	<u>14,189,655</u>	<u>14,189,655</u>	<u>14,189,655</u>
INVESTMENTS :			
North Carolina Capital Management Trust	9,495,988	9,495,988	9,495,988
US Government agencies	<u>20,823,819</u>	<u>20,955,969</u>	<u>20,823,819</u>
Total investments (including cash equivalents)	<u>30,319,807</u>	<u>30,451,957</u>	<u>30,319,807</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$44,509,462</u></u>	 <u><u>\$44,641,612</u></u>	 <u><u>\$44,509,462</u></u>

CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2018

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.	102-111
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	112-115
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.	116-119
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.	120-121
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.	122-126

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)

	2009	2010	2011	2012
Governmental activities				
Invested in capital assets, net of related debt	\$39,304,208	\$37,897,550	\$36,335,474	\$33,673,160
Restricted	1,134,780	1,315,433	5,549,775	6,255,232
Unrestricted	13,048,121	11,272,201	4,231,094	4,219,343
Total governmental activities net assets	<u>53,487,109</u>	<u>50,485,184</u>	<u>46,116,343</u>	<u>44,147,735</u>
Business-type activities				
Invested in capital assets, net of related debt	49,218,328	50,256,119	51,016,008	50,371,775
Unrestricted	13,890,105	13,075,437	14,737,059	16,813,565
Total business-type activities net assets	<u>63,108,433</u>	<u>63,331,556</u>	<u>65,753,067</u>	<u>67,185,340</u>
Primary government				
Net investment in capital assets	88,522,536	88,153,669	87,351,482	84,044,935
Restricted	1,134,780	1,315,433	9,780,869	10,474,575
Unrestricted	26,938,226	24,347,638	18,968,153	16,813,565
Total primary government net assets	<u>\$116,595,542</u>	<u>\$113,816,740</u>	<u>\$116,100,504</u>	<u>\$111,333,075</u>

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$31,808,471	\$30,490,395	\$31,287,687	\$29,363,037	\$27,910,238	\$28,863,885
7,590,604	6,480,008	6,222,219	7,896,819	3,953,135	4,592,854
3,471,229	4,749,144	4,765,778	6,086,449	10,407,024	(1,626,323)
42,870,304	41,719,547	42,275,684	43,346,305	42,270,397	31,830,416
51,986,555	54,455,902	54,912,799	56,570,906	47,303,662	52,462,517
17,958,568	17,348,180	17,095,160	17,207,118	27,428,041	19,724,290
69,945,123	71,804,082	72,007,959	73,778,024	74,731,703	72,186,807
83,795,026	84,946,297	86,200,486	85,933,943	75,213,900	81,326,402
7,695,753	6,480,008	6,222,219	7,896,819	3,953,135	4,592,854
21,324,648	22,097,324	21,860,938	23,293,567	37,835,065	18,097,967
\$112,815,427	\$113,523,629	\$114,283,643	\$117,124,329	\$117,002,100	\$104,017,223

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

	Fiscal Year			
	2009	2010	2011	2012
Expenses				
Governmental activities:				
General government	\$3,607,537	\$3,630,766	\$3,609,198	\$3,982,814
Public Safety	8,483,992	7,408,112	8,020,152	7,331,704
Transportation	2,468,048	2,412,047	2,275,232	2,396,894
Economic and physical development	96,570	218,656	216,413	200,710
Environmental protection	1,307,076	1,176,135	1,210,998	1,105,025
Culture and recreation	4,655,871	4,183,063	4,765,491	4,680,010
Interest on long-term debt	212,829	201,570	177,894	132,767
Total governmental activities expenses	<u>20,831,923</u>	<u>19,230,349</u>	<u>20,275,378</u>	<u>19,829,924</u>
Business-type activities:				
Water	4,075,486	3,719,723	4,428,054	4,626,908
Wastewater	4,113,272	3,739,629	3,791,743	3,465,124
Electric	26,798,280	27,380,632	29,042,901	30,455,928
Cable	4,009,621	4,173,224	4,200,613	4,201,231
Community house	345,256	300,521		
Total business-type activities expenses	<u>39,341,915</u>	<u>39,313,729</u>	<u>41,463,311</u>	<u>42,749,191</u>
Total primary government expenses	<u>60,173,838</u>	<u>58,544,078</u>	<u>61,738,689</u>	<u>62,579,115</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	46,347	354,433	401,366	474,238
Public Safety	472,980	214,043	49,184	38,273
Transportation	529,095		468,136	
Economic and physical development				
Environmental protection	1,035,070	1,024,768	1,094,518	1,085,405
Culture and recreation	888,946	861,029	970,297	988,922
Operating Grants and Contributions	286,720	724,637	425,492	797,030
Capital Grants and Contributions	12,291	323,177	934,725	775,628
Total governmental activities program rev's	<u>3,271,449</u>	<u>3,502,087</u>	<u>4,343,718</u>	<u>4,159,496</u>
Business-type activities:				
Charges for services:				
Water	4,662,378	4,894,472	4,643,110	4,854,787
Wastewater	4,288,210	4,274,993	4,677,572	4,891,791
Electric	23,925,934	26,192,614	29,170,119	30,854,838
Cable	3,823,539	3,973,907	4,087,798	4,115,024
Community house	215,865	175,332		
Operating Grants and Contributions	20,980	19,392		
Total business-type activities program rev's	<u>36,936,906</u>	<u>39,530,710</u>	<u>42,578,599</u>	<u>44,716,440</u>
Total primary government program rev's	<u>\$40,208,355</u>	<u>\$43,032,797</u>	<u>\$46,922,317</u>	<u>\$48,875,936</u>

2013	2014	2015	2016	2017	2018
\$3,912,009	\$3,440,468	\$1,849,269	\$3,343,228	\$3,222,746	\$3,419,322
7,416,835	7,660,604	7,852,782	6,651,717	7,582,613	7,998,165
2,277,238	2,576,293	2,312,432	2,730,653	2,497,040	2,548,502
119,035	136,785	141,751	285,783	165,678	358,863
1,155,375	1,047,375	1,097,467	1,046,082	1,209,929	1,217,912
4,724,850	4,811,792	5,455,971	5,186,423	4,992,109	5,082,336
127,653	122,825	124,446	138,427	119,363	136,483
19,732,995	19,796,142	18,834,118	19,382,313	19,789,478	20,761,583
4,803,191	4,949,707	5,070,715	5,029,465	5,195,893	5,254,922
3,723,556	4,091,744	4,280,212	4,425,170	4,397,099	4,592,059
32,061,280	33,682,364	34,719,580	32,438,473	32,176,623	31,446,910
4,433,307	4,472,432	4,347,245	4,417,630	4,375,105	4,585,347
45,021,334	47,196,247	48,417,752	46,310,738	46,144,720	45,879,238
64,754,329	66,992,389	67,251,870	65,693,051	65,934,198	66,640,821
561,709	624,519	817,679	532,812	568,422	333,057
33,898	38,499	49,396	61,180		21,346
	7,557	3,240	1,120		
	125,549	155,545			
1,211,551	1,189,156	1,183,901	1,188,228	1,210,766	1,358,022
1,032,610	1,101,543	1,075,183	1,058,685	1,139,879	1,226,015
716,426	843,004	720,271	1,455,215	1,550,179	979,262
863,938		945,182	129,196	159,558	320,312
4,420,132	3,929,827	4,950,397	4,426,436	4,628,804	4,238,014
5,020,919	5,480,781	5,629,436	5,776,164	5,612,687	5,677,093
4,988,894	5,045,826	4,980,346	5,309,234	4,753,049	5,602,873
32,808,535	34,537,320	34,615,760	33,452,210	32,767,824	31,923,645
4,259,270	4,128,586	4,147,511	4,239,367	4,345,190	4,790,391
47,077,618	49,192,513	49,373,053	48,776,975	47,478,750	47,994,002
\$51,497,750	\$53,122,340	\$54,323,450	\$53,203,411	\$52,107,554	\$52,232,016

Net (Expense)/Revenue

Governmental activities	(\$17,560,474)	(\$15,728,262)	(\$15,931,660)	(\$15,670,428)
Business-type activities	(2,405,009)	216,981	1,115,288	1,967,249
Total primary government net expense	<u>(19,965,483)</u>	<u>(15,511,281)</u>	<u>(14,816,372)</u>	<u>(13,703,179)</u>

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

Governmental activities:				
Ad valorem taxes	7,862,442	7,820,692	7,708,574	7,623,645
Occupancy tax				
Privilege license tax				
Carbon City fire tax				
Sales tax				
Other taxes	2,976,369	2,641,496	3,064,831	3,517,569
Unrestricted intergovernmental revenues	1,993,844	1,713,894	1,719,297	1,751,859
Restricted intergovernmental revenues			24,701	
Investment earnings	526,467	137,801	37,993	21,939
Other revenues	95,722	64,690	74,362	
Change in reserve for prepaid insurance				
Permits				
Transfers	461,170	337,467	(858,831)	786,808
Total governmental activities	<u>13,916,014</u>	<u>12,716,040</u>	<u>11,770,927</u>	<u>13,701,820</u>

Business-type activities:				
Investment earnings	373,351	105,723	32,730	31,769
Other revenues	186,285	237,886	206,554	220,063
Transfers	(461,170)	(337,467)	858,831	(786,808)
Total business-type activities	<u>98,466</u>	<u>6,142</u>	<u>1,098,115</u>	<u>(534,976)</u>
Total primary government	<u>14,014,480</u>	<u>12,722,182</u>	<u>12,869,042</u>	<u>13,166,844</u>

Change in Net Position

Governmental activities	(3,644,460)	(3,012,222)	(4,160,733)	(1,968,608)
Business-type activities	(2,306,543)	223,123	2,213,403	1,432,273
Total primary government	<u>(\$5,951,003)</u>	<u>(\$2,789,099)</u>	<u>(\$1,947,330)</u>	<u>(\$536,335)</u>

(\$15,312,863)	(\$15,866,315)	(\$13,883,721)	(\$14,955,877)	(\$15,160,674)	(\$16,523,569)
2,056,284	1,996,266	955,301	2,466,237	1,334,030	2,114,764
<u>(13,256,579)</u>	<u>(13,870,049)</u>	<u>(12,928,420)</u>	<u>(12,489,640)</u>	<u>(13,826,644)</u>	<u>(14,408,805)</u>

7,944,516	8,746,988	9,021,003	9,088,863	9,045,679	8,953,681
		79,879	91,224	110,727	110,494
		190,977	48		
		9,164	9,259	9,579	9,362
		3,275,403	3,522,743	3,839,698	4,069,777
3,460,242	3,339,080				
1,737,882	1,796,345	2,064,379	2,527,391	2,540,423	2,597,176
32,542	20,640	32,694	77,325	107,644	219,318
64,550	130,903	291,330	194,633	76,862	28,908
			(152,416)		
					492,527
795,700	681,602	642,442	667,428	688,353	704,552
<u>14,035,432</u>	<u>14,715,558</u>	<u>15,607,271</u>	<u>16,026,498</u>	<u>16,418,965</u>	<u>17,185,795</u>

46,163	34,987	37,703	92,821	87,291	147,262
215,785	509,308	307,310	228,450	220,711	215,155
<u>(795,700)</u>	<u>(681,602)</u>	<u>(642,442)</u>	<u>(667,428)</u>	<u>(688,353)</u>	<u>(704,552)</u>
<u>(533,752)</u>	<u>(137,307)</u>	<u>(297,429)</u>	<u>(346,157)</u>	<u>(380,351)</u>	<u>(342,135)</u>
<u>13,501,680</u>	<u>14,578,251</u>	<u>15,309,842</u>	<u>15,680,341</u>	<u>16,038,614</u>	<u>16,843,660</u>

(1,277,431)	(1,150,757)	1,723,550	1,070,621	1,258,291	662,226
1,522,532	1,858,959	657,872	2,120,080	953,679	1,772,629
<u>\$245,101</u>	<u>\$708,202</u>	<u>\$2,381,422</u>	<u>\$3,190,701</u>	<u>\$2,211,970</u>	<u>\$2,434,855</u>

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

	2009	2010	2011*	2012	2013
General Fund					
Reserved	\$2,894,718	\$1,872,310			
Unreserved	7,062,954	7,115,736			
Nonspendable					
Restricted			\$2,104,203	\$1,965,729	\$2,610,137
Committed			3,066,228	3,953,714	4,725,743
Unassigned			5,203,732	5,096,368	4,702,828
	<u>9,957,672</u>	<u>8,988,046</u>	<u>10,374,163</u>	<u>11,015,811</u>	<u>12,038,708</u>
Total general fund					
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	3,682,671	3,417,360			
Restricted			379,344	335,789	340,959
Committed					
Unassigned			3,163	13,580	18,231
Total all other governmental funds	<u>\$3,682,671</u>	<u>\$3,417,360</u>	<u>\$382,507</u>	<u>\$349,369</u>	<u>\$359,190</u>

Notes:

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

2014	2015	2016	2017	2018
		\$152,416	\$157,278	\$170,285
\$1,895,424	\$1,844,844	2,975,342	3,911,962	4,592,854
4,287,109	4,107,784	3,431,035	3,559,855	2,551,831
5,951,951	6,918,323	8,839,922	10,462,406	11,018,235
12,134,484	12,870,951	15,398,715	18,091,501	18,333,205
290,480	248,802	41,859	41,173	78,709
	161,800	365,671	905,998	590,969
6,995				
\$297,475	\$410,602	\$407,530	\$947,171	\$669,678

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

	2009	2010	2011	2012
Revenues				
Ad valorem taxes	\$7,811,407	\$7,786,282	\$7,707,971	\$7,630,208
Other taxes and licenses	2,984,770	2,649,525	3,064,831	3,517,569
Unrestricted intergovernmental revenues	1,996,276	1,851,812	1,863,644	1,891,276
Restricted intergovernmental revenues	993,723	1,164,160	1,708,071	1,528,865
Other restricted revenues	15,408	58,557	128,474	34,098
Permits and fees	235,419	168,853	219,976	168,538
Sales and services	2,045,014	1,964,570	2,167,551	2,215,061
Investment earnings	526,467	137,801	37,993	21,939
Other revenues	212,665	64,690	74,362	73,517
Total revenues	16,821,149	15,846,250	16,972,873	17,081,071
Expenditures				
General government	3,922,209	3,266,881	3,126,601	3,479,442
Public safety	8,477,428	6,693,223	7,221,357	6,908,659
Transportation	1,243,638	1,160,742	1,183,133	1,230,622
Environmental protection	1,208,846	1,005,097	1,044,297	1,168,448
Cultural and recreational	6,102,022	4,171,791	3,917,534	3,882,803
Economic and physical development	96,570	233,656	216,413	200,710
Debt service				
Principal	499,283	672,392	693,644	682,564
Interest	147,452	214,872	180,022	150,661
Total expenditures	21,697,448	17,418,654	17,583,001	17,703,909
Other Financing Sources (Uses)				
Installment purchase issued	2,320,000		196,540	836,808
Transfers in	1,015,561	749,167	724,676	(50,000)
Transfers out	(554,391)	(411,700)	(1,583,507)	444,540
Total other financing sources (uses)	2,781,170	337,467	(662,291)	1,231,348
Net change in fund balances	(\$2,095,129)	(\$1,234,937)	(\$1,272,419)	\$608,510
Debt service as a percentage of noncapital expenditures	3.73%	5.37%	5.23%	4.93%

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$7,936,870	\$8,732,981	\$9,054,942	\$9,105,965	\$9,009,716	\$8,939,363
3,460,242	3,339,080	3,555,423	3,623,274	3,960,004	4,189,633
1,957,471	2,045,038	2,487,639	2,538,025	2,551,652	2,597,176
1,539,846	914,592	848,220	1,413,916	863,730	940,837
17,894	29,808	141,319	113,582	728,249	351,510
252,293	143,282	181,362	137,285	398,174	492,527
2,410,889	2,593,452	3,256,986	2,842,025	2,598,555	2,938,441
32,542	20,640	32,694	77,325	107,644	219,318
118,481	130,903	390,580	103,627	105,729	36,134
17,726,528	17,949,776	19,949,165	19,955,024	20,323,453	20,704,939
3,709,428	3,322,629	3,171,885	3,424,337	3,070,281	3,093,337
7,052,196	8,123,787	7,813,649	7,144,444	7,259,946	8,197,966
1,255,466	1,546,120	1,397,533	1,570,530	1,588,015	1,244,199
987,112	1,081,299	1,181,444	1,153,858	1,230,240	1,086,274
4,010,149	4,558,063	5,668,844	5,303,790	5,501,343	5,640,957
119,035	136,785	141,751	306,479	165,678	358,863
708,746	796,859	953,035	981,041	1,389,553	1,673,751
136,978	121,928	119,111	111,049	119,678	149,933
17,979,110	19,687,470	20,447,252	19,995,528	20,324,734	21,445,280
489,600	1,090,153	705,239	1,897,768	2,545,355	
891,775	681,602	1,288,080	806,928	920,853	1,253,275
(96,075)		(645,638)	(139,500)	(232,500)	(548,723)
1,285,300	1,771,755	1,347,681	2,565,196	3,233,708	704,552
\$1,032,718	\$34,061	\$849,594	\$2,524,692	\$3,232,427	(\$35,789)
4.70%	5.34%	5.24%	6.26%	8.79%	9.73%

**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>
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
2017-18	1,254,947,435	384,731,511	33,969,373	1,673,648,319	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
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
2017-18	0.53	0.14	0.695

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 2017-2018</u>			<u>Fiscal Year 2007-2008</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.	\$101,958,518	1	5.71%	\$94,131,850	1	6.44%
SGL Carbon Corp	38,146,075	2	2.14%	37,415,671	3	2.56%
ARCP MT Morganton NC LL	30,686,556	3	1.72%			
Case Farms Processing	25,575,996	4	1.43%			
Leviton Manufacturing	25,353,596	5	1.42%	16,577,954	6	1.13%
Seiren North America LLC	19,514,848	6	1.09%			
Caterpillar Inc	16,204,915	7	0.91%	14,190,360	7	0.97%
American Roller Bearing	14,426,796	8	0.81%			
Grace Properties	15,453,539	9	0.87%	13,661,317	8	
Gerresheimer Glass Inc.	15,104,698	10	0.85%			
Fiddlers Run LLC				13,121,096	9	0.90%
HDM Furniture Industries				35,085,615	4	2.40%
VPI INC				10,714,163	10	0.73%
Sypris Technologies Inc				29,666,263	5	2.03%
Viscotec				37,471,190	2	2.56%
Total	\$302,425,537		16.94%	\$302,035,479		19.72%

Source: City of Morganton Tax Division

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

Fiscal Year	Collected within the Fiscal Year of the Levy			Collections in Subsequent Years	Total Collections To Date	
	Taxes Levied for the Fiscal Year	Amount	Percentage of Levy		Amount	Percentage of Levy
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%	60,296	9,095,846	99.53%
2017-18	9,043,825	8,926,814	98.71%	0	8,926,814	98.71%

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	3.08%	1,001
2016-17	0	6,183,186	0	11,267,707	10,445,104	27,895,997	4.21%	1,674
2017-18	0	4,509,435	0	10,458,709	9,807,861	24,776,005	Not Available	1,500

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
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
2017-18	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	\$69,360,000	27.25%	\$18,900,600
City of Morganton	<u>4,509,435</u>	100.00%	<u>4,509,435</u>
Total direct and overlapping debt	\$73,869,435		\$23,410,035

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, 2018**

Legal Debt Margin Calculation for Fiscal Year 2017-18	
Assessed Value	\$1,730,641,389
Debt Limit 8% of Assessed Value	138,451,311
Debt Applicable to Debt Limit:	24,776,005
Legal Debt Margin	113,675,306

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
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%
2017-18	138,451,311	24,776,005	113,675,306	17.90%

**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
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	550,477,884	32,538	5.0%
2017	16,665	662,583,735	39,759	4.0%
2018	16,519	Not available	Not available	3.9%

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 2017-18</u>			<u>Fiscal Year 2007-2008</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 Schools	1,500	2	3.97%	2,300	2	5.47%
Carolinas Healthcare/Blue Ridge	1,400	3	3.70%	1,709	3	4.07%
Case Farms	1,000	4	2.64%	740	5	1.76%
Leviton	625	5	1.65%	617	6	1.47%
City of Morganton	599	6	1.58%	615	7	1.46%
Burke County	525	7	1.39%	457	10	1.09%
Continental Teves	525	8	1.39%	550	8	1.31%
Western Piedmont College	415	9	1.10%			
Viscotec Manufacturing	275	10	0.73%	464	9	1.10%
Turning Point Services				800	4	1.90%
Total	9,089		24.03%	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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government	51	51	48	48	48	48	48	48	48	48
Public Safety	100	97.58	92	91	87	87	88	91	93	94
Transportation/Garage	24	22	23	22	22	23	23	23	23	23
Environmental Protection	17	16	13	13	13	13	13	13	13	13
Cultural & Recreation	26.5	26.2	23.5	22.5	19.5	25.25	26.25	26.25	27	28.00
IRMS	6	6	5	5	5	6	6	6	6	6
Electric	25	26	24	22	22	24	24	24	24	24
Cable	8	8	8	8	8	9	9	9	9	9
Water	22	22	21	20	20	20	20	20	20	20
Wastewater	24	23	21	21	23	22	22	22	22	22
Total	303.5	297.78	278.5	272.5	267.5	277.25	279.25	282.25	285.00	287.00

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			
	2009	2010	2011	2012
General Government				
Building Permits Issued	275	252	273	631
Building Inspections Conducted	4,085	4,022	4,958	2,077
Full-Time Employees	303.5	295.5	276.5	272.5
Part-Time Employees	210.75	292	285	319
Police				
Physical Arrests (18 & over)(annual)	2,219	1,728	1,569	1,746
Parking Violations	1,409	739	278	273
Sworn Officers	65	63	59	58
Civilian Employees	33	32	17	16
Reserve Officers	1	3	3	6
Number of Calls Responded	28,293	23,916	24,275	25,081
Number of Traffic Accidents	1,089	1,245	1,203	1,151
Fire Protection				
Fire Calls	401	365	346	441
Paid Fire Personnel	16	16	16	17
Volunteer Fire Personnel	15	14	12	12
Fire Inspections	791	627	632	632
Electric				
Customers	8,230	8,230	8,089	8,173
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	8,230	12,500	12,500	12,509
Consumptions (billions)	3.225	3.184	3.031	3.054
Wastewater				
Customers	6,600	6,700	6,300	6,500
Average Daily Sewage Treatment million gallons daily (mgd)	4.4	4.76	4.79	4.83
Cable Television				
Subscribers / Customers	4,712	4,554	4,477	4,466
Basic Channels	78	78	78	78
Premium Channels	65	65	65	65

Sources: Various City Departments

2013	2014	2015	2016	2017	2018
1,750	1,800	299	246	350	1845
5,200	5,250	931	4,106	4,150	5,165
271.75	271.75	276.25	273	285	279.25
365	365	360	329	340	320
1,572	1,572	1,642	2,507	2,572	3,214
128	128	367	494	458	0
62	62	62	70	59	56
16	16	9	10	8	8
4	4	4	2	3	4
23,008	23,008	30,130	40,631	42,962	40,780
1,200	1,200	1,322	1,229	1,397	1,215
533	533	483	2,711	1,257	714
17	17	17	17	16	26
11	11	10	9	11	11
632	640	586	895	950	840
8,200	8,230	8,230	8,208	8,208	8,208
33.49	33.49	31.37	33	33	33
1.83	1.83	1.38	1.35	1.35	1.35
3	3	3	3	3	3
10,342	12,108	10,040	10,094	10,174	10,173
2.4	2.4	2.7	2.716	2.646	2.511
6,838	7,437	6,598	6,635	6,691	6,695
5.2	5.2	4.7	4.7	4.2	5.1
4,303	3,454	3,231	3,007	2,767	2,582
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				
	2009	2010	2011	2012	2013
Police					
Stations	1	1	1	1	1
Patrol Units	79	85	85	77	77
Fire Protection					
Fire Stations	3	3	3	3	3
Electric					
Miles of Service	269	269	270	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	3,415	3,420	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	320	322	322	322	328
Fire Hydrants	1,200	1,200	1,200	1,200	1,504
Storage Capacity (millions of gallons)	8.85	9.15	9.15	9.15	8.15
Wastewater					
Plants	1	1	1	1	1
Miles of Collection Lines	200	200	200	200	202
Cable Television					
Miles of Plant	161	161	162	162	165
Parks and Recreation					
Acreage	680	680	680	680	680
Playgrounds	9	9	9	9	9
Parks	13	12	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

2014	2015	2016	2017	2018
1	1	1	1	1
77	79	74	64	59
3	3	3	3	3
280	280	280	260	281
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	331	331	331	331
1,504	1,504	1,529	1,552	1,552
8.15	8.15	9.15	9.15	9.15
1	1	1	1	1
202	204	205	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	14	14
4	5	5	5	5
2	2	2	2	2
2	2	2	2	2

**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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 14, 2018. 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, PLLC". The signature is written in a cursive style with a large, sweeping initial "E".

Raleigh, North Carolina
December 14, 2018



**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, 2018. 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, 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 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, 2018.

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.



Raleigh, North Carolina
December 14, 2018

City of Morganton, North Carolina
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to the financial statements noted? Yes No

State Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

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

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

Identification of major state programs:

Powell Bill

II. FINANCIAL STATEMENT FINDINGS

No matters were reported

III. STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported

City of Morganton, North Carolina

Summary Schedule of Prior Audit Findings

For the year ended June 30, 2018

No matters were reported.

CITY OF MORGANTON
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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>\$107,410</u>		
<u>US Department of Justice</u>					
Direct Program:					
Office of Justice Programs:					
Bulletproof Vest Partnership Program	16.607		<u>2,726</u>		<u>2,726</u>
<u>US Department of Natural and Cultural Resources</u>					
Historic Preservation Fund					
Passed through NC Department of Natural and Cultural Resources:					
FY 2016 Historic Preservation Fund Grant Reimbursement	15.904		<u>14,600</u>		
Total Federal Cash Awards			<u>\$124,736</u>		<u>\$2,726</u>

CITY OF MORGANTON
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

	<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>\$292,016</u>	
<u>Appalachian Regional Commission</u>			
Downtown Wi-Fi		<u>30,783</u>	
<u>NC Department of Commerce</u>			
Building Reuse Program		<u>237,469</u>	
Total State Cash Awards		<u><u>\$560,268</u></u>	
Total Federal and State Awards	<u><u>\$124,736</u></u>		<u><u>\$2,726</u></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.