

**CITY OF NEWTON, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PREPARED BY
CITY OF NEWTON FINANCE DEPARTMENT



CITY OF NEWTON, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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INTRODUCTORY SECTION

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October 22, 2014

The Honorable Mayor, Members of the
City Council and the Citizens of the
City of Newton, North Carolina

The Comprehensive Annual Financial Report (CAFR) of the City of Newton, North Carolina for the fiscal year ended June 30, 2014 is hereby submitted. North Carolina General Statutes require that every local government publish within four months after the close of each fiscal year a complete set of audited financial statements presented in conformity with generally accepted accounting principles. This report is published to fulfill that requirement for the fiscal year ended June 30, 2014.

Management of the City of Newton, North Carolina, assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that management has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City of Newton's financial statements have been audited by Martin Starnes and Associates, CPAs, P.A. The objective of the independent audit was to provide reasonable assurance that the financial statements of the City of Newton for the fiscal year ended June 30, 2014, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the financial statements of the City of Newton for the fiscal year ended June 30, 2014 are presented in conformity with Generally Accepted Accounting Principles (GAAP). The report of the independent auditors is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Newton's MD&A is presented immediately following the independent auditors' report.

Profile of the City

The City of Newton, founded in 1843 and incorporated in 1855, is the County seat of Catawba ("the County"). It is located in the western part of the Piedmont section of the State, approximately 39 miles northwest of Charlotte and 10 miles southeast of Hickory. Evidence of our long and distinguished history abounds throughout the stately streets of the City. The State of North Carolina has erected several historical markers to honor some of the important events, landmarks, and distinguished people in Newton's past. The City currently occupies approximately thirteen square miles and serves a population of 13,031.

The City is empowered by State Statute to levy an ad valorem property tax on the appraised value of all real and tangible personal property located within the City. The City is also empowered to extend its corporate limits by annexation.

The Council is required by State Statute to adopt a budget by July 1 of each year. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City's budget ordinance creates a legal limit on spending authorizations and serves as the foundation for the City's financial planning and control. The budget is prepared by fund and department. Appropriations are authorized by department totals. The Finance Director is authorized to reallocate departmental appropriations among line item objects of expenditures as necessary during the budget year.

Form of Government

The City of Newton is one of several incorporated municipalities in the County and operates under the Council-Manager form of government. The Mayor is elected at large for a four-year term. The council is composed of seven members including the Mayor. The Mayor votes only to break tie votes. The City Council has policy making and legislative authority. Members are elected at large on a staggered basis in a city-wide election. Three members of the City Council are elected every two years, serving four year terms. The City Council is responsible for the City's annual budget and any amendments thereto,

approving economic development plans and incentives, zoning and planning issues, and other matters related to the health and welfare of the City. The City Council also appoints the City Manager and City Attorney. The City Manager works at the pleasure of the City Council and is responsible for implementing Council policies and City ordinances, managing daily operations, and acts on all recommendations of employment for the City.

Quality of Life

The gently rolling terrain blends into the foothills of the Blue Ridge Mountains offering residents and visitors an abundance of scenic attractions, a wealth of recreational options, and a temperate climate with four seasons that are as distinct as they are mild.

The City has a wide array of advantages – large range of employment opportunities, low cost of living, diverse cultures, a vast array of recreational opportunities, arts and culture, and an unparalleled lifestyle.

The City of Newton provides a full range of services, including planning and zoning, police and fire protection, solid waste and recycling services, the construction and maintenance of streets, curbs, gutters, sidewalks, and other infrastructure, parks, recreation and cultural activities, electric, water and sewer service. This report includes all of the City's activities in delivering and administering these services. The City also extends financial support to certain boards, agencies, and commissions to assist in their efforts in serving citizens of the City of Newton. Among these are the Catawba Arts Council, the Catawba County Library, the Newton-Conover Auditorium Authority, the Old Post Office Playhouse, the Historical Association, and the Newton Depot Authority. Because City allocations do not constitute a major portion of their revenue, and because the City has no authority to designate their management, none of these organizations have been included in this report.

The City of Newton can point to a variety of elements that contribute to and enhance the desirability and livability of its citizens. Examples of cultural amenities are the Old Post Office Playhouse in downtown which opened in 2010 and provides a modern venue for the performing arts, the Newton-Conover Auditorium provides a place for artists to thrive in terms of music, sculpture, painting and the theatrical arts, and the Catawba County Museum of History located in downtown provides a significant collection of the county's history from early settlers, to the furniture, textile, and telecommunications industries that have thrived in the area. The City has six parks, two

recreation centers, a large pool, one and one-half miles of greenway, two and one-half miles of mountain bike trails and an amphitheatre in terms of recreation facilities.

Soldiers Reunion

The most popular event each and every year is the Soldiers Reunion Parade. The annual Soldiers Reunion celebration is believed to be the longest-running patriotic celebration not based on a holiday. Soldiers Reunion is a week-long event which includes Cruisin' and Car Show, Gospel Music Night, Beach Music Night, two patriotic services, 5K/one-Mile Fun Run, 30-60-100 Mile Century Bike Ride and of course the ever popular Soldiers Reunion Parade which typically runs for about one and one-half hours through the downtown area. This year marked the 125th anniversary of the Soldiers Reunion which was celebrated with even more patriotic events and activities.

Newton Downtown Historic District

On May 11, 2012 the Newton Downtown Historic District was officially listed in the National Register of Historic Places by the National Park Service. The Newton Downtown Historic District is anchored by the 1924 Courthouse, which now serves as the home of the Catawba County Museum of History, and is comprised of 58 buildings. Newton also is home to the North Main Avenue Historic District, which was listed in 1986, and to eight other historic properties listed on the National Register.

Wi-Fi

The City provides free outdoor Wi-Fi Internet Service in the downtown business district, City facilities and City parks in an effort to attract more customers to the downtown business district, to encourage the use of public parks and facilities, and to enable citizens to access City services online.

Heritage Trail Greenway

The Heritage Trail Greenway, approximately one and one-half miles in length, was planned and created for the purpose of exercise, a mode of alternative travel, and connectivity of neighborhoods. The Greenway allows residents to enjoy the sounds and beauty of nature while spending time outdoors with family and friends.

Woodland Loop Trail

The Woodland Loop Trail at Jacob Fork Park offers fun and adventure for hikers, trail runners and mountain bikers alike. The intermediate level trail is two and one-half (2.5) miles long. The trail which was completed in 2013 was a collaborative effort between the City of Newton, Catawba Valley Heritage Alliance and Lightning Cycles with financial support from North Carolina Division of Parks & Recreation and Specialized Bikes. Trail Dynamics designed the trail to have minimal impact on the local ecosystem. The Western Piedmont Council of Governments organized volunteer groups to help build the trail. The Woodland Loop Trail complements the 100-acre park that marks the convergence of the Jacob Fork and Henry Fork Rivers into the South Fork River. The park serves as an example of a state of the art, environmentally sensitive, low-maintenance park facility.

In July 2014 the Catawba Valley Heritage Alliance completed phase II of the bike park master plan which was the construction of the pump track. This new track which combines cycling with coordination, fitness, balance and control is complimentary to the Woodland Loop Trail.

Future phases include the development of a mini PBR (Pumps, Berms and Rollers) flow trail, surfaced return trail and woodland skills loop which include wood features and a rock garden.

Newton Depot

The Newton Depot, constructed in 1924, was relocated to its present site, restored and opened to the public in September 2006 and houses a railroad museum and model railroad club, as well as a banquet room available for public and civic rentals. On September 5, 2012, the Newton Depot Authority held a groundbreaking ceremony which took place to symbolize the start of construction on a \$750,000 outdoor museum, the Southeastern Narrow Gauge and Shortline Museum. The Newton Depot is the only railroad museum in the S.E. United States that focuses on narrow gauge and shortline aspects of railroad history. As a result, this project has become key to the local economy as it will entice railroad enthusiasts around the U.S. and beyond to visit Newton. Construction of the railroad museum is estimated to be complete in June 2015 based on the original concept.

Business and Economic Development

Business Advisory Committee

Newton City Council established a Business Advisory Committee (BAC) in the fall of 2011 to encourage and cultivate commercial economic development in all areas of Newton, including but not limited to the downtown area. The BAC has initiated meetings between developers, property owners, architects, and regulators to facilitate new business development and real estate investment. The BAC has been instrumental in developing an incentive plan for new and expanding small businesses, initiating a study of the City's branding and marketing efforts, and developing a database of existing business to be used for retail leakage (supply/demand) studies and for recruiting new businesses. City Council's approved budget for 2014-2015 includes funding for wayfinding implementation, a BAC-supported project and an economic development tool which should help attract new residents and businesses to the City. The design phase of the wayfinding project is nearing completion.

The City of Newton, with the support of the Business Advisory Committee, is taking a fresh look at marketing the outstanding opportunities and the rich lifestyle the City has to offer. A future branding effort is planned which will provide the material for a renewed marketing effort. The marketing plan and the new wayfinding system are the first two steps in refining our image and telling our story.

Downtown Newton Development Association

The Downtown Newton Development Association (DNDA) has been active in promoting interest and investment in downtown Newton. The DNDA worked with the City to gain a listing for downtown Newton in the National Register of Historic Places. The DNDA has worked on two hands-on renovation projects, Callahan's Café and Phostell's Barber Shop, and has supported five downtown façade renovations through the City's Façade Grant Program.

The City of Newton is one of sixty-one North Carolina Main Street Communities, an organization within the North Carolina Department of Commerce entrusted with the revitalization of the downtown areas of member communities. North Carolina Main Street Center provides education and guidance to help member communities maintain and grow a thriving downtown economy in the context of historic preservation.

Local Economy

Over the past several years, the City has sought to diversify and balance its threatened traditional manufacturing base. A productive partnership with the County and regional Economic Development Corporation has produced a comprehensive methodology for identifying and recruiting new business and industry, both manufacturing and non-manufacturing. The City has transitioned from a traditional manufacturing economy to a more sustainable, diversified structure.

Major industries located within the City and its environs include manufacturers of consumables for the field of medicine and research, automotive suspension components, baked foods, primary metal products, defense related communications equipment as well as traditional furniture and textiles. Upholstered furniture manufacturers are still a significant part of the Newton employment base, with Bassett Furniture and Lee Industries employing over 1,000 people.

The City's list of diversified industries include Bassett Furniture, a manufacturer of quality, customer furniture; Flowers Baking Company, a large-scale baker and distributor of fresh bread, hotdog and hamburger buns; General Dynamics, manufacturer of a variety of satellite technology, including U.S. Government contract work; Lee Industries, an innovative upholstered furniture manufacturer; Renwood Mills, producer of Southern Biscuit flour and Tenda-Bake corn meal; Sarstedt, producer of medical, diagnostic, and laboratory supplies; Special Metal Welding Products, which offers the most complete range of high-nickel alloy welding consumables on the market; Technibilt, producer of metal shopping carts, shelving, and more; ZF Lemforder, manufacturer of driveline and chassis technology for BMW, Jaguar, Mercedes-Benz, General Motors, Dodge, Aston Martin, and Ford; and Target Distribution Center, a 1.6 million square foot facility which serves approximately 70 Target stores within a 300- to 400-mile radius.

The City has very favorable water, sewer and electrical rate structures as well as an aggressive and innovative approach to economic development incentives which has enabled the City to be competitive and attractive to prospective industries seeking to build new facilities. In addition to its manufacturing sector, the City enjoys a diversity of non-industrial employers including the Catawba County Administrative and Justice Center Complex, administrative offices of the Newton-Conover and the Catawba County School systems, United Church Homes and Services, Target Distribution Center, and the North American headquarters of Sarstedt Corporation.

The City actively works with the County Economic Development Corporation to recruit and retain significant business assets in terms of employment, tax base and utility usage. As a testament to the City Council's desire to enhance the business climate of Newton it recently appointed a Business Advisory Committee to guide and direct non-industrial business growth in the City.

Unemployment

The Nation, as well as North Carolina, is slowly showing signs of economic recovery following the recession. Economists claim this to be the slowest recovering recession since World War II. The county, State, and national unemployment rates as of June 30, 2014 were 7.1%, 6.4%, and 6.1%, respectively. A year earlier, June 30, 2013, the rates were 10.8%, 8.8%, and 7.6%, respectively. Even though North Carolina's unemployment rate is above the national level, North Carolina seems to be minimizing the unemployment gap at a faster rate.

Long-term Financial Planning and Major Initiatives

The City seeks to consistently maintain a strong financial position. A key financial goal of the City for many years has been the maintenance of a 21% undesignated fund balance level in the General Fund which is above the required 8 percent established by the State of North Carolina. Another goal of the City is to avoid budgeting recurring expenses with one-time revenue sources. Implementing a mix of pay-as-you-go with long-term debt funding for capital needs is yet another goal of the City.

5-Year Capital Improvement Plan (CIP)

The City adopted a 5-Year Capital Improvement Plan for fiscal years 2015 - 2019 which encompasses \$19.8 million in long-range capital improvements over a five year period and coordinates community infrastructure needs with the financial capacity of the City.

- The City began construction of a new Fire Station Headquarters with a project cost of \$3.6 million, including the purchase of land. The new Fire Station Headquarters is approximately 21,000 square feet and will house five fire engine bays, training space and administrative offices. The project is expected to be complete in the spring of 2015.
- The City, in collaboration with Catawba County, will be completing a \$2.6 million project to extend 42,000 linear ft. of 12" water line from South Highway 16 to Buffalo Shoals Road.

Once completed this project will improve water quality in that area as well as provide a second source of water supply. This project is currently in the first phase of three phases.

- In FY 2015 the City of Newton will begin a \$3.5 million Smart Grid project that will modernize the City's electric and water grids using the latest Advanced Metering Infrastructure (AMI) technology. The Smart Grid system will increase accuracy, reduce operating costs, improve efficiency, and enhance customer service. Like all major assets, the electric and water systems must be maintained and improved to ensure our customers receive the best service and value. The Smart Grid will include the installation of more than 10,000 smart meters at every home and business in the city. The City would have the ability to instantly read, disconnect or reconnect meters without having to send an employee to the service location. The same system would also pin point outages, leaks, tampering, and other events. This leads to faster restoration of service and improved customer satisfaction.
- Due to mandatory requirements established by the FCC for radio frequency, all public safety organizations were required to reband their radio systems to 12.5 KHz by January 1, 2013. The FCC has also mandated an additional rebanding to 6.25 KHz by January 1, 2017. The inability to communicate from one public safety organization to another at the national, state and local levels in real-time has caused this mandate. The most cost effective solution to meet the 2017 requirements for the City is to upgrade the Police Department's radio system in FY 2015 to an 800 MHz system. This is a \$526,750 project.
- The City has completed \$404,545 in stormwater infrastructure improvements from fiscal years 2010 through 2014 to replace deteriorated infrastructure. The City's 5-Year Capital Improvement Plan includes improvements to South Caldwell Street Culvert which will entail replacing approximately 80' of metal culvert with a box culvert and improvements to West 1st Street Culvert which will entail replacement of concrete box culvert and wing wall. Both projects are estimated at \$750,000.
- The City has completed \$4.6 million in water and wastewater infrastructure improvements from fiscal year 2010 through 2014 to replace deteriorated infrastructure due to age. These improvements will provide better water flows and water pressure to specific areas and reduce infiltration and inflow into the sewer system. The City will continue infrastructure

improvements in other areas over the next 5 years in the amount of \$869,500.

- The City is in the 2nd year of a 5 year plan to replace HPS (High-Pressure Sodium) lighting to new LED energy efficiency lighting for all street lights. The City has completed \$50,000 of this \$300,000 project.
- The City has plans to invest \$1.5 million in a back-up transformer for the Jacob Fork Electric Substation which will provide redundancy in the event of an emergency in that specific area and for industrial development in the area of the Highway 10 and Highway 321 intersection.
- In 2004 the City committed to a 7 year \$7.7 million Master Plan for the City's electrical utility. The City is completing its final phase in converting all of the forty (40) to sixty (60) year old primary circuit conductors, transformers, and equipment from 4kv to 24kv in the downtown area, southern area, western area and the final phase in the northern area of the City. The cost of the final phase of this project is \$518,351.

Downtown Streetscape Master Plan

Newton City Council adopted a Downtown Streetscape Master Plan in 2010. The Streetscape Master Plan was developed by a team of City staff members and downtown committee members, utilizing input from earlier citizen participation "visioning studies". The area covered by the Streetscape Master Plan is a 17 to 20 square block area anchored by the centrally-located "Courthouse Square". The Streetscape Master Plan includes recommendations and concepts for street trees, bump-outs, sidewalk and sidewalk border configurations as well as suggestions for streetscape elements such as signs, streetlight, streetlight and sign poles, street furniture, crosswalk treatments, and public art. Citizens who participated in the 2008 Vision Forum spoke of a desire for a variety of downtown amenities, shops, artisans, and pedestrian features that would create a thriving, pedestrian-oriented community center.

At present, the City of Newton is working towards the goal of funding the advanced project planning needed for major downtown infrastructure and streetscape improvements. While the funding and scheduling for the overall plan is being considered, the City has been able to incorporate some of the recommendations from the Downtown Streetscape Master Plan during sidewalk repair projects. Brick paver borders have been added to the sidewalks on one block of East 1st

Street, one block of West 2nd Street, and on the sidewalks around the Old Post Office Playhouse community theater. By the end of calendar year 2014, City staff will be posting a Request for Qualifications for a consultant to complete the overall design for the Downtown Streetscape Plan. The City expects to have a design plan, cost estimate, and phased implementation plan completed during 2015 for the complete Downtown Streetscape Plan.

Green Challenge

The City is a recognized leader in terms of going green by virtue of receiving the highest award of the NC League of Municipalities for being at an Advanced level in the organization's Green Challenge, with the award of two state grants which funded energy efficiency projects at city facilities, by offering a Rebate Program to Commercial and Industrial electric customers to make energy efficient lighting improvements to their facilities and by providing peak-shaving and standby generators at eight industrial customer sites.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newton for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This marked the twenty-ninth consecutive year that the City has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We 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 City has earned the national honor of being named a Tree City USA community for its commitment to urban forestry for the third consecutive year by the Arbor Day Foundation, the nation's largest nonprofit organization dedicated to planting trees.

The City was recognized by ElectriCities for the fourth consecutive year for three Public Power Awards of Excellence in the following areas: Energy Efficiency, Financial Stability, and Service Excellence.

For the twelfth consecutive year, the City has earned the Area Wide Optimization Program Award (AWOP) presented by the North Carolina

Department of Environment and Natural Resources (NCDENR). This award recognizes water systems that demonstrate outstanding turbidity removal, a key test of drinking water quality.

The City was also the recipient of various awards from the N.C. Department of Labor that are indicative of safety for our citizens and employees.

On January 7, 2014 ElectriCities recognized the City's Electric Division with the Municipal Electric Safety Award for "No Lost-Time Injuries" while performing electric system operations in calendar year 2012.

Acknowledgements

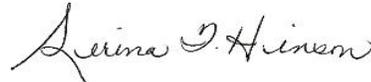
The preparation of this report could not have been accomplished without the efficient and dedicated efforts of the City of Newton Finance Department and our independent auditors, Martin Starnes and Associates, CPAs, P.A. We wish to express our appreciation to all who assisted and contributed to the preparation of this report.

In closing, we would like to express our appreciation to the Mayor and City Council for their leadership, interest, and unfailing support for maintaining the highest standards of professionalism in the management of the City of Newton's finances.

Respectfully submitted,



E. Todd Clark
City Manager



Serina T. Hinson
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

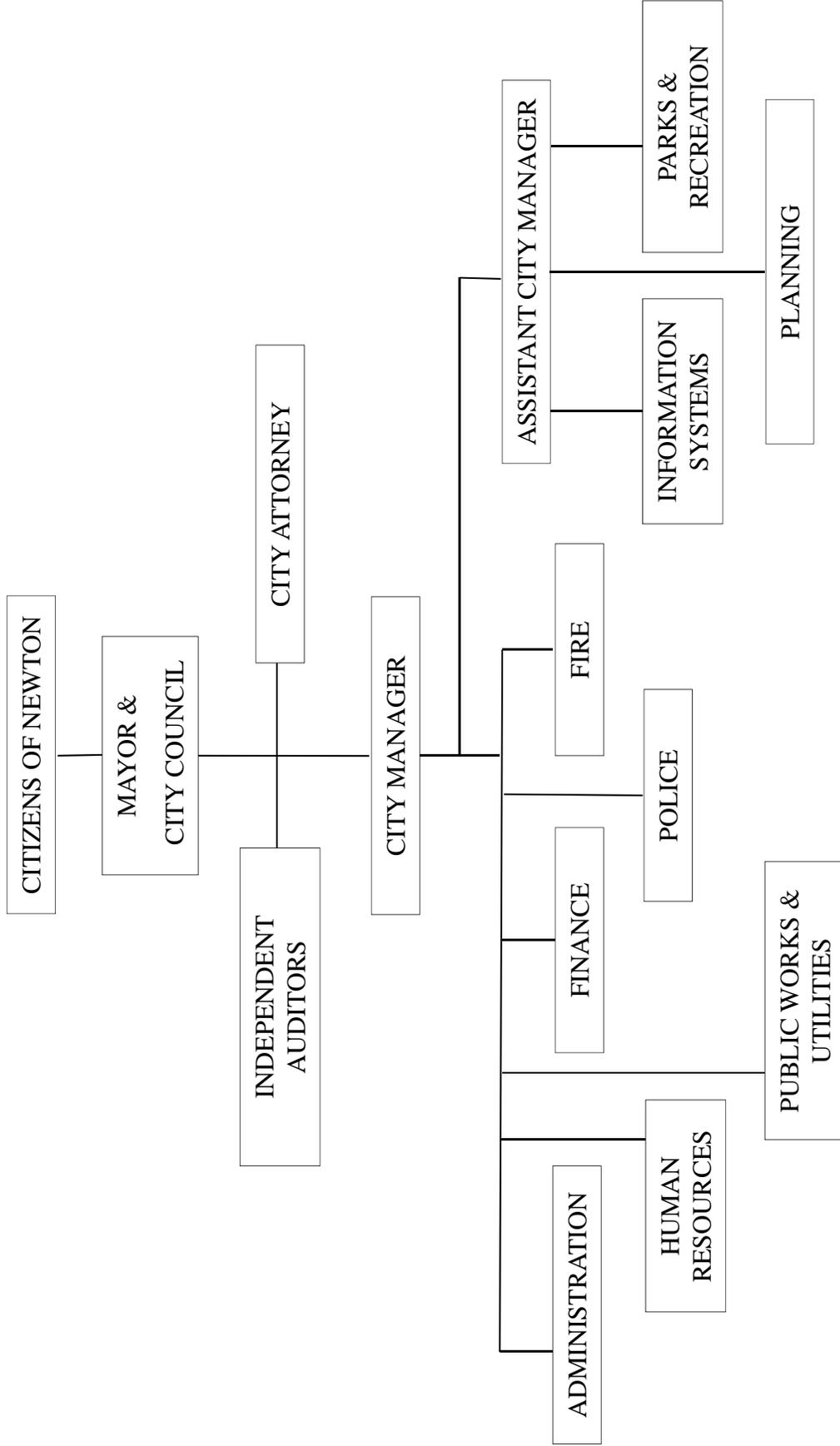
**City of Newton
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

CITY OF NEWTON ORGANIZATIONAL CHART



CITY OF NEWTON, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

CITY COUNCIL



ANNE P. STEDMAN
Mayor



WAYNE DELLINGER



WES WEAVER



H. TOM ROWE



MARY BESS LAWING
Mayor Pro Tem



John Stiver



ROBERT C. ABERNETHY JR.

CITY OF NEWTON, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

CITY ADMINISTRATION



E. TODD CLARK
City Manager

DONALD G. BROWN II
Police Chief

SEAN A. HOVIS
Assistant City Manager

KEVIN L. YODER
Fire Chief

SERINA T. HINSON
Finance Director

AMY S. FALOWSKI
City Clerk

TERESA B. LAFFON
Human Resources Director

WILCE MARTIN
Public Works/Utilities Director

JASON CLAY
Information Systems Director

SANDRA A. WATERS
Parks and Recreation Director

JOHN CILLEY IV
City Attorney

FINANCIAL SECTION

- **Independent Auditor's Report**
 - **Management's Discussion and Analysis**
 - **Basic Financial Statements**
 - **Notes to the Financial Statements**
 - **Required Supplementary Information**
 - **Combining, Individual Fund Financial Statements and Schedules**
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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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 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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, North Carolina, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance, and the Other Post-Employment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newton's basic financial statements. The introductory information, combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and statistical tables, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by U.S. Office and Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information and the statistical tables have not been subjected to the auditing procedures applied in the audit of basic financial statements; and accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of the City of Newton'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 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 of Newton's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 22, 2014



Management's Discussion and Analysis

As management of the City of Newton, we offer readers of the City of Newton's financial statements this narrative overview and analysis of the financial activities of the City of Newton for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements which follow this narrative.

Financial Highlights

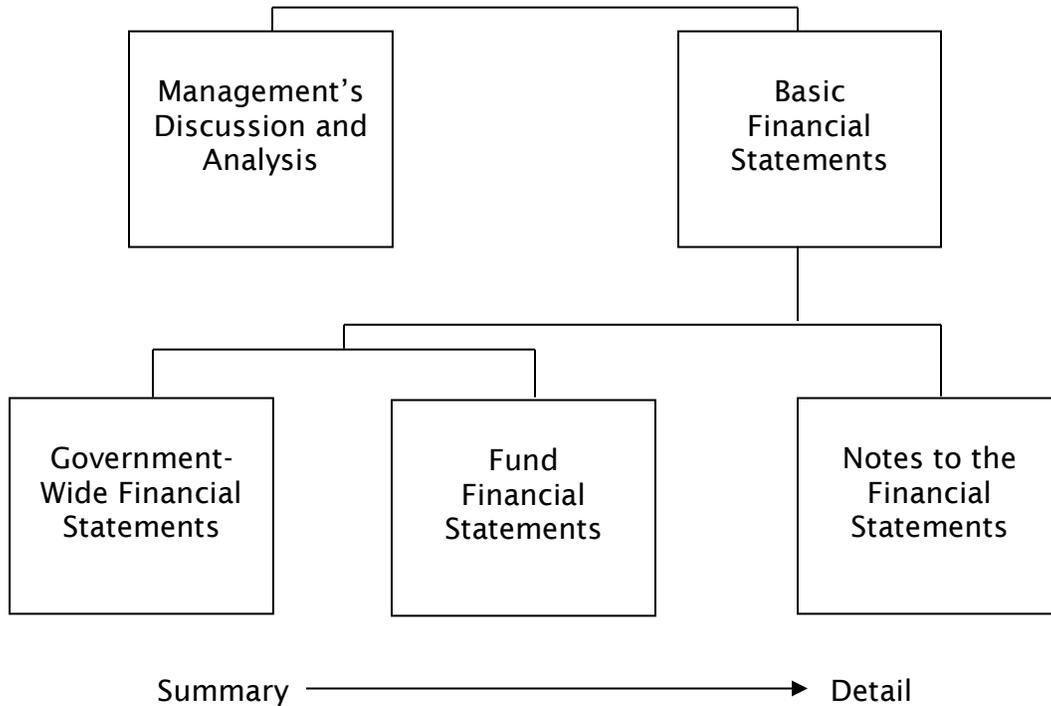
- The assets of the City of Newton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$50,745,172 (net position). Of this amount, \$10,167,827 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,631,840 due to increases in both governmental activities and business-type activities net position.
- As of the close of the current fiscal year, the City of Newton's governmental funds reported combined ending fund balances of \$8,506,440 with a net change of \$3,055,451 in fund balance. Approximately, 64.95 percent of this total amount, or \$5,524,737, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,190,736, or 28.12 percent, of total General Fund expenditures and transfers out for the fiscal year.
- The City of Newton's total debt increased by \$2,829,315, or 13.2%, which includes unfunded law enforcement officers' pension liability, other post-retirement benefits and compensated absences liabilities required to be included in this report by GASB Statement 34. The City's total indebtedness is \$24,310,921.
- The City's legal debt limit is \$91,357,468 (8 percent of assessed valuation), and the City's legal debt margin is \$68,139,725. The total legal indebtedness of the City is \$23,217,743, which represents 2.03% of assessed valuation.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Newton'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 Newton.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) 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 C through I) are **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 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 two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and federal and State grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water, wastewater, and electric utility services offered by the City of Newton.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) 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 Newton, 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 Newton 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 Newton 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 City Council 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 the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The City of Newton has two different kinds of proprietary funds: Enterprise Funds and an Internal Service Fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Newton uses enterprise funds to account for its water and wastewater activities and for its electric 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 the functions of the City of Newton. The City uses an Internal Service Fund to account for one activity – health insurance. 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 on pages 41-76 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 Newton's progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees. Required supplementary information can be found beginning on page 77 of this report.

The individual and combining statements of the General Fund, the other governmental funds, the enterprise funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 79-95 of this report.

Interdependence with Other Entities: The City depends on financial resources flowing from, or associated with, 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 State laws and State appropriations.

Government-Wide Financial Analysis

City of Newton's Net Position

Figure 2

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Asset s:						
Current and other assets	\$ 10,597,649	\$ 7,132,689	\$ 9,219,342	\$ 9,924,630	\$ 19,816,991	\$17,057,319
Capital assets	12,592,400	11,451,942	45,204,584	44,339,749	57,796,984	55,791,691
Total assets	<u>23,190,049</u>	<u>18,584,631</u>	<u>54,423,926</u>	<u>54,264,379</u>	<u>77,613,975</u>	<u>72,849,010</u>
Liabilities:						
Long-term liabilities	6,743,388	3,731,855	14,052,389	14,657,653	20,795,777	18,389,508
Other liabilities	<u>2,015,279</u>	<u>1,494,041</u>	<u>4,055,639</u>	<u>3,841,023</u>	<u>6,070,918</u>	<u>5,335,064</u>
Total liabilities	<u>8,758,667</u>	<u>5,225,896</u>	<u>18,108,028</u>	<u>18,498,676</u>	<u>26,866,695</u>	<u>23,724,572</u>
Deferred Inflows of Resources:						
Prepaid taxes	<u>2,108</u>	<u>11,106</u>	<u>-</u>	<u>-</u>	<u>2,108</u>	<u>11,106</u>
Total liabilities and deferred inflows of resources	<u>8,760,775</u>	<u>5,237,002</u>	<u>18,108,028</u>	<u>18,498,676</u>	<u>26,868,803</u>	<u>23,735,678</u>
Net Position:						
Net investment in capital assets	8,097,287	7,819,537	29,665,815	30,063,136	37,763,102	37,882,673
Restricted	2,814,243	2,365,037	-	-	2,814,243	2,365,037
Unrestricted	<u>3,517,744</u>	<u>3,163,055</u>	<u>6,650,083</u>	<u>5,702,567</u>	<u>10,167,827</u>	<u>8,865,622</u>
Total net position	<u>\$ 14,429,274</u>	<u>\$ 13,347,629</u>	<u>\$36,315,898</u>	<u>\$ 35,765,703</u>	<u>\$ 50,745,172</u>	<u>\$49,113,332</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the City of Newton exceeded liabilities and deferred inflows by \$50,745,172 as of June 30, 2014. The City's net position increased by \$1,631,840 for the fiscal year ended June 30, 2014. However, the largest portion is \$37,763,102 or 74.42% which reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Newton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 Newton's net position, \$2,814,243 or 5.55% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,167,827 is unrestricted.

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

- Increase of \$111,500 in Refuse Collection Revenues as a result of a \$2 rate increase.
- Ad valorem tax revenues were up by \$386,318 or 7.5% mainly due to the new Tag and Tax Together, motor vehicle tax system, which was implemented September 1,

2013, has greatly improved the collection rate for the City due to no longer billing taxes in arrears.

- Local option sales tax increase of \$99,222.
- Controlled spending contributed to the increase in the net position.

City of Newton's Changes in Net Position

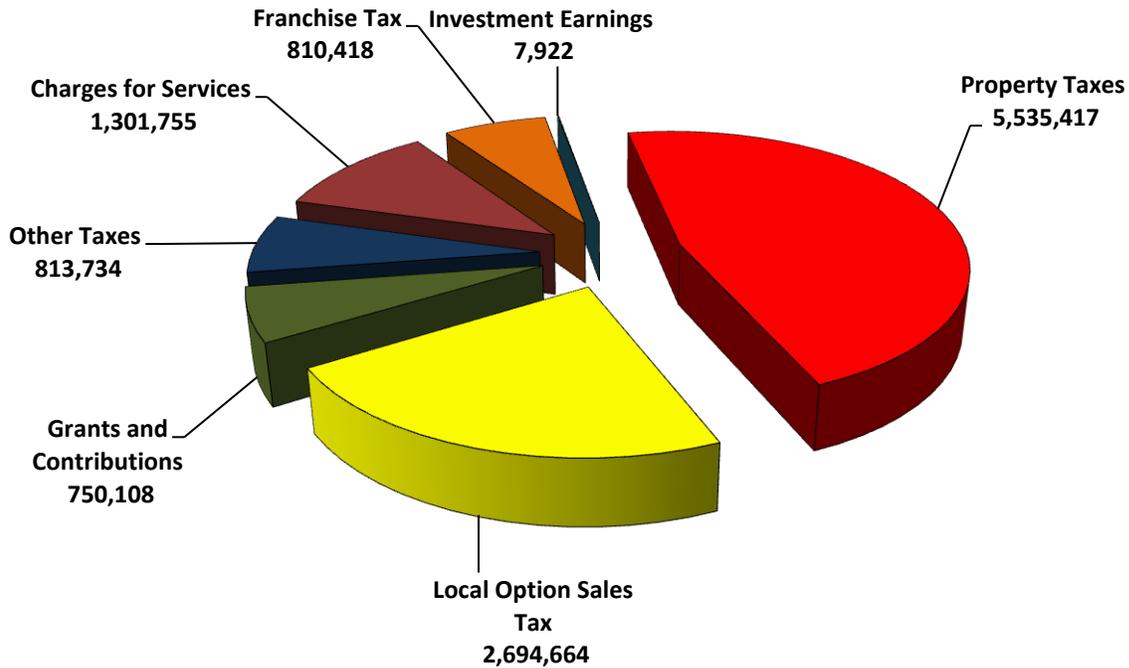
Figure 3

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 1,301,755	\$ 21,409,175	\$22,710,930	\$ 1,203,659	\$ 20,539,813	\$21,743,472
Operating grants and contributions	624,303	1,441	625,744	486,590	161	486,751
Capital grants and contributions	125,805	195,592	321,397	36,089	23,667	59,756
General revenues:						
Property taxes	5,535,417	-	5,535,417	5,201,384	-	5,201,384
Other taxes	4,318,816	319,537	4,638,353	4,143,201	297,967	4,441,168
Miscellaneous	-	31,870	31,870	-	-	-
Unrestricted investment earnings	7,922	5,081	13,003	11,004	6,490	17,494
Total revenues	11,914,018	21,962,696	33,876,714	11,081,927	20,868,098	31,950,025
Expenses:						
General government	1,280,351	-	1,280,351	1,016,494	-	1,016,494
Public safety	1,162,093	-	1,162,093	1,047,081	-	1,047,081
Transportation	1,051,744	-	1,051,744	1,006,970	-	1,006,970
Environmental protection	5,245,701	-	5,245,701	5,124,114	-	5,124,114
Culture and recreation	1,906,260	-	1,906,260	2,076,132	-	2,076,132
Economic development	50,000	-	50,000	1,000	-	1,000
Operations	-	21,001,889	21,001,889	-	19,657,184	19,657,184
Interest on long-term debt:						
Governmental	140,224	-	140,224	102,178	-	102,178
Water and wastewater	-	266,345	266,345	-	257,808	257,808
Electric	-	168,300	168,300	-	169,204	169,204
Total expenses	10,836,373	21,436,534	32,272,907	10,373,969	20,084,196	30,458,165
Increase in net position before transfers and capital contributions	1,077,645	526,162	1,603,807	707,958	783,902	1,491,860
Capital contributions	-	28,033	28,033	-	-	-
Transfers	4,000	(4,000)	-	10,000	(10,000)	-
Increase in net position	1,081,645	550,195	1,631,840	717,958	773,902	1,491,860
Net Position:						
Beginning of year - July 1	13,347,629	35,765,703	49,113,332	12,629,671	34,991,801	47,621,472
End of year - June 30	\$ 14,429,274	\$ 36,315,898	\$50,745,172	\$ 13,347,629	\$ 35,765,703	\$49,113,332

Governmental Activities. Governmental activities increased the City's net position by \$1,081,645, accounting for a 66.28% increase in the net position of the City of Newton. Key elements of this increase are as follows:

- Increase of \$111,500 in Refuse Collection Revenues as a result of a \$2 rate increase.
- Ad valorem tax revenues were up by \$386,318 or 7.5% mainly due to the new Tag and Tax Together, motor vehicle tax system, which was implemented September 1, 2013, has greatly improved the collection rate for the City due to no longer billing taxes in arrears.
- Local option sales tax increase of \$99,222.
- The City received \$125,805 for a 2012 Assistance to Firefighters Grant received during Fiscal Year 2013-2014.

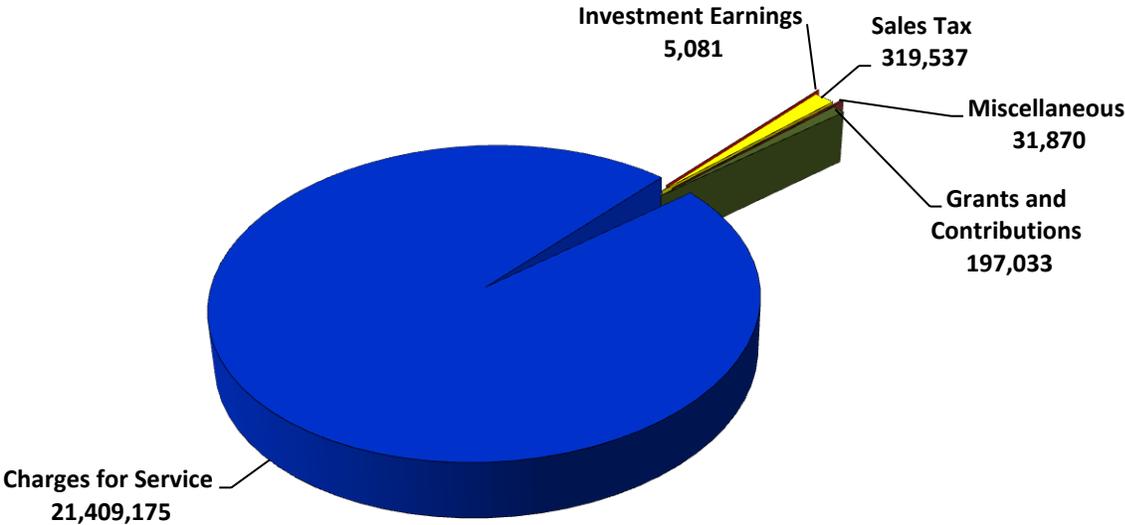
Revenues by Source - Governmental Activities



Business-Type Activities. Business-type activities increased the City of Newton’s net position by \$550,195, accounting for a 33.72% increase of the total growth in the net position of the City of Newton. Key elements of this increase are as follows:

- The City recognized a change in net position of \$550,195 in the Proprietary Funds, primarily due to controlled spending within both the Water and Wastewater Fund and the Electric Fund.
- 5.6% rate increase was adopted to offset a 6.3% increase in purchase power costs in the Electric Fund.

Revenues by Source - Business-Type Activities



Financial Analysis of the City’s Funds

As noted earlier, the City of Newton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Newton’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 Newton’s financing requirements. Specifically, available fund balance can be a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City of Newton. At the end of the current fiscal year, available fund balance of the General Fund was \$5,251,016, while total fund balance was \$6,422,189. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 46.28 percent of the total General Fund expenditures and transfers out, while total fund balance represents 56.60 percent of that same amount.

At June 30, 2014, the governmental funds of the City of Newton reported a combined fund balance of \$8,506,440 with a net increase in fund balance of \$3,055,451. Included in this change is an increase of \$1,198,228 in fund balance in the General Fund and an increase of \$1,857,223 in fund balance in the Special Revenue Funds and the Capital Project Funds. Key factors in these changes are as follows:

- Ad valorem taxes increased by \$386,318 above the prior fiscal year primarily due to the new Tag and Tax Together for motor vehicle taxes.
- Sales and services increased by \$199,181 above the prior year primarily due to a \$2 rate increase on Refuse Collection Fees.
- Controlled spending also contributed to the increase in net position.
- Unspent debt proceeds in the Capital Project Funds.

General Fund Budgetary Highlights. During the fiscal year, the City revised the budget on several occasions. 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.

The City's revenues within the General Fund exceeded the budget by \$627,148. This is due primarily to the new Tag and Tax Together, motor vehicle tax system, which was implemented September 1, 2013. In addition, the City received \$134,109 from the North Carolina Department of Public Safety, Emergency Management for reimbursement of expenditures incurred as a result of a devastating flood on July 27, 2013 which exceeded the budget.

General Fund expenditures were under budget by \$1,800,454, a variance of 13.8 percent from the final budget. All departments were conservative in their spending due to the slow recovering economy. The most significant savings were realized due to deferred capital projects.

Proprietary Funds. The City of Newton's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Wastewater Fund at the end of the fiscal year amounted to \$1,856,219, and for the Electric Fund amounted to \$4,531,363. The total change in net position for the Water and Wastewater Fund and the Electric Fund was \$(645,848) and \$1,123,363, respectively. The change in net position in the Water and Wastewater Fund is a result of revenues received are less than projected due to little to no growth in water and wastewater services provided. The change in net position in the Electric Fund is primarily due to a 5.6% rate increase implemented to offset a 6.3% purchase power cost increase and controlled spending measures, as well as a \$128,667 capital contribution.

Capital Asset and Debt Administration

Capital Assets. The City of Newton's investment in capital assets for its governmental and business-type activities as of June 30, 2014 totals \$57,796,984 (net of accumulated depreciation). These assets include buildings and system improvements, land, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset transactions during the fiscal year included the following:

- Various equipment and vehicle replacement purchases for governmental and business-type activities of \$560,456 and \$627,296, respectively.
- Completed several wastewater infrastructure projects with total costs of \$620,834 to replace deteriorated infrastructure.
- Construction related to numerous water infrastructure projects were completed with total costs of \$832,126 in an effort to provide better water flows and water pressure to those specific areas.
- Completion of conversion of the electrical system from 4KV to 24KV with total costs on the final phase of \$518,351.
- Construction in progress for governmental-type activities of \$1,512,660, largely in part due to the new Fire Headquarters Project, which is anticipated to be completed in Spring 2015.
- Construction in progress for business-type activities includes \$1,389,538 for water and wastewater infrastructure improvements and \$104,331 for electric improvements.

Additional information on the City's capital assets can be found beginning on page 55 of this report.

City of Newton's Capital Assets (net of depreciation)

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 1,509,571	\$ 2,007,259	\$ 215,332	\$ 215,332	\$ 1,724,903	\$ 2,222,591
Buildings and improvements	3,425,731	2,946,427	7,131,015	7,350,403	10,556,746	10,296,830
Distribution systems	-	-	31,590,683	32,520,799	31,590,683	32,520,799
Public domain infrastructure	3,706,674	3,592,981	-	-	3,706,674	3,592,981
Equipment	970,353	1,085,332	3,699,145	2,164,813	4,669,498	3,250,145
Vehicles	1,467,411	1,431,646	1,074,540	1,039,846	2,541,951	2,471,492
Construction in progress	1,512,660	388,297	1,493,869	1,048,556	3,006,529	1,436,853
Total	\$ 12,592,400	\$ 11,451,942	\$ 45,204,584	\$ 44,339,749	\$ 57,796,984	\$ 55,791,691

Long-Term Debt. Gross debt obligations of the City are \$23,217,743 as of June 30, 2014 which solely consists of notes payable.

City of Newton's Outstanding Debt

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Accrued law enforcement officers' unfunded retirement contribution	\$ 322,452	\$ 316,570	\$ -	\$ -	\$ 322,452	\$ 316,570
Compensated absences	461,614	416,569	122,711	104,249	584,325	520,818
Other post-employment benefits	137,247	135,928	49,154	42,760	186,401	178,688
Loans payable	<u>7,148,803</u>	<u>3,894,050</u>	<u>16,068,940</u>	<u>16,571,480</u>	<u>23,217,743</u>	<u>20,465,530</u>
Total	<u>\$ 8,070,116</u>	<u>\$ 4,763,117</u>	<u>\$16,240,805</u>	<u>\$16,718,489</u>	<u>\$ 24,310,921</u>	<u>\$21,481,606</u>

The City of Newton's total debt increased by \$2,829,315 or 13.2% due to \$2,726,851 reduction of existing debt due to principal payments and new debt acquired during the past fiscal year in the amount of \$5,479,064. New debt resulted from installment purchase agreements for equipment; replacement vehicles; water infrastructure and construction of a new fire headquarters and from State Revolving Funds issued by North Carolina Department of Energy and Natural Resources for wastewater infrastructure.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Newton is \$68,139,725.

Additional information regarding the City of Newton's long-term debt can be found beginning on page 67 of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Newton continuously strives to provide a high level of municipal service to our citizens and utility customers. Management has taken great care to evaluate a number of conditions and variables when developing the Fiscal Year 2014-2015 budget. These include a review of local and national economic conditions, forecasted economic changes over the course of the next fiscal year, inflation, and intergovernmental revenues.

- The budget will enable the City to continue providing a high level of service to our citizens.
- The budget was balanced with a 3 cent property tax rate increase. The rate increased from 48 cents to 51 cents per \$100 of assessed value.

- Revenue from other sources in the General Fund is expected to remain at or slightly above the same level as in Fiscal Year 2013-2014.
- Funds are included in Fiscal Year 2014-2015 to encourage economic development in the City through new marketing efforts.
- The budget includes funds to begin a new streetscape project for downtown Newton and a portion of North Newton that will encourage private investment in surrounding properties and generate further interest in Newton as a place to work, live and play.
- Water and wastewater rates will increase by 5% for Fiscal Year 2014-2015 which will generate approximately \$240,000. A portion of this increase is intended for debt repayment on the Smart Grid Infrastructure.
- There is no electric rate increase to the City's customers. The City will absorb a 2.1% increase in wholesale rates from the North Carolina Municipal Power Agency.
- The City will modernize the electric and water utility systems by implementing the latest Advanced Metering Infrastructure (AMI) technology with a budget of \$3.5 million for FY 2015.

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 information found in this report or requests for additional information should be directed to the Finance Director, City of Newton, P.O. Box 550, Newton, North Carolina 28658. You can also call (828) 695-4258, visit our website www.newtonnc.gov or send an email to shinson@newtonnc.gov for more information.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements present a condensed overview of the financial position and results of operations of the City as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.



CITY OF NEWTON, NORTH CAROLINA

Exhibit A

**STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and short-term investments	\$ 4,914,167	\$ 4,910,372	\$ 9,824,539
Taxes receivable, net	663,719	-	663,719
Accounts receivable, net	621,033	2,100,940	2,721,973
Interest receivable, net	1,672	708	2,380
Due from other governments	96,821	515,960	612,781
Internal balances	(262,501)	262,501	-
Inventories	56,653	555,625	612,278
Restricted cash and cash equivalents	4,506,085	873,236	5,379,321
Total current assets	<u>10,597,649</u>	<u>9,219,342</u>	<u>19,816,991</u>
Capital assets:			
Land, non-depreciable assets, and construction in progress	3,022,231	1,709,201	4,731,432
Other capital assets, net of depreciation	9,570,169	43,495,383	53,065,552
Total capital assets	<u>12,592,400</u>	<u>45,204,584</u>	<u>57,796,984</u>
Total assets	<u>23,190,049</u>	<u>54,423,926</u>	<u>77,613,975</u>
Liabilities:			
Current liabilities:			
Accounts payable and other current liabilities	502,630	1,479,628	1,982,258
Due to other governments	-	38,001	38,001
Unearned revenue	-	11,050	11,050
Liabilities to be paid from restricted assets	185,921	338,544	524,465
Compensated absences	240,264	103,111	343,375
Current portion of long-term liabilities	1,086,464	2,085,305	3,171,769
Total current liabilities	<u>2,015,279</u>	<u>4,055,639</u>	<u>6,070,918</u>
Long-term liabilities:			
Compensated absences, non-current	221,350	19,600	240,950
Unfunded pension obligation	322,452	-	322,452
Unfunded other post-employment benefits	137,247	49,154	186,401
Due in more than one year	6,062,339	13,983,635	20,045,974
Total long-term liabilities	<u>6,743,388</u>	<u>14,052,389</u>	<u>20,795,777</u>
Total liabilities	<u>8,758,667</u>	<u>18,108,028</u>	<u>26,866,695</u>
Deferred Inflows of Resources:			
Prepaid taxes	2,108	-	2,108
Net Position:			
Net investment in capital assets	8,097,287	29,665,815	37,763,102
Restricted for stabilization by State statute	1,142,139	-	1,142,139
Restricted for transportation	456,558	-	456,558
Restricted for cultural and recreational	1,209,765	-	1,209,765
Restricted for economic and physical development	5,781	-	5,781
Unrestricted	3,517,744	6,650,083	10,167,827
Total net position	<u>\$ 14,429,274</u>	<u>\$ 36,315,898</u>	<u>\$ 50,745,172</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit B

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 1,280,351	\$ 169,502	\$ 4,885	\$ -	\$ (1,105,964)	\$ -	\$ (1,105,964)
Transportation	1,162,093	-	526,429	-	(635,664)	-	(635,664)
Environmental protection	1,051,744	881,425	-	-	(170,319)	-	(170,319)
Public safety	5,245,701	75,350	35,346	125,805	(5,009,200)	-	(5,009,200)
Cultural and recreation	1,906,260	175,478	3,596	-	(1,727,186)	-	(1,727,186)
Economic and physical development	50,000	-	54,047	-	4,047	-	4,047
Interest on long-term debt	140,224	-	-	-	(140,224)	-	(140,224)
Total governmental activities	<u>10,836,373</u>	<u>1,301,755</u>	<u>624,303</u>	<u>125,805</u>	<u>(8,784,510)</u>	<u>-</u>	<u>(8,784,510)</u>
Business-Type Activities:							
Water and wastewater	6,762,583	6,143,604	-	94,958	-	(524,021)	(524,021)
Electric	14,673,951	15,265,571	1,441	100,634	-	693,695	693,695
Total business-type activities	<u>21,436,534</u>	<u>21,409,175</u>	<u>1,441</u>	<u>195,592</u>	<u>-</u>	<u>169,674</u>	<u>169,674</u>
Total primary government	<u>\$ 32,272,907</u>	<u>\$ 22,710,930</u>	<u>\$ 625,744</u>	<u>\$ 321,397</u>	<u>(8,784,510)</u>	<u>169,674</u>	<u>(8,614,836)</u>
General Revenues:							
Taxes:							
Property taxes					5,535,417	-	5,535,417
Local option sales tax					2,694,664	-	2,694,664
Franchise tax					810,418	-	810,418
Other taxes					813,734	319,537	1,133,271
Miscellaneous revenues, unrestricted					-	31,870	31,870
Investment earnings, unrestricted					7,922	5,081	13,003
Total general revenues					<u>9,862,155</u>	<u>356,488</u>	<u>10,218,643</u>
Capital contribution					-	28,033	28,033
Transfers					4,000	(4,000)	-
Total general revenues, capital contribution, and transfers					<u>9,866,155</u>	<u>380,521</u>	<u>10,246,676</u>
Change in net position					1,081,645	550,195	1,631,840
Net Position:							
Beginning of year - July 1					13,347,629	35,765,703	49,113,332
End of year - June 30					<u>\$ 14,429,274</u>	<u>\$ 36,315,898</u>	<u>\$ 50,745,172</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit C

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Major Funds</u>	<u>Nonmajor Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets:			
Cash and short-term investments	\$ 3,620,257	\$ 16,333	\$ 3,636,590
Taxes receivable, net	663,719	-	663,719
Accounts receivable, net	621,033	-	621,033
Interest receivable	1,499	-	1,499
Due from other funds	168,941	-	168,941
Due from other governments	78,002	18,819	96,821
Inventories	56,653	-	56,653
Restricted cash and cash equivalents	2,017,530	2,488,555	4,506,085
Total assets	<u>\$ 7,227,634</u>	<u>\$ 2,523,707</u>	<u>\$ 9,751,341</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and other current liabilities	\$ 139,618	\$ 84,594	\$ 224,212
Due to other funds	-	168,941	168,941
Liabilities to be paid from restricted assets	-	185,921	185,921
Total liabilities	<u>139,618</u>	<u>439,456</u>	<u>579,074</u>
Deferred Inflows of Resources:			
Unavailable revenue - property taxes	663,719	-	663,719
Prepaid taxes	2,108	-	2,108
Total deferred inflows of resources	<u>665,827</u>	<u>-</u>	<u>665,827</u>
Fund Balances:			
Non-spendable - inventory	56,653	-	56,653
Restricted - stabilization by State statute	1,114,520	27,619	1,142,139
Restricted	2,017,530	2,308,415	4,325,945
Assigned	42,750	-	42,750
Unassigned	3,190,736	(251,783)	2,938,953
Total fund balances	<u>6,422,189</u>	<u>2,084,251</u>	<u>8,506,440</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,227,634</u>	<u>\$ 2,523,707</u>	
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.			12,592,400
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			663,719
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position.			838,785
Long-term liabilities, compensated absences, unfunded pension obligations, accrued interest, and unfunded other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.			(8,172,070)
Net position of governmental activities			<u>\$ 14,429,274</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit D

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Major Fund</u>	<u>Nonmajor Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues:			
Ad valorem taxes	\$ 5,522,391	\$ -	\$ 5,522,391
Other taxes and licenses	3,062,603	-	3,062,603
Unrestricted intergovernmental	1,256,213	-	1,256,213
Restricted intergovernmental	684,785	50,000	734,785
Permits and fees	77,535	-	77,535
Sales and services	1,068,745	-	1,068,745
Investment earnings	6,825	130	6,955
Miscellaneous	166,751	4,047	170,798
Total revenues	<u>11,845,848</u>	<u>54,177</u>	<u>11,900,025</u>
Expenditures:			
Current:			
General government	1,297,639	-	1,297,639
Transportation	932,167	-	932,167
Environmental protection	994,820	-	994,820
Public safety	5,422,069	-	5,422,069
Cultural and recreational	1,699,457	-	1,699,457
Economic and physical development	-	50,000	50,000
Capital outlay	-	1,605,278	1,605,278
Debt service:			
Principal retirement	768,247	-	768,247
Interest and fees	101,897	-	101,897
Total expenditures	<u>11,216,296</u>	<u>1,655,278</u>	<u>12,871,574</u>
Revenues over (under) expenditures	<u>629,552</u>	<u>(1,601,101)</u>	<u>(971,549)</u>
Other Financing Sources (Uses):			
Issuance of debt	563,000	3,460,000	4,023,000
Transfers from other funds	136,676	131,000	267,676
Transfers to other funds	(131,000)	(132,676)	(263,676)
Total other financing sources (uses)	<u>568,676</u>	<u>3,458,324</u>	<u>4,027,000</u>
Net change in fund balances	1,198,228	1,857,223	3,055,451
Fund Balances:			
Beginning of year - July 1	<u>5,223,961</u>	<u>227,028</u>	<u>5,450,989</u>
End of year - June 30	<u>\$ 6,422,189</u>	<u>\$ 2,084,251</u>	<u>\$ 8,506,440</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit E

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

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

Net changes in fund balances - total governmental funds (Exhibit D)		\$ 3,055,451
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes		13,026
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.		
Capital outlay expenditures which were capitalized	\$ 2,359,863	
Depreciation expense for governmental assets	<u>(1,191,372)</u>	1,168,491
Contributions of capital assets are not reported in the governmental funds statement.		(28,033)
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.		
New long-term debt issued	(4,023,000)	
Principal payments on long-term debt	768,247	
Change in accrued interest payable	<u>(38,327)</u>	(3,293,080)
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.		
Compensated absences	(45,045)	
Net pension obligation	(5,882)	
Other post-employment benefits	<u>(1,319)</u>	(52,246)
The net revenue of the internal service funds are reported with governmental activities.		<u>218,036</u>
Total changes in net position of governmental activities (Exhibit B)		<u>\$ 1,081,645</u>

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit F

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund			Variance with Final Budget Over/Under
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 5,082,300	\$ 5,082,300	\$ 5,522,391	\$ 440,091
Other taxes and licenses	3,139,250	3,139,250	3,062,603	(76,647)
Unrestricted intergovernmental	1,244,500	1,244,500	1,256,213	11,713
Restricted intergovernmental	418,800	544,900	684,785	139,885
Permits and fees	80,400	80,400	77,535	(2,865)
Sales and services	955,100	958,600	1,068,745	110,145
Investment earnings	11,500	11,500	6,825	(4,675)
Miscellaneous	139,050	157,250	166,751	9,501
Total revenues	<u>11,070,900</u>	<u>11,218,700</u>	<u>11,845,848</u>	<u>627,148</u>
Expenditures:				
Current:				
General government	1,601,300	1,461,650	1,297,639	164,011
Transportation	1,155,650	1,225,150	932,167	292,983
Environmental protection	1,014,200	1,064,800	994,820	69,980
Public safety	5,939,250	6,361,750	5,422,069	939,681
Cultural and recreation	1,820,300	2,032,700	1,699,457	333,243
Debt service:				
Principal retirement	768,500	768,500	768,247	253
Interest and fees	102,100	102,200	101,897	303
Total expenditures	<u>12,401,300</u>	<u>13,016,750</u>	<u>11,216,296</u>	<u>1,800,454</u>
Revenues over (under) expenditures	<u>(1,330,400)</u>	<u>(1,798,050)</u>	<u>629,552</u>	<u>2,427,602</u>
Other Financing Sources (Uses):				
Issuance of debt	1,173,000	973,000	563,000	(410,000)
Transfers from other funds	-	136,650	136,676	26
Transfers to other funds	-	(131,000)	(131,000)	-
Appropriated fund balance	157,400	819,400	-	(819,400)
Total other financing sources (uses)	<u>1,330,400</u>	<u>1,798,050</u>	<u>568,676</u>	<u>(1,229,374)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,198,228</u>	<u>\$ 1,198,228</u>
Fund Balance:				
Beginning of year - July 1			<u>5,223,961</u>	
End of year - June 30			<u>\$ 6,422,189</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit G

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Major			
	Water and Wastewater Fund	Electric Fund	Total	Internal Service Fund
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,108,861	\$ 3,801,511	\$ 4,910,372	\$ 1,277,577
Accounts receivable, net	702,621	1,398,319	2,100,940	-
Interest receivable	162	546	708	173
Due from other governments	465,520	50,440	515,960	-
Inventories	96,133	459,492	555,625	-
Restricted cash and cash equivalents	475,185	398,051	873,236	-
Total current assets	2,848,482	6,108,359	8,956,841	1,277,750
Capital assets:				
Non-depreciable capital assets	1,599,870	109,331	1,709,201	-
Depreciable capital assets, net	32,072,600	11,422,783	43,495,383	-
Total capital assets, net	33,672,470	11,532,114	45,204,584	-
Total assets	36,520,952	17,640,473	54,161,425	1,277,750
Liabilities and Net Position:				
Liabilities:				
Current liabilities:				
Accounts payable and other current liabilities	217,199	1,037,104	1,254,303	176,464
Accrued interest payable	122,799	102,526	225,325	-
Due to other government	38,001	-	38,001	-
Unearned revenues - prepaid fees	11,050	-	11,050	-
Accrued compensated absences - current	72,966	30,145	103,111	-
Installment loans payable - current	1,254,632	830,673	2,085,305	-
Liabilities to be paid from restricted assets:				
Customer deposits	86,390	252,154	338,544	-
Total current liabilities	1,803,037	2,252,602	4,055,639	176,464
Non-current liabilities:				
Accrued compensated absences	19,600	-	19,600	-
Long-term installment loans payable	9,095,721	4,887,914	13,983,635	-
Other post-employment benefits obligation	38,921	10,233	49,154	-
Total non-current liabilities	9,154,242	4,898,147	14,052,389	-
Total liabilities	10,957,279	7,150,749	18,108,028	176,464
Net Position:				
Net investment in capital assets	23,707,454	5,958,361	29,665,815	-
Unrestricted	1,856,219	4,531,363	6,387,582	1,101,286
Total net position	\$ 25,563,673	\$ 10,489,724	36,053,397	\$ 1,101,286
Internal balance due from (to) governmental activities due to consolidation of Internal Service Fund			262,501	
Business-type activities net position (Exhibit A)			\$ 36,315,898	

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit H

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

	Major			
	Water and Wastewater Fund	Electric Fund	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 5,615,113	\$ 14,695,484	\$ 20,310,597	\$ 1,561,033
Other operating revenues	387,264	509,695	896,959	-
Total operating revenues	<u>6,002,377</u>	<u>15,205,179</u>	<u>21,207,556</u>	<u>1,561,033</u>
Operating Expenses:				
Administration	904,641	819,052	1,723,693	9,498
Power for resale	-	11,037,083	11,037,083	-
Operations	2,502,579	2,010,638	4,513,217	1,261,786
Maintenance	1,238,359	-	1,238,359	-
Depreciation	1,886,999	655,365	2,542,364	-
Total operating expenses	<u>6,532,578</u>	<u>14,522,138</u>	<u>21,054,716</u>	<u>1,271,284</u>
Operating income (loss)	<u>(530,201)</u>	<u>683,041</u>	<u>152,840</u>	<u>289,749</u>
Non-Operating Revenues (Expenses):				
Sales tax	-	319,537	319,537	-
Investment earnings	1,766	3,315	5,081	967
Interest expense	(266,345)	(168,300)	(434,645)	-
Rental income and other non-operating items	141,227	60,392	201,619	-
Non-capital contributions	-	1,441	1,441	-
Proceeds from sale of capital assets	12,747	19,123	31,870	-
Gain (loss) on disposal of capital assets	-	(19,853)	(19,853)	-
Total non-operating revenues (expenses)	<u>(110,605)</u>	<u>215,655</u>	<u>105,050</u>	<u>967</u>
Income (loss) before transfers and capital contributions	<u>(640,806)</u>	<u>898,696</u>	<u>257,890</u>	<u>290,716</u>
Transfers to other funds	(100,000)	(4,000)	(104,000)	-
Transfers from other funds	-	100,000	100,000	-
Capital contributions	<u>94,958</u>	<u>128,667</u>	<u>223,625</u>	<u>-</u>
Change in net position	<u>(645,848)</u>	<u>1,123,363</u>	<u>477,515</u>	<u>290,716</u>
Net Position:				
Beginning of year - July 1	<u>26,209,521</u>	<u>9,366,361</u>		<u>810,570</u>
End of year - June 30	<u>\$ 25,563,673</u>	<u>\$ 10,489,724</u>		<u>\$ 1,101,286</u>
Internal service activities allocated to business-type activities			<u>72,680</u>	
Change in net position-business type activities (Exhibit B)			<u>\$ 550,195</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF NEWTON, NORTH CAROLINA

Exhibit I

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Major			
	Water and Wastewater Fund	Electric Fund	Total	Internal Service Fund
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 6,069,859	\$ 15,184,252	\$ 21,254,111	\$ 1,561,033
Cash paid for goods and services	(3,350,087)	(13,109,649)	(16,459,736)	(1,252,343)
Cash paid to or on behalf of employees for services	(1,603,044)	(674,292)	(2,277,336)	-
Net cash provided (used) by operating activities	<u>1,116,728</u>	<u>1,400,311</u>	<u>2,517,039</u>	<u>308,690</u>
Cash Flows from Non-Capital Financing Activities:				
Non-capital contributions	-	1,441	1,441	-
Transfers to (from) other funds	(100,000)	96,000	(4,000)	-
Net cash provided (used) by non-capital financing activities	<u>(100,000)</u>	<u>97,441</u>	<u>(2,559)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(2,439,552)	(959,467)	(3,399,019)	-
Capital contributions - grants	94,958	100,634	195,592	-
Proceeds from sale of capital assets	12,747	19,123	31,870	-
Sales tax	-	319,537	319,537	-
Payments of installment loans payable	(1,154,978)	(803,626)	(1,958,604)	-
Interest paid on general obligation bonds and loans payable	(275,626)	(185,511)	(461,137)	-
Proceeds from issuance of general obligation bonds and loans payable	1,256,064	200,000	1,456,064	-
Net cash provided (used) by capital and related financing activities	<u>(2,506,387)</u>	<u>(1,309,310)</u>	<u>(3,815,697)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Interest on investments	1,664	2,890	4,554	829
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,487,995)</u>	<u>191,332</u>	<u>(1,296,663)</u>	<u>309,519</u>
Cash and Cash Equivalents:				
Beginning of Year - July 1	<u>3,072,041</u>	<u>4,008,230</u>	<u>7,080,271</u>	<u>968,058</u>
End of Year - June 30	<u>\$ 1,584,046</u>	<u>\$ 4,199,562</u>	<u>\$ 5,783,608</u>	<u>\$ 1,277,577</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (530,201)	\$ 683,041	\$ 152,840	\$ 289,749
Adjustments to reconcile operating income (loss) to:				
Depreciation	1,886,999	655,365	2,542,364	-
Rental income and other non-operating revenues	141,227	60,392	201,619	-
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(30,523)	(92,373)	(122,896)	-
(Increase) decrease in due from other governmental agencies	(410,518)	15,736	(394,782)	-
(Increase) decrease in inventories	6,360	(6,850)	(490)	-
Increase (decrease) in due to other governmental agencies	(935)	-	(935)	-
Increase (decrease) in accounts payable and accrued expenses	17,435	59,950	77,385	18,941
Increase (decrease) in unearned revenue	9,130	-	9,130	-
Increase (decrease) in accrued vacation pay	13,699	4,763	18,462	-
Increase (decrease) in other post-employment benefits	6,847	(453)	6,394	-
Increase (decrease) in customer deposits	7,208	20,740	27,948	-
Net cash provided (used) by operating activities	<u>\$ 1,116,728</u>	<u>\$ 1,400,311</u>	<u>\$ 2,517,039</u>	<u>\$ 308,690</u>

Supplemental Schedule of Non-Cash Financing Activities:

Water Fund disposed of capital assets with historical cost of \$100,022 and accumulated depreciation of \$100,022 during the year ended June 30, 2014.
 Water Fund transferred capital assets to Electric Fund with cost of \$53,234 and accumulated depreciation of \$53,234 at June 30, 2014. NBV was \$-0-.
 Electric Fund disposed of capital assets with historical cost of \$500,637 and accumulated depreciation of \$480,784 during the year ended June 30, 2014.
 General Fund transferred capital assets to Water Fund with cost of \$26,831 and accumulated depreciation of \$26,831 at June 30, 2014. NBV was \$-0-.
 General Fund transferred capital assets to Electric Fund with cost of \$63,017 and accumulated depreciation of \$34,984 at June 30, 2014. NBV was \$28,033.

The accompanying notes are an integral part of the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.



CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

1. Summary of Significant Accounting Policies

The accounting policies of the City of Newton (the "City") 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 is a municipal corporation which is governed by an elected Mayor and a six-member Council.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. However, interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and 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. The effects of interfund activity have been eliminated from the government-wide financial statements.

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. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the City. It is used to account for all financial resources except those 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, street maintenance and construction, and sanitation services.

The City reports the following nonmajor governmental funds:

Special Revenue Fund. The Special Revenue Fund - General is used to account for the proceeds of specific revenue sources that are legally restricted to specified purposes.

Capital Projects Fund. This fund is used to account for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The City reports the following major enterprise funds:

Electric Fund. This fund is used to account for the City's Electric Fund operations.

Water and Wastewater Fund. This fund is used to account for the City's water and wastewater operations.

The City reports the following fund type:

Internal Service Fund. The Health Insurance Fund is used to account for the payment of medical claims of the City's employees and their covered dependents.

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.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Government-Wide and Proprietary Fund Financial Statements. 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 at the time liabilities are 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 for 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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds 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. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. 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

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 the utilities franchise tax, collected and held by the State at year-end on behalf of the City, are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the capital projects funds, special revenue funds, and the enterprise capital projects funds, which are consolidated with the operating funds for reporting purposes. The City's Health Insurance Fund, an 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 object level for the multi-year funds. Amendments are required for any

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

revisions that alter the total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. Budget transfers are approved by the City Council as follows:

- 1) The Director of Finance is hereby authorized to approve transfers of appropriations between line items within a division budget.
- 2) In accordance with G.S. 159-13(b)(3), each expenditure to be charged against a contingency appropriation shall be authorized only by Resolution of the City Council. In an emergency situation, the City Manager may approve an expenditure to be charged to a contingency account provided that such emergency expenditure is reported to the City Council at its next meeting.
- 3) The City Manager is hereby authorized to approve budget transfers within a department from one division to another.
- 4) Transfers from one fund to another shall not be allowed except as is authorized by the Budget and Fiscal Control Act and such transfers shall be approved by the City Council prior to transfer.
- 5) All transfers as authorized hereinabove shall be reported monthly to the City Council and included in the minutes of the board.
- 6) The Director of Finance shall prepare forms necessary to document each budget transfer and comply with the reporting of the budget transfers as specified hereinabove.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

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

Deposits and Investments

All deposits of the City are made in Board-designated official depositories and are secured or required by State law [G.S. 159-31]. The City may designate, as an official depository, any bank or savings association whose principal office is

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

located in North Carolina. Also, the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30 (c)] authorizes the City 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 investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The City pools monies from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered to be cash and cash equivalents.

Restricted Assets

The unexpended loan proceeds plus interest in the Governmental Funds and Enterprise Funds are classified as restricted assets, because their use is completely restricted to the purpose for which the financing was originally issued. Customer deposits held by the Water/Wastewater Fund and the Electric Fund before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. In addition, funds for Cultural and Recreational activities held in the General Fund is classified as restricted assets because the contributor placed a restriction that the principal only be utilized for capital costs of recreational facilities.

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Other Governmental Funds	Total Restricted Cash
Governmental Activities:			
Unexpended debt proceeds plus interest	\$ 351,207	\$ 2,302,634	\$ 2,653,841
Liabilities to be paid from restricted assets	-	185,921	185,921
Cultural and Recreational	1,209,765	-	1,209,765
Transportation	456,558	-	456,558
Total governmental activities	\$ 2,017,530	\$ 2,488,555	\$ 4,506,085
	Water and Wastewater Fund	Electric Fund	Total Restricted Cash
Business-Type Activities:			
Unexpended debt proceeds plus interest	\$ 388,795	\$ 145,897	\$ 534,692
Liabilities to be paid from restricted assets	86,390	252,154	338,544
Total business-type activities	\$ 475,185	\$ 398,051	\$ 873,236

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. These taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. Liens are placed on these taxes as of March 1st each year. These taxes are based on the assessed values as of January 1, 2013.

Allowance 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.

Inventory

The inventories of the City are valued at cost (on a moving average basis), which approximates market. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

The inventories of the City's enterprise funds consist of materials and supplies held for consumption. The cost of these inventories is recorded as an expense as the inventories are consumed or sold.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a \$5,000 amount and an estimated useful life in excess of one year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Infrastructure	15-50 years
Buildings and improvements	20-50 years
Vehicles and equipment	5-20 years
Distribution system - electric	20-30 years
Distribution system - water and wastewater	20-40 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the Statement of Net 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 only two items that meet this criterion for this category – prepaid taxes and property taxes receivable.

Long-Term Obligations

In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policies of the City provide for the accumulation of up to 240 hours earned vacation leave, with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences, and the salary related payments are recorded as the leave is earned on a first-in, first-out basis. The portion of time estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The City's sick leave policy provides for an unlimited amount of earned sick leave. Sick leave does not vest, but unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City does not have any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents 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 five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

The governmental fund types classify fund balances as follows:

Non-Spendable 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.

Inventory - portion of fund balance that is not an available resource because it represents the year-end balance of inventory, which is a not spendable resource.

Restricted Fund Balance. This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors or imposed by law. Restricted fund balance is summarized as follows:

	General Fund	Other Governmental Special Revenue	Capital Projects	Total
<i>Restricted for Stabilization by State Statute</i> - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].	\$ 1,114,520	\$ -	\$ 27,619	\$ 1,142,139
<i>Restricted for Transportation</i> - portion of fund balance that is restricted by revenue source for Powell Bill (street) expenditures.	\$ 456,558	\$ -	\$ -	\$ 456,558
<i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source (unspent debt proceeds plus interest) for general public safety.	291,207	-	2,302,634	2,593,841
<i>Restricted for Cultural and Recreational</i> - portion of fund balance that is restricted by revenue source (unspent debt proceeds plus interest) for recreational activities.	60,000	-	-	60,000
<i>Restricted for Cultural and Recreational</i> - portion of fund balance that is restricted by revenue source for the Frank and Sue Jones Recreation Fund expenditures.	1,209,765	-	-	1,209,765

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Other Governmental		Total
		Special Revenue	Capital Projects	
<i>Restricted for Economic and Physical Development</i> - portion of fund balance that is restricted by revenue source for community development.	-	5,781	-	5,781
Total restricted fund balance(Exhibit C)	<u>\$ 2,017,530</u>	<u>\$ 5,781</u>	<u>\$ 2,302,634</u>	<u>\$ 4,325,945</u>

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds plus interest of \$2,653,841 as of June 30, 2014.

Committed Fund Balance - portion of fund balance that can only be used for specific purpose imposed by majority vote of the City's governing body. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Any changes or removal of specific purposes requires majority action by the Council through another ordinance.

Assigned Fund Balance - portion of fund balance that the City of Newton has budgeted or earmarked to use for specific purposes. The City's governing body has the authority to assign fund balance. Assigned fund balance is summarized as follows:

	General Fund	Other Governmental		Total
		Special Revenue	Capital Projects	
<i>Assigned for Cultural and Recreational</i> - portion of fund balance that has been earmarked by the governing body for cemetery perpetual care. Utilization of these funds are made at the discretion of the City Manager.	\$ 42,750	\$ -	\$ -	\$ 42,750

Unassigned Fund Balance - portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Fund Balance Available for Appropriation

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	\$ 6,422,189
Less:	
Inventory	(56,653)
Stabilization by State statute	<u>(1,114,520)</u>
Fund balance available for appropriation	<u>\$ 5,251,016</u>

The City has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-City funds, and City funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it's in the best interest of the City. The City has not adopted a formal fund balance policy.

The outstanding encumbrances represent amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year end. Encumbrances in the General Fund and General Capital Projects Fund at June 30, 2014 were \$245,045 and \$8,800, respectively.

2. Detail Notes On All Funds

A. Assets

Deposits

All of the deposits of the City 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 agent in the respective unit's name. 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, these deposits are considered to be held by the City's agent in their name. 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

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City 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 has 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.

At June 30, 2014, the City's deposits had a carrying amount of \$9,203,921 and a bank balance of \$9,654,547. The City also had petty cash and cash on hand of \$815. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method.

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Cash Portfolio	\$ 1,000,011	N/A	AAAm
NC Capital Management Trust - Term Portfolio	<u>4,999,113</u>	0.23 years	Unrated
	<u>\$ 5,999,124</u>		

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 purchases certificates of deposit with an average maturity of 120 days. Also, the City purchases certificates of deposit to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Credit Risk. The City has no 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's investment in the NC Capital Management Trust Cash Portfolio carried a rating of AAAM by Standard and Poor's as of June 30, 2014. 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 Statute 159-30 as amended.

Receivables

Receivables at the government-wide level at June 30, 2014 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:					
General	\$ 621,033	\$ 701,719	\$ 78,002	\$ 1,672	\$ 1,402,426
Other governmental	-	-	18,819	-	18,819
Allowance for doubtful accounts	-	(38,000)	-	-	(38,000)
Total receivables	<u>\$ 621,033</u>	<u>\$ 663,719</u>	<u>\$ 96,821</u>	<u>\$ 1,672</u>	<u>\$ 1,383,245</u>
Business-Type Activities:					
Water and wastewater	\$ 710,821	\$ -	\$ 465,520	\$ 162	\$ 1,176,503
Electric	1,412,819	-	50,440	546	1,463,805
Allowance for doubtful accounts	(22,700)	-	-	-	(22,700)
Total receivables	<u>\$ 2,100,940</u>	<u>\$ -</u>	<u>\$ 515,960</u>	<u>\$ 708</u>	<u>\$ 2,617,608</u>

The total due from other governments consists of the following:

Governmental activities	\$ 96,821
Business-type activities	515,960
Total due from other governments	<u>\$ 612,781</u>
Sales tax reimbursement	\$ 238,583
Clean water state revolving funds	374,198
Total due from other governments	<u>\$ 612,781</u>

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Capital Assets

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

	<u>Balances</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjust/ Transfers</u>	<u>Balances</u> <u>June 30, 2014</u>
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 2,007,259	\$ 1,181	\$ -	\$ (498,869)	\$ 1,509,571
Construction in progress	<u>388,297</u>	<u>1,799,407</u>	<u>-</u>	<u>(675,044)</u>	<u>1,512,660</u>
<i>Total assets not being depreciated:</i>	<u>2,395,556</u>	<u>1,800,588</u>	<u>-</u>	<u>(1,173,913)</u>	<u>3,022,231</u>
<i>Capital assets being depreciated:</i>					
Buildings and improvements	7,927,583	73,638	(23,465)	923,464	8,901,220
Equipment	3,226,664	242,745	(77,635)	(228,634)	3,163,140
Vehicles	6,687,986	242,892	(81,031)	152,732	7,002,579
Infrastructure	<u>5,777,362</u>	<u>-</u>	<u>-</u>	<u>236,503</u>	<u>6,013,865</u>
Total assets being depreciated:	<u>23,619,595</u>	<u>559,275</u>	<u>(182,131)</u>	<u>1,084,065</u>	<u>25,080,804</u>
Less accumulated depreciation:					
Buildings and improvements	(4,981,156)	(315,968)	23,465	(201,830)	(5,475,489)
Equipment	(2,141,332)	(335,257)	77,635	206,167	(2,192,787)
Vehicles	(5,256,340)	(386,690)	81,031	26,831	(5,535,168)
Infrastructure	<u>(2,184,381)</u>	<u>(153,457)</u>	<u>-</u>	<u>30,647</u>	<u>(2,307,191)</u>
Total accumulated depreciation	<u>(14,563,209)</u>	<u>(1,191,372)</u>	<u>182,131</u>	<u>61,815</u>	<u>(15,510,635)</u>
<i>Total assets being depreciated, net</i>	<u>9,056,386</u>	<u>(632,097)</u>	<u>-</u>	<u>1,145,880</u>	<u>9,570,169</u>
Governmental activities					
capital assets, net	<u>\$ 11,451,942</u>	<u>\$ 1,168,491</u>	<u>\$ -</u>	<u>\$ (28,033)</u>	<u>\$ 12,592,400</u>

Depreciation was charged to functions/programs of the primary government as follows:

General government	\$ 233,157
Public safety	370,331
Transportation	262,105
Environmental protection	93,084
Cultural and recreation	<u>232,695</u>
Total depreciation expense - governmental activities	<u>\$ 1,191,372</u>

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

	<u>Balances</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjust/ Transfers</u>	<u>Balances</u> <u>June 30, 2014</u>
Business-Type Activities:					
Electric Fund:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Construction in progress	500,372	477,408	-	(873,449)	104,331
<i>Total assets not being depreciated:</i>	<u>505,372</u>	<u>477,408</u>	<u>-</u>	<u>(873,449)</u>	<u>109,331</u>
<i>Capital assets being depreciated:</i>					
Buildings and improvements	500,567	202,665	(328,200)	-	375,032
Equipment	4,513,328	-	(49,400)	3,400,070	7,863,998
Vehicles	836,092	229,438	(123,037)	-	942,493
Distribution systems	13,889,230	49,956	-	(2,410,370)	11,528,816
Total assets being depreciated:	<u>19,739,217</u>	<u>482,059</u>	<u>(500,637)</u>	<u>989,700</u>	<u>20,710,339</u>
Less accumulated depreciation:					
Buildings and improvements	(442,836)	(4,549)	308,347	-	(139,038)
Equipment	(2,745,344)	(267,789)	49,400	(1,912,682)	(4,876,415)
Vehicles	(559,411)	(75,608)	123,037	-	(511,982)
Distribution systems	(5,277,166)	(307,419)	-	1,824,464	(3,760,121)
Total accumulated depreciation	<u>(9,024,757)</u>	<u>(655,365)</u>	<u>480,784</u>	<u>(88,218)</u>	<u>(9,287,556)</u>
<i>Total assets being depreciated, net</i>	<u>10,714,460</u>	<u>(173,306)</u>	<u>(19,853)</u>	<u>901,482</u>	<u>11,422,783</u>
Electric Fund capital assets, net	<u>11,219,832</u>	<u>304,102</u>	<u>(19,853)</u>	<u>28,033</u>	<u>11,532,114</u>
Water and Wastewater Fund:					
<i>Capital assets not being depreciated:</i>					
Land	210,332	-	-	-	210,332
Construction in progress	548,184	2,294,315	-	(1,452,961)	1,389,538
<i>Total assets not being depreciated:</i>	<u>758,516</u>	<u>2,294,315</u>	<u>-</u>	<u>(1,452,961)</u>	<u>1,599,870</u>
<i>Capital assets being depreciated:</i>					
Buildings and improvements	22,593,379	38,292	-	249,702	22,881,373
Equipment	980,993	98,320	(14,704)	128,609	1,193,218
Vehicles	1,241,660	8,625	(85,318)	26,832	1,191,799
Distribution systems	37,343,478	-	-	1,021,414	38,364,892
Total assets being depreciated:	<u>62,159,510</u>	<u>145,237</u>	<u>(100,022)</u>	<u>1,426,557</u>	<u>63,631,282</u>
Less accumulated depreciation:					
Buildings and improvements	(15,300,707)	(591,669)	-	(93,976)	(15,986,352)
Equipment	(584,164)	(69,712)	14,704	157,516	(481,656)
Vehicles	(478,495)	(127,762)	85,318	(26,831)	(547,770)
Distribution systems	(13,434,743)	(1,097,856)	-	(10,305)	(14,542,904)
Total accumulated depreciation	<u>(29,798,109)</u>	<u>(1,886,999)</u>	<u>100,022</u>	<u>26,404</u>	<u>(31,558,682)</u>
<i>Total assets being depreciated, net</i>	<u>32,361,401</u>	<u>(1,741,762)</u>	<u>-</u>	<u>1,452,961</u>	<u>32,072,600</u>
Water and Wastewater Fund capital assets, net	<u>33,119,917</u>	<u>552,553</u>	<u>-</u>	<u>-</u>	<u>33,672,470</u>
Business-type activities capital assets, net	<u>\$ 44,339,749</u>	<u>\$ 856,655</u>	<u>\$ (19,853)</u>	<u>\$ 28,033</u>	<u>\$ 45,204,584</u>

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2014 is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 12,592,400	\$ 45,204,584
Long-term debt	(8,070,116)	(16,240,805)
Accrued compensated absences, OPEB, LEO	921,313	171,865
Unspent debt proceeds	2,653,690	530,171
Net investment in capital assets	<u>\$ 8,097,287</u>	<u>\$ 29,665,815</u>

Construction Commitments

The government has active construction projects as of June 30, 2014. The government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to Date</u>	<u>Remaining Commitment</u>
General Capital Projects:		
S. Caldwell Court Culvert	\$ 15,440	\$ 8,810
New Fire Headquarters	1,497,220	2,093,780
Water and Wastewater Capital Projects:		
Water Rehabilitation Projects	300,775	91,425
Sewer Rehabilitation Projects	10,800	100,200
Water Filtration Plant Improvements	98,558	1,442
Snow Creek Sewer Outfall Rehabilitation	959,405	226,545
Electric Capital Projects:		
Catawba County Justice Center Expansion	8,360	549,040
Circuit Reconfiguration	95,971	206,179
Total	<u>\$ 2,986,529</u>	<u>\$ 3,277,421</u>

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

B. Liabilities

Accounts Payable

Payables at the government-wide level at June 30, 2014 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total</u>
Governmental Activities:				
General	\$ 194,981	\$ 121,101	\$ 101,954	\$ 418,036
Other governmental	<u>84,594</u>	<u>-</u>	<u>-</u>	<u>84,594</u>
Total payables	<u>\$ 279,575</u>	<u>\$ 121,101</u>	<u>\$ 101,954</u>	<u>\$ 502,630</u>
Business-Type Activities:				
Water and wastewater	\$ 217,199	\$ -	\$ 122,799	\$ 339,998
Electric	<u>1,037,104</u>	<u>-</u>	<u>102,526</u>	<u>1,139,630</u>
Total payables	<u>\$ 1,254,303</u>	<u>\$ -</u>	<u>\$ 225,325</u>	<u>\$ 1,479,628</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The City contributes to the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute 6% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.41%, respectively, of annual covered payroll.

The contribution requirements of members and of the City are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$503,618, \$468,456 and \$493,501, respectively. The contributions made by the City equaled the required contributions for each year.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Law Enforcement Officers' Special Separation Allowance

Plan Description. The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>34</u>
Total	<u>38</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. No contributions were made by employees.

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2012 was 18 years.

Annual Pension Cost and Net Pension Obligation. The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$	66,154
Interest on net pension obligation		15,829
Adjustment to annual required contribution		<u>(25,792)</u>
Annual pension cost		56,191
Contributions made		<u>(50,309)</u>
Increase (decrease) in net pension obligation		5,882
Net pension obligation:		
Beginning of year - July 1		<u>316,570</u>
End of year - June 30		<u><u>\$ 322,452</u></u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 56,191	89.53%	\$ 322,452
2013	63,083	80.61%	316,570
2012	61,928	74.54%	304,341

Funding Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$622,433. The covered payroll (annual payroll of active employees covered by the plan) was \$1,361,173, and the ratio of the UAAL to the covered payroll was 45.73 percent.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing, over time, relative to the actuarial accrued liability for benefits.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City contributes to Supplemental Retirement Income Plans (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 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 Comptroller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to their plan. Contributions for the year ended June 30, 2014 were \$82,874, which consisted of \$69,364 from the City and \$13,510 from the law enforcement officers.

Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the City of Newton, to the Firefighter's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firefighter's and Rescue Squad Workers' Pension Fund 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 the Firefighter's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

Other Post-Employment Benefits - Healthcare Benefits

Plan Description. The City administers a single-employer defined benefit Healthcare Benefits Plan. According to the City of Newton Personnel Policy, the City provides post-employment healthcare benefits up to age 65 to retirees of the City, whether or not they qualify for Medicare at that time, provided they meet the retirement qualifications outlined by the North Carolina Local Government Employees Retirement System, they are at least 55 years of age, and their last 20 full-time consecutive creditable years of service were with the City. This benefit will not be offered to any employee hired on or after July 1, 2006. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. Currently nine retirees can purchase coverage for post-employment health benefits. For the fiscal year ended June 30, 2014, the City made payments for post-retirement health benefit premiums of \$104,159. The City purchases insurance from a private carrier for healthcare coverage. A separate report was not issued for the Plan.

Membership of the HCB Plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	6	2
Terminated plan members entitled to, but not yet receiving, benefits	-	-
Active plan members	<u>69</u>	<u>14</u>
Total	<u>75</u>	<u>16</u>

Funding Policy. The City pays the full cost of coverage for the healthcare benefits paid to qualified retirees having 30 or more creditable years of service under a City resolution that can be amended by the City Council. The City's members pay the City's group rate for qualified retirees having 20 full-time consecutive creditable years of service. The City's members pay the City's group rates for dependent coverage, if enrolled in dependent coverage at the time of retirement. The City has chosen to fund the healthcare benefits on a pay-as-you-go basis.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The current ARC rate is 3.48% of annual covered payroll. For the current year, the City contributed \$104,159, or 3.16% of annual covered payroll. The City's required contributions, under a City resolution, for employees not engaged in law enforcement and for law enforcement officers represented 1.3% and 0.4% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$238,998. Retirees are responsible for the difference between the amount charged for an active employee and the retiree rate, which is paid on a monthly basis. The City self-insures health and dental coverage for employees and retirees, which is administered by a third party administrator. The City's obligation to contribute to the HCB Plan is established and may be amended by the City Council.

Summary of Significant Accounting Policies

Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net Obligation. The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 114,661
Interest on net OPEB obligation	7,148
Adjustments to annual required contribution	<u>(9,937)</u>
Annual OPEB cost (expense)	111,872
Contributions made	<u>(104,159)</u>
Increase (decrease) in net OPEB obligation	7,713
Net OPEB obligation:	
Beginning of year - July 1	<u>178,688</u>
End of year - June 30	<u>\$ 186,401</u>

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 111,872	93.1%	\$ 186,401
2013	111,987	93.4%	178,688
2012	99,221	141.9%	171,332

Fund Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,037,619. The covered payroll (annual payroll of active employees covered by the plan) was \$3,297,882, and the ratio of the UAAL to the covered payroll was 31.5 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. In the December 31, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.75 to 5.00 percent annually. Both rates included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2013, was 30 years.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service, and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

The City has also elected to provide a city paid Employee Term Life Coverage and Accidental Death and Dismemberment Coverage for all regular full-time employees who have completed the employment-waiting period. The beneficiaries of those employees who die while employed are eligible for the life benefit payable from Prudential Life Insurance Company equal to 100% of the employee's annual earnings not to exceed \$100,000. A limitation of 65% applies to employees 65 to 70 years in age, and 50% limitation at age 70 and above. Benefits payable for Accidental Death are equal to same, and benefits for dismemberment pay in accordance to the terms outlined in the purchased policy. The City has no liability beyond the payment of monthly contributions.

Deferred Inflows of Resources

The balance in deferred inflows of resources for the City at year-end is composed of the following elements:

General Fund	Unavailable Revenue	Unearned Revenue
Prepaid assessments not yet earned	\$ -	\$ 2,108
Taxes receivable, (net)	663,719	-
Total deferred/unearned revenues	<u>\$ 663,719</u>	<u>\$ 2,108</u>

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 disaster for which the City carries commercial insurance. The City has workers' compensation coverage up to statutory limits, law enforcement officers' liability and public official liability of \$1 million per occurrence, with a \$2 million umbrella policy, auto liability of \$1 million per accident, public entity general liability of \$1 million per occurrence, \$3 million aggregate; commercial inland marine of \$1,435,180. 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.

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 the Tax Collector are each individually bonded for \$250,000 and \$150,000, respectively. The remaining employees that have access to funds are bonded under a blanket plan for \$100,000 each.

The City's commercial property policy provides broad form flood coverage for specifically scheduled locations. These scheduled locations involve City physical assets located outside of any traditional 100-year flood zone. The City does have a limited number of physical assets located within 100-year flood zones. For these assets, the City has chosen to assume the risk of flood loss without the purchase of flood insurance either due to cost or the lack of availability of such insurance.

Claims, Judgments and Contingent Liabilities

At June 30, 2014, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is available to participants in accordance with the Plan document. All amounts of compensation deferred under the Plan are held in trust for the exclusive benefit of Plan participants and their beneficiaries.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent administrator. The Plan is administered by the International City Management Association. Investments are managed by the plan trustee under several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

Self-Insurance

The City is self-insured for health and dental coverage for all full-time employees. Funding is provided by charges to various funds of the City and employee contributions based upon estimated claims and employee participation. The claims administrator determines estimated claims annually. Aggregate and specific stop loss insurance coverage is provided annually by Blue Cross Blue Shield of North Carolina, who also provides contracted third-party claims administration. The City has recognized a provision of \$116,645 for claims incurred but not reported, in the accompanying financial statements. This provision is estimated upon analysis of historical claims experience reviewed by the City's third party administrator.

Changes in the balances of claims liability during the past two fiscal years are as follows:

	<u>2014</u>	<u>2013</u>
Claims liability, beginning of year	\$ 157,523	\$ 229,184
Claims incurred	1,048,672	872,165
Payments on claims	<u>(1,029,731)</u>	<u>(943,826)</u>
Claims liability, end of year	<u>\$ 176,464</u>	<u>\$ 157,523</u>

Long-Term Obligations

Loans Payable

The loans payable are for the acquisition of land, vehicles, equipment, and various capital, electric, and water and wastewater projects. Principal and interest requirements are appropriated when due.

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Loans payable at June 30, 2014 are comprised of the following:

	<u>Serviced by:</u>		
	<u>General Fund</u>	<u>Water / Wastewater Fund</u>	<u>Electric Fund</u>
\$184,730, 1994, McKay Road project noninterest loan payable to Catawba County, due in annual installments of \$9,237 through July 2014	\$ -	\$ 9,237	\$ -
\$213,393, 2006, Balls Creek Sewer noninterest loan payable to Catawba County, due in annual installments of \$16,908 through January 2017	-	50,723	-
\$367,000 2005, 3.07% loan payable to bank in annual installments of \$41,812 for vehicles and equipment due in July 2014	41,812	-	-
\$2,702,929, 2005, 2.59% loan payable to bank in annual installments of \$239,684 for water and wastewater capital projects due in 2018	-	1,110,652	-
\$1,766,543, 2005, 3.07% loan payable to bank in annual installments of \$201,263 for electric system improvements due in July 2014	-	-	201,263
\$370,000, 2005, 3.97% loan payable to bank in annual installments of \$33,208 for fire truck due in 2019	174,253	-	-
\$2,300,000, 2005, 2.63% loan payable to bank in annual installments of \$193,614 for water and wastewater capital improvements due in 2019	-	1,061,828	-
\$2,500,000, 2005, 2.73% loan payable to bank in annual installments of \$214,606 for water and wastewater capital improvements due in 2020	-	1,173,038	-
\$550,000, 2006, 3.39% loan payable to bank in annual installments of \$65,767 for equipment due in 2016	-	-	125,135

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	Serviced by:		
	General Fund	Water / Wastewater Fund	Electric Fund
\$4,000,000, 2005, 2.97% loan payable to bank in annual installments of \$344,788 for water and wastewater, electric and general capital improvements and equipment due in 2021	373,017	294,379	1,755,975
\$651,000, 2008, 2.97% loan to bank in annual installments of a fixed payment of \$43,400 plus interest for real property improvements and equipment due in 2022	390,600	-	-
\$131,000, 2008, 3.69% loan to bank in annual installments of \$15,903 for a vehicle due in 2017	58,150	-	-
\$493,000, 2008, 3.54% loan payable to bank in annual installments of a fixed payment of \$70,428 plus interest for equipment due in 2014	70,429	-	-
\$475,000, 2009, 3.48% loan payable to bank in annual installments of a fixed payment of \$67,857 plus interest for equipment due in 2015	135,714	-	-
\$4,940,000, 2009, 3.03% loan payable to bank in annual installments of a fixed payment of \$329,333 plus interest for water and wastewater, electric and general capital improvements and equipment due in 2024	232,734	1,127,193	1,933,407
\$452,500, 2010, 2.68% loan payable to bank in annual installments of a fixed payment of \$90,500 plus interest for vehicles and equipment due in 2015	79,900	-	10,600
\$264,824, 2010, 3.11% loan payable to bank in annual installments of a fixed payment of \$37,832 plus interest for equipment due in 2017	46,993	-	66,503

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	Serviced by:		
	General Fund	Water / Wastewater Fund	Electric Fund
\$316,000, 2011, 2.29% loan payable to bank in annual installments of a fixed payment of \$63,200 plus interest for vehicles and equipment due in 2015	100,400	26,000	-
\$250,000, 2011, 2.65% loan payable to bank in annual installments of a fixed payment of \$35,714 plus interest for street/sidewalk infrastructure due in 2018	142,857	-	-
\$469,000, 2012, 1.61% loan payable to bank in annual installments of a fixed payment of \$94,079 plus interest for vehicles and equipment due in 2016	160,482	120,361	-
\$1,742,775, 2012, 1.91% loan payable to bank in annual installments of a fixed payment of \$248,968 plus interest for vehicles and equipment due in 2019	735,956	441,638	67,245
\$3,256,225, 2012, 3.11% loan payable to bank in annual installments of a fixed payment of \$217,082 plus interest for water and wastewater, and electric capital improvements and equipment due in 2027	-	2,207,703	614,358
\$498,921, 2012, 2.22% loan payable to the State in annual installments of a fixed payment of \$26,259 plus interest for wastewater capital improvements due in 2031	-	446,403	-
\$432,763, 2013, 1.56% loan payable to bank in annual installments of a fixed payment of \$86,553 plus interest for vehicles and equipment due in 2018	189,586	156,625	-
\$207,369, 2013, 1.78% loan payable to bank in annual installments of a fixed payment of \$29,624.14 plus interest for an electrical vehicle due in 2020	-	-	177,745

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u> Serviced by:</u>		
	<u>General</u> <u>Fund</u>	<u>Water /</u> <u>Wastewater</u> <u>Fund</u>	<u>Electric</u> <u>Fund</u>
\$403,790, 2013, 2.60% loan payable to bank in annual installments of a fixed payment of \$26,919.33 plus interest for street and water capital improvements due in 2028	192,920	183,951	-
\$1,340,265, 2013, 2.58% loan payable to bank in annual installments of a fixed payment of \$89,351 plus interest for water and wastewater, and electric capital improvements due in 2028	-	684,558	566,356
\$3,460,000, 2014, 2.91% loan payable to bank in annual installments of a fixed payment of \$230,667 plus interest for construction of a Fire Department headquarters due in 2029	3,460,000	-	-
\$290,000, 2014, 2.59% loan payable to bank in annual installments of a fixed payment of \$29,000 plus interest for a fire truck refurbishment due in 2024	290,000	-	-
\$592,200, 2014, 2.91% loan payable to bank in annual installments of a fixed payment of \$39,480 plus interest for water and electric capital improvements due in 2029	-	392,200	200,000
\$273,000, 2014, 1.57% loan payable to bank in annual installments of a fixed payment of \$54,600 plus interest for vehicles and equipment due in 2019	273,000	-	-
\$863,864, 2014, 2.00% loan payable to the State in annual installments of a fixed payment of \$43,193 plus interest for wastewater capital improvements due in 2034	-	863,864	-
	<u>\$7,148,803</u>	<u>\$10,350,353</u>	<u>\$5,718,587</u>

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Annual debt service requirements to maturity for the City's long-term obligations are as follows:

	Year Ended June 30	Loans Payable	
		Principal	Interest
Governmental activities:			
2015		\$ 1,086,464	\$ 193,858
2016		897,122	165,189
2017		781,164	142,289
2018		715,533	122,845
2019		619,621	104,581
2020-2024		1,840,446	325,947
2025-2029		<u>1,208,453</u>	<u>104,269</u>
Total Governmental activities		<u>7,148,803</u>	<u>1,158,978</u>
Business-type activities:			
Water and Wastewater Fund:			
2015		1,254,632	274,802
2016		1,246,248	243,232
2017		1,248,861	211,241
2018		1,208,874	179,188
2019		1,186,806	147,287
2020-2024		2,715,773	399,406
2025-2029		1,235,609	108,262
2030-2034		<u>253,550</u>	<u>14,708</u>
Total Water and Wastewater		<u>10,350,353</u>	<u>1,578,126</u>
Electric Fund:			
2015		830,673	167,467
2016		626,767	142,836
2017		569,203	124,401
2018		553,260	107,944
2019		559,670	91,990
2020-2024		2,208,755	226,943
2025-2029		<u>370,259</u>	<u>25,076</u>
Total Electric Fund		<u>5,718,587</u>	<u>886,657</u>
Total Business-type activities		<u>16,068,940</u>	<u>2,464,783</u>
Total All activities		<u>\$ 23,217,743</u>	<u>\$ 3,623,761</u>

At June 30, 2014, the City of Newton had a legal debt margin of \$68,139,725.

CITY OF NEWTON, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Changes in Long-Term Liabilities

The following is a summary of changes in long-term debt for the year ended June 30, 2014.

	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Loans payable	\$ 3,894,050	\$ 4,023,000	\$ 768,247	\$ 7,148,803	\$ 1,086,464
Compensated absences	416,569	256,134	211,089	461,614	240,264
Other post-employment benefits	135,928	82,371	81,052	137,247	-
Net pension benefit obligation	316,570	56,191	50,309	322,452	-
Total Governmental activities	<u>\$ 4,763,117</u>	<u>\$ 4,417,696</u>	<u>\$ 1,110,697</u>	<u>\$ 8,070,116</u>	<u>\$ 1,326,728</u>
Business-type activities:					
Water and Wastewater Fund:					
Loans payable	\$ 10,249,267	\$ 1,256,064	\$ 1,154,978	\$ 10,350,353	\$ 1,254,632
Compensated absences	78,867	75,965	62,266	92,566	72,966
Other post-employment benefits	32,074	23,359	16,512	38,921	-
Total Water and Wastewater Fund	<u>10,360,208</u>	<u>1,355,388</u>	<u>1,233,756</u>	<u>10,481,840</u>	<u>1,327,598</u>
Electric Fund:					
Loans payable	6,322,213	200,000	803,626	5,718,587	830,673
Compensated absences	25,382	33,521	28,758	30,145	30,145
Other post-employment benefits	10,686	6,142	6,595	10,233	-
Total Electric Fund	<u>6,358,281</u>	<u>239,663</u>	<u>838,979</u>	<u>5,758,965</u>	<u>860,818</u>
Total Business-type activities	<u>\$ 16,718,489</u>	<u>\$ 1,595,051</u>	<u>\$ 2,072,735</u>	<u>\$ 16,240,805</u>	<u>\$ 2,188,416</u>

Compensated absences, OPEB, and net pension obligation for governmental activities typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

Interfund loans are summarized as follows:

Due to the General Fund for the allocation of costs from the:

General Capital Projects Fund \$ 168,941

Due from Governmental Activities for Internal Service Fund activity

allocation to Business-type Activities \$ 262,501

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) move unrestricted General Fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs and (2) move funds from the fund with collection authorization to other funds to stabilize rates.

Transfers to/from other funds at June 30, 2014 consist of the following:

From the General Fund to the General Capital Projects Fund for capital project expenditures	\$ 131,000
From the General Capital Projects Fund to the General Fund for return of unspent project funding	132,676
From the Water and Wastewater Fund to the Electric Fund for capital project expenditures	100,000
From the Electric Fund to the General Fund for local contribution	<u>4,000</u>
Total	<u>\$ 367,676</u>

D. Revenues, Expenditures and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2014, the City of Newton has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$13,951 for the 47 employed firefighters who perform firefighting duties for the City. The employees elected to be members of the Firefighter's and Rescue Worker's Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Also, the City has recognized as a revenue and an expenditure on-behalf payment for fringe benefits and salaries of \$8,485 for the salary supplement and stipend benefits paid to eligible firefighters by the local Board of Trustees of the Firefighter's Relief Fund during the fiscal year ended June 30, 2014. Under State law, the local Board of Trustees for the Fund receives an amount each year, which the Board may use at its own discretion for eligible firefighters or their departments.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

3. Jointly Governed Organization

North Carolina Municipal Power Agency Number 1 (NCMPA1)

The City, in conjunction with eighteen other local governments in the Piedmont and Foothills Region of North Carolina, is a member of the North Carolina Municipal Power Agency Number 1 (NCMPA1). The NCMPA1 has 75 percent ownership interest in Catawba Nuclear Station Unit 2, located in York County, South Carolina., which is operated by Duke Energy. It also has an agreement with Duke Energy that provides for electric power via McGuire Nuclear Station and Catawba Unit 1 should Catawba Nuclear Station Unit 2 be unavailable for service. NCMPA1 is governed by a Board of Commissioners, which consists of fourteen members elected throughout North Carolina. Each participating government appoints one Commissioner and an alternate Commissioner to the Board. The nineteen members, who receive power from the NCMPA1, have signed power sales agreements to purchase a specified share of the power generated by the NCMPA1. NCMPA1 revenues derived from the Power Sales Agreement are pledged as security for the Power Agency bonds outstanding. The City's purchase of power for the fiscal year ended June 30, 2014 was \$10,978,601.

Newton-Conover Auditorium Authority

The Newton-Conover Auditorium Authority was organized and incorporated by the Secretary of State of North Carolina as a non-profit corporation on December 27, 1990. It is composed of a Board of Directors including members appointed by the City of Newton (four members); Newton-Conover School Board (three members); and the Catawba County Board of Commissioners (three members). The Authority's responsibilities include the restoration and renovation of the former Newton-Conover High School auditorium for use as a civic auditorium for a wide range of community activities. This community auditorium is available for use by individuals, civic groups, the schools and the local community theater group. The City funded \$25,000 to the Newton-Conover Auditorium Authority during fiscal year ended June 30, 2014.

Western Piedmont Council of Governments

The Western Piedmont Council of Governments (WPCOG) is a regional planning organization. It consists of twenty-four municipalities and four counties within western North Carolina. The WPCOG's governing board is comprised of one elected official from each of these local governments and seven at-large citizen members. Each local government has one vote. The City paid membership dues of \$12,695 during fiscal year ended June 30, 2014.

CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Western Piedmont Regional Transit Authority

Western Piedmont Regional Transit Authority (WPRTA) is the first regional public transportation authority with consolidated urban-rural transit service in North Carolina. Alexander, Burke, Caldwell, and Catawba counties in conjunction with the municipalities of Conover, Hickory, and Newton each appoint one member to the governing board of the WPRTA. The City paid \$29,578 to WPRTA during fiscal year ended June 30, 2014.

4. Related Party Transaction

The City entered into two transactions to rent a facility owned by a member of the City Council. The amount paid for rent was \$1,265. Prior to the rental of the facility, the City adopted resolution numbers 24-2013 and 1-2014, exempting the City of Newton from North Carolina General Statute 14-234.

5. 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 monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

REQUIRED SUPPLEMENTARY INFORMATION

This section contains additional information required by generally accepted accounting principles

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
 - Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
 - Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.
 - Schedule of Funding Progress for the Other Post-Employment Benefits.
 - Schedule of Employer Contributions for the Other Post-Employment Benefits.
 - Notes to the Required Schedules for the Other Post-Employment Benefits.
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CITY OF NEWTON, NORTH CAROLINA

Schedule A-1

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2013	\$ -	\$ 622,433	\$ 622,433	0.00%	\$ 1,361,173	45.73%
12/31/2012	-	588,037	588,037	0.00%	1,343,895	43.76%
12/31/2011	-	605,427	605,427	0.00%	1,386,990	43.65%
12/31/2010	-	603,280	603,280	0.00%	1,351,119	44.65%
12/31/2009	-	690,159	690,159	0.00%	1,487,330	46.40%
12/31/2008	-	596,166	596,166	0.00%	1,331,679	44.77%
12/31/2007	-	571,026	571,026	0.00%	1,289,622	44.28%
12/31/2006	-	553,357	553,357	0.00%	1,327,546	41.68%
12/31/2005	-	519,076	519,076	0.00%	1,290,773	40.21%
12/31/2004	-	522,202	522,202	0.00%	1,335,544	39.10%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2014	\$ 66,154	76.05%
2013	66,806	76.12%
2012	64,714	71.33%
2011	69,554	4.67%
2010	58,869	4.42%
2009	55,205	4.28%
2008	53,341	3.87%
2007	50,760	3.79%
2006	56,192	4.13%
2005	49,590	3.97%

Notes to the Required Schedules:

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

Valuation date	December 31, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25% to 7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

CITY OF NEWTON, NORTH CAROLINA

Schedule A-2

**OTHER POST-EMPLOYMENT BENEFITS -
RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/2013	\$ -	\$ 1,037,619	\$ 1,037,619	0.00%	\$ 3,297,882	31.46%
12/31/2011	-	1,240,188	1,240,188	0.00%	4,214,285	29.43%
12/31/2010	-	1,124,469	1,124,469	0.00%	4,555,127	24.69%
12/31/2009	-	998,624	998,624	0.00%	5,112,117	19.53%
12/31/2008	-	1,789,597	1,789,597	0.00%	5,694,669	31.43%

Note: The City of Newton implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. As the City has additional actuary valuations performed, information will be added to this schedule.

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2014	\$ 114,661	90.84%
2013	114,661	91.25%
2012	102,543	137.30%
2011	95,458	115.25%
2010	187,915	47.32%
2009	197,926	28.60%

Notes to the Required Schedules:

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

Valuation date	December 31, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions	
Investment rate of return*	4.00%
Medical trend assumptions	
Pre-Medicare trend rate	7.75% - 5.00%
Year of ultimate trend rate	2019
* Includes inflation at 3.00%	

GOVERNMENTAL ACTIVITIES MAJOR FUNDS

GENERAL FUND

The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.



CITY OF NEWTON, NORTH CAROLINA

Schedule 1
Page 1 of 5

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	2014			2013 Actual
	Final Budget	Actual	Variance Over/Under	
Revenues:				
Ad Valorem Taxes:				
Current year	\$ 4,927,300	\$ 5,267,703	\$ 340,403	\$ 4,964,241
Prior years	125,000	196,297	71,297	171,696
Refunds	-	-	-	(39,233)
Penalties and interest	30,000	58,391	28,391	39,369
Total	<u>5,082,300</u>	<u>5,522,391</u>	<u>440,091</u>	<u>5,136,073</u>
Other Taxes and Licenses:				
Local option sales tax	2,775,000	2,694,664	(80,336)	2,595,442
Solid waste disposal tax	8,500	7,919	(581)	7,307
Other taxes and licenses	4,000	8,316	4,316	4,681
Rural fire district tax	351,750	351,704	(46)	353,764
Total	<u>3,139,250</u>	<u>3,062,603</u>	<u>(76,647)</u>	<u>2,961,194</u>
Unrestricted Intergovernmental Revenues:				
Payments in lieu of taxes	389,100	389,100	-	370,550
Utility franchise tax	797,400	810,418	13,018	759,087
Beer and wine tax	58,000	56,695	(1,305)	52,370
Total	<u>1,244,500</u>	<u>1,256,213</u>	<u>11,713</u>	<u>1,182,007</u>
Restricted Intergovernmental Revenues:				
Federal grants	132,650	267,240	134,590	63,147
Federal asset seizure allocation	-	963	963	15,163
Other	-	1,825	1,825	2,576
On-behalf payments - fire	25,000	22,437	(2,563)	25,941
Powell Bill State street aid allocation	387,250	392,320	5,070	388,401
Total	<u>544,900</u>	<u>684,785</u>	<u>139,885</u>	<u>495,228</u>
Permits and Fees:				
Privilege and peddler's license	400	410	10	40,730
Local franchise - cable tv	80,000	77,125	(2,875)	79,400
Total	<u>80,400</u>	<u>77,535</u>	<u>(2,865)</u>	<u>120,130</u>
Sales and Services:				
Supportive court services	5,000	4,150	(850)	5,613
Refuse collection fees	840,900	851,321	10,421	738,498
Recreation fees and concessions	65,700	57,431	(8,269)	61,184
Other	47,000	155,843	108,843	64,269
Total	<u>958,600</u>	<u>1,068,745</u>	<u>110,145</u>	<u>869,564</u>
Investment Earnings	<u>11,500</u>	<u>6,825</u>	<u>(4,675)</u>	<u>10,271</u>
Miscellaneous:				
Rentals and sale of property	70,650	62,563	(8,087)	100,623
Other	86,600	104,188	17,588	139,428
Total	<u>157,250</u>	<u>166,751</u>	<u>9,501</u>	<u>240,051</u>
Total revenues	<u>11,218,700</u>	<u>11,845,848</u>	<u>627,148</u>	<u>11,014,518</u>

CITY OF NEWTON, NORTH CAROLINA

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**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	2014		2013 Actual
	Final Budget	Actual	
Expenditures:			
General Government:			
Governing body:			
Salaries and employee benefits	48,000	45,281	48,881
Other operating expenditures	25,350	25,095	6,559
Interdepartmental charges	(48,900)	(48,900)	(37,700)
Total	24,450	21,476	17,740
Administration:			
Salaries and employee benefits	344,400	340,371	315,978
Other operating expenditures	133,350	119,298	107,387
Interdepartmental charges	(298,500)	(298,500)	(281,300)
Total	179,250	161,169	142,065
Finance:			
Salaries and employee benefits	460,750	449,711	446,606
Other operating expenditures	214,600	178,959	163,552
Interdepartmental charges	(558,200)	(558,200)	(534,400)
Total	117,150	70,470	75,758
Purchasing/Warehouse:			
Salaries and employee benefits	105,300	105,007	102,906
Other operating expenditures	14,550	8,800	11,860
Interdepartmental charges	(109,900)	(109,900)	(107,600)
Total	9,950	3,907	7,166
Technology/MIS:			
Salaries and employee benefits	135,600	135,011	131,630
Other operating expenditures	153,000	149,754	156,451
Capital outlay	-	-	16,356
Interdepartmental charges	(184,300)	(184,300)	(180,200)
Total	104,300	100,465	124,237
Human Resources:			
Salaries and employee benefits	308,900	297,591	266,664
Other operating expenditures	174,300	160,537	142,413
Interdepartmental charges	(83,600)	(83,550)	(92,700)
Total	399,600	374,578	316,377
Planning:			
Salaries and employee benefits	180,900	177,307	122,586
Other operating expenditures	86,050	43,116	25,068
Capital outlay	-	-	26,168
Interdepartmental charges	(55,100)	(55,100)	(47,900)
Total	211,850	165,323	125,922
Municipal Building:			
Other operating expenditures	199,700	191,034	131,875
Capital outlay	42,300	42,199	94,872
Total	242,000	233,233	226,747

CITY OF NEWTON, NORTH CAROLINA

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**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	2014			2013 Actual
	Final Budget	Actual	Variance Over/Under	
Public Works Administration:				
Salaries and employee benefits	150,000	148,715		134,722
Other operating expenditures	61,450	59,183		56,944
Interdepartmental charges	(153,500)	(153,500)		(150,700)
Total	<u>57,950</u>	<u>54,398</u>	<u>3,552</u>	<u>40,966</u>
Garage:				
Salaries and employee benefits	107,700	106,896		103,709
Other operating expenditures	49,900	49,454		47,380
Capital outlay	9,400	8,509		16,424
Interdepartmental charges	(57,800)	(57,800)		(59,400)
Total	<u>109,200</u>	<u>107,059</u>	<u>2,141</u>	<u>108,113</u>
Downtown Public Parking:				
Other operating expenditures	<u>5,950</u>	<u>5,561</u>	<u>389</u>	<u>5,560</u>
Total general government	<u>1,461,650</u>	<u>1,297,639</u>	<u>164,011</u>	<u>1,190,651</u>
Transportation:				
Streets:				
Salaries and employee benefits	294,800	293,424		278,330
Other operating expenditures	385,400	374,616		133,904
Capital outlay	<u>33,750</u>	<u>33,387</u>		<u>302,316</u>
Total	<u>713,950</u>	<u>701,427</u>	<u>12,523</u>	<u>714,550</u>
Powell Bill:				
Salaries and employee benefits	137,050	134,890		128,251
Other operating expenditures	<u>374,150</u>	<u>95,850</u>		<u>263,477</u>
Total	<u>511,200</u>	<u>230,740</u>	<u>280,460</u>	<u>391,728</u>
Total transportation	<u>1,225,150</u>	<u>932,167</u>	<u>292,983</u>	<u>1,106,278</u>
Environmental Protection:				
Sanitation:				
Salaries and employee benefits	622,050	554,588		511,458
Other operating expenditures	403,950	401,445		409,101
Capital outlay	<u>38,800</u>	<u>38,787</u>		<u>355,921</u>
Total	<u>1,064,800</u>	<u>994,820</u>	<u>69,980</u>	<u>1,276,480</u>
Total environmental protection	<u>1,064,800</u>	<u>994,820</u>	<u>69,980</u>	<u>1,276,480</u>
Public Safety:				
Police Department:				
Salaries and employee benefits	2,552,600	2,423,464		2,379,963
Other operating expenditures	511,600	470,802		453,115
Capital outlay	433,900	430,513		178,846
Interdepartmental charges	<u>(2,800)</u>	<u>(2,800)</u>		<u>(2,250)</u>
Total	<u>3,495,300</u>	<u>3,321,979</u>	<u>173,321</u>	<u>3,009,674</u>

CITY OF NEWTON, NORTH CAROLINA

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**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	2014			2013 Actual
	Final Budget	Actual	Variance Over/Under	
Fire Department:				
Salaries and employee benefits	1,728,300	1,695,142		1,676,535
Other operating expenditures	375,950	343,537		362,789
Capital outlay	871,700	170,861		-
Interdepartmental charges	(109,500)	(109,450)		(106,100)
Total	2,866,450	2,100,090	766,360	1,933,224
Total public safety	6,361,750	5,422,069	939,681	4,942,898
Cultural and Recreational: Administration:				
Salaries and employee benefits	568,450	560,055		540,422
Other operating expenditures	239,350	132,025		107,003
Total	807,800	692,080	115,720	647,425
Central Recreation Center:				
Salaries and employee benefits	28,800	22,345		21,071
Other operating expenditures	34,500	31,493		27,937
Total	63,300	53,838	9,462	49,008
Swimming Pool:				
Salaries and employee benefits	30,750	28,892		28,637
Other operating expenditures	38,850	35,311		46,964
Total	69,600	64,203	5,397	75,601
Parks:				
Salaries and employee benefits	59,150	38,935		33,749
Other operating expenditures	169,650	133,879		85,484
Capital outlay	93,750	30,331		89,910
Total	322,550	203,145	119,405	209,143
Cemeteries:				
Salaries and employee benefits	163,400	160,054		151,006
Other operating expenditures	24,100	21,223		25,148
Capital outlay	-	-		6,525
Total	187,500	181,277	6,223	182,679
Special Appropriations:				
Other operating expenditures	581,950	504,914	77,036	916,697
Total cultural and recreational	2,032,700	1,699,457	333,243	2,080,553
Debt Service:				
Principal paid on installment purchase	768,500	768,247		878,663
Interest and fees	102,200	101,897		122,930
Total debt service	870,700	870,144	556	1,001,593
Total expenditures	13,016,750	11,216,296	1,800,454	11,598,453

CITY OF NEWTON, NORTH CAROLINA

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**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	2014			2013 Actual
	Final Budget	Actual	Variance Over/Under	
Revenues over (under) expenditures	(1,798,050)	629,552	2,427,602	(583,935)
Other Financing Sources (Uses):				
Issuance of debt	973,000	563,000	(410,000)	443,682
Transfers from General Capital Projects Fund	132,650	132,676	26	24,611
Transfers from Electric Fund	4,000	4,000	-	10,000
Transfers to General Capital Projects Fund	(131,000)	(131,000)	-	(410,806)
Appropriated fund balance	819,400	-	(819,400)	-
Total other financing sources (uses)	1,798,050	568,676	(1,229,374)	67,487
Net change in fund balance	<u>\$ -</u>	1,198,228	<u>\$ 1,198,228</u>	<u>\$ (516,448)</u>
Fund Balance:				
Beginning of year - July 1		<u>5,223,961</u>		
End of year - June 30		<u>\$ 6,422,189</u>		



GOVERNMENTAL ACTIVITIES NONMAJOR FUNDS

SPECIAL REVENUE FUND

Special Revenue Funds account for the proceeds of special revenue sources that are legally restricted to the expenditure for special purposes.

Special Revenue Fund - General - This fund is used to account for financial resources that are legally restricted for special purposes not accounted for by an individual fund.

CAPITAL PROJECTS FUND

Capital Projects Funds account for funds to be used for the acquisition or construction of major capital facilities other than those financed by propriety funds.

General Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of general capital projects not accounted for by an individual fund.



CITY OF NEWTON, NORTH CAROLINA

Schedule 2

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	
	<u>Special Revenue Fund - General</u>	<u>General Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets:			
Current assets:			
Cash and investments	\$ 5,781	\$ 10,552	\$ 16,333
Due from other governments	-	18,819	18,819
Restricted cash and cash equivalents	-	2,488,555	2,488,555
Total assets	<u>\$ 5,781</u>	<u>\$ 2,517,926</u>	<u>\$ 2,523,707</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and other current liabilities	\$ -	\$ 84,594	\$ 84,594
Due to other funds	-	168,941	168,941
Payable from restricted assets	-	185,921	185,921
Total liabilities	<u>-</u>	<u>439,456</u>	<u>439,456</u>
Fund Balances:			
Restricted - stabilization by State statute	-	27,619	27,619
Restricted	5,781	2,302,634	2,308,415
Unassigned	-	(251,783)	(251,783)
Total fund balances	<u>5,781</u>	<u>2,078,470</u>	<u>2,084,251</u>
Total liabilities and fund balances	<u>\$ 5,781</u>	<u>\$ 2,517,926</u>	<u>\$ 2,523,707</u>

CITY OF NEWTON, NORTH CAROLINA

Schedule 3

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	
	<u>Special Revenue Fund - General</u>	<u>General Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:			
Restricted intergovernmental	\$ 50,000	\$ -	\$ 50,000
Interest earned	-	130	130
Miscellaneous	<u>4,047</u>	-	<u>4,047</u>
Total revenues	<u>54,047</u>	<u>130</u>	<u>54,177</u>
Expenditures:			
Current:			
Economic and physical development	50,000	-	50,000
Capital outlay	-	<u>1,605,278</u>	<u>1,605,278</u>
Total expenditures	<u>50,000</u>	<u>1,605,278</u>	<u>1,655,278</u>
Revenues over (under) expenditures	<u>4,047</u>	<u>(1,605,148)</u>	<u>(1,601,101)</u>
Other Financing Sources (Uses):			
Issuance of long-term debt	-	3,460,000	3,460,000
Transfers from other funds	-	131,000	131,000
Transfers to other funds	-	<u>(132,676)</u>	<u>(132,676)</u>
Total other financing sources (uses)	-	<u>3,458,324</u>	<u>3,458,324</u>
Net change in fund balances	4,047	1,853,176	1,857,223
Fund Balances:			
Beginning of year - July 1	<u>1,734</u>	<u>225,294</u>	<u>227,028</u>
End of year - June 30	<u>\$ 5,781</u>	<u>\$ 2,078,470</u>	<u>\$ 2,084,251</u>

CITY OF NEWTON, NORTH CAROLINA

Schedule 4

**SPECIAL REVENUE FUND - GENERAL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Project Authorization</u>	<u>Actual</u>			<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Closed Projects</u>	
Revenues:					
Restricted intergovernmental revenue	\$ 80,830	\$ -	\$ 50,000	\$ -	\$ 50,000
Miscellaneous	2,750	2,734	4,047	-	6,781
Total revenues	<u>83,580</u>	<u>2,734</u>	<u>54,047</u>	<u>-</u>	<u>56,781</u>
Expenditures:					
Economic and physical development					
Main Street Solutions Fund Grant	80,830	-	50,000	-	50,000
CDBG Rehabilitation	2,750	1,000	-	-	1,000
Total expenditures	<u>83,580</u>	<u>1,000</u>	<u>50,000</u>	<u>-</u>	<u>51,000</u>
Net change in fund balance	\$ -	\$ 1,734	\$ 4,047	\$ -	\$ 5,781

CITY OF NEWTON, NORTH CAROLINA

Schedule 5

**GENERAL CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Actual</u>				
	<u>Project</u>	<u>Prior</u>	<u>Current</u>	<u>Closed</u>	<u>Total</u>
	<u>Authorization</u>	<u>Years</u>	<u>Year</u>	<u>Projects</u>	<u>to Date</u>
Revenues:					
Interest earned	\$ -	\$ -	\$ 130	\$ -	\$ 130
Expenditures:					
Capital Outlay:					
S. Caldwell Court Culvert	24,250	-	15,440	-	15,440
N. Ashe storm water drainage replacement	98,850	-	98,840	(98,840)	-
AC Little Culvert	176,550	173,604	2,941	(176,545)	-
Startown Fire Station renovations	119,050	119,039	-	(119,039)	-
New fire headquarters	<u>3,591,000</u>	<u>9,163</u>	<u>1,488,057</u>	<u>-</u>	<u>1,497,220</u>
Total expenditures	<u>4,009,700</u>	<u>301,806</u>	<u>1,605,278</u>	<u>(394,424)</u>	<u>1,512,660</u>
Revenues over (under) expenditures	<u>(4,009,700)</u>	<u>(301,806)</u>	<u>(1,605,148)</u>	<u>394,424</u>	<u>(1,512,530)</u>
Other Financing Sources (Uses):					
Issuance of long-term debt	3,484,250	-	3,460,000	-	3,460,000
Transfers from General Fund	658,100	527,100	131,000	(527,100)	131,000
Transfers to General Fund	<u>(132,650)</u>	<u>-</u>	<u>(132,676)</u>	<u>132,676</u>	<u>-</u>
Total other financing sources (uses)	<u>4,009,700</u>	<u>527,100</u>	<u>3,458,324</u>	<u>(394,424)</u>	<u>3,591,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 225,294</u>	<u>\$ 1,853,176</u>	<u>\$ -</u>	<u>\$ 2,078,470</u>

BUSINESS-TYPE ACTIVITIES

ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the government's governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the government's governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Wastewater Fund - This fund is used to account for the activities associated with the production, distribution and transmission of potable water by the City to its users and for the operation and maintenance of the City's sewer and surface drainage systems.

Electric Fund - This fund is used to account for the activities associated with the distribution and transmission of electricity by the City to its users.

INTERNAL SERVICE FUND

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

Health Insurance Fund - This fund is used to account for the medical claims of the City's employees and their covered dependents.



CITY OF NEWTON, NORTH CAROLINA

Schedule 6
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**WATER AND WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 5,602,650	\$ 5,615,113	\$ 12,463
Other	<u>378,950</u>	<u>387,264</u>	<u>8,314</u>
Total operating revenues	<u>5,981,600</u>	<u>6,002,377</u>	<u>20,777</u>
Non-operating revenues:			
Other non-operating revenue	125,600	141,227	15,627
Interest earned	<u>3,000</u>	<u>1,751</u>	<u>(1,249)</u>
Total non-operating revenues	<u>128,600</u>	<u>142,978</u>	<u>14,378</u>
Total revenues	<u>6,110,200</u>	<u>6,145,355</u>	<u>35,155</u>
Expenditures:			
Operations	2,618,850	2,498,409	120,441
Maintenance	1,590,300	1,221,983	368,317
Administration	904,800	904,641	159
Capital outlay	191,150	165,237	25,913
Debt principal	1,155,100	1,154,978	122
Interest and fees	<u>275,700</u>	<u>266,345</u>	<u>9,355</u>
Total expenditures	<u>6,735,900</u>	<u>6,211,593</u>	<u>524,307</u>
Revenues over (under) expenditures	<u>(625,700)</u>	<u>(66,238)</u>	<u>559,462</u>
Other Financing Sources (Uses):			
Issuance of long-term debt	100,000	-	(100,000)
Proceeds from sale of capital assets	2,000	12,747	10,747
Intrafund transfers from - Water and Wastewater Capital Project Fund	268,750	268,748	(2)
Intrafund transfers to - Water and Wastewater Capital Project Fund	(28,700)	(28,700)	-
Transfers to - Electric Fund	(100,000)	(100,000)	-
Appropriated fund balance	<u>383,650</u>	-	<u>(383,650)</u>
Total other financing sources (uses)	<u>625,700</u>	<u>152,795</u>	<u>(472,905)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 86,557</u>	<u>\$ 86,557</u>

CITY OF NEWTON, NORTH CAROLINA

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Reconciliation from Budgetary Basis (Modified Accrual to Full Accrual):			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 86,557	
Reconciling items:			
Capital project income		94,973	
Capital project expenditures		(2,274,315)	
Capital project expenditures capitalized to CIP		2,274,315	
Transfers to (from) - capital project funds		(240,048)	
Depreciation		(1,886,999)	
Capital outlay capitalized		165,237	
Payment of debt principal		1,154,978	
(Increase) decrease in other post-employment benefit accrual		(6,847)	
(Increase) decrease in compensated absences		<u>(13,699)</u>	
Change in net position		<u>\$ (645,848)</u>	

CITY OF NEWTON, NORTH CAROLINA

Schedule 7

WATER AND WASTEWATER CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014**

	Project Authorization	Actual			Total to Date
		Prior Years	Current Year	Closed Projects	
Revenues:					
Capital contribution	\$ 661,500	\$ -	\$ -	\$ -	\$ -
Interest earned	-	-	15	-	15
Miscellaneous	95,000	-	94,958	(94,958)	-
Total revenues	<u>756,500</u>	<u>-</u>	<u>94,973</u>	<u>(94,958)</u>	<u>15</u>
Expenditures:					
Capital outlay:					
Water rehabilitation projects:					
E 18th from Davis to E 17th	78,950	78,465	480	(78,945)	-
McDaniels Circle	101,250	100,739	490	(101,229)	-
Shannonbrook Phase I	210,100	20,797	189,304	(210,101)	-
Shannonbrook Phase II	392,200	-	300,775	-	300,775
Water extension projects:					
S Hwy 16- Buffalo Shoals	2,646,000	-	-	-	-
Sewer rehabilitation projects:					
Southfork Drive	55,800	7,092	48,716	(55,808)	-
Rear of High School to NW Blvd	565,050	183,429	381,597	(565,026)	-
Oakland Circle to Outfall	111,000	-	10,800	-	10,800
Water Filtration Plant 8.0 MGD Pump	441,850	86,224	355,627	(441,851)	-
Water Filtration Plant Improvements	100,000	-	98,558	-	98,558
Total expenditures	<u>4,702,200</u>	<u>476,746</u>	<u>1,386,347</u>	<u>(1,452,960)</u>	<u>410,133</u>
Revenues over (under) expenditures	<u>(3,945,700)</u>	<u>(476,746)</u>	<u>(1,291,374)</u>	<u>1,358,002</u>	<u>(410,118)</u>
Other Financing Sources (Uses):					
Issuance of long-term debt	2,376,700	-	392,200	-	392,200
Transfers from - Water and Wastewater Fund	1,837,750	1,832,350	5,400	(1,626,750)	211,000
Transfers to - Water and Wastewater Fund	(268,750)	-	(268,748)	268,748	-
Total other financing sources (uses)	<u>3,945,700</u>	<u>1,832,350</u>	<u>128,852</u>	<u>(1,358,002)</u>	<u>603,200</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,355,604</u>	<u>\$ (1,162,522)</u>	<u>\$ -</u>	<u>\$ 193,082</u>

CITY OF NEWTON, NORTH CAROLINA

Schedule 8

**WATER AND WASTEWATER CAPITAL PROJECT FUND
SNOW CREEK SEWER OUTFALL REHABILITATION
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014**

	Project Authorization	Actual			Total to Date
		Prior Years	Current Year	Closed Projects	
Expenditures:					
Capital outlay:					
Administration	\$ 38,300	\$ 870	\$ 28,627	\$ -	\$ 29,497
Engineering	134,500	70,568	43,735	-	114,303
Construction	964,900	-	815,606	-	815,606
Contingency	48,250	-	-	-	-
Total expenditures	<u>1,185,950</u>	<u>71,438</u>	<u>887,968</u>	<u>-</u>	<u>959,406</u>
Other Financing Sources (Uses):					
Issuance of long-term debt	1,162,650	-	863,864	-	863,864
Transfers from - Water and Wastewater Fund	<u>23,300</u>	<u>-</u>	<u>23,300</u>	<u>-</u>	<u>23,300</u>
Total other financing sources (uses)	<u>1,185,950</u>	<u>-</u>	<u>887,164</u>	<u>-</u>	<u>887,164</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ (71,438)</u>	<u>\$ (804)</u>	<u>\$ -</u>	<u>\$ (72,242)</u>

CITY OF NEWTON, NORTH CAROLINA

Schedule 9
Page 1 of 2

**ELECTRIC ENTERPRISE FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues			
Charges for services	\$ 14,757,600	\$ 14,695,484	\$ (62,116)
Other	393,500	509,695	116,195
Total operating revenues	<u>15,151,100</u>	<u>15,205,179</u>	<u>54,079</u>
Non-operating revenues:			
Contributions	4,000	1,441	(2,559)
Other non-operating revenue	66,600	60,392	(6,208)
Interest earned	3,250	3,315	65
Sales tax	296,300	319,537	23,237
Total non-operating revenues	<u>370,150</u>	<u>384,685</u>	<u>14,535</u>
Total revenues	<u>15,521,250</u>	<u>15,589,864</u>	<u>68,614</u>
Expenditures:			
Power for resale	11,350,000	10,978,601	371,399
Renewable energy	55,600	58,482	(2,882)
Operations	2,246,100	2,006,328	239,772
Administration	819,650	819,052	598
Capital outlay	483,900	482,059	1,841
Debt principal	803,650	803,626	24
Interest and fees	<u>185,550</u>	<u>168,300</u>	<u>17,250</u>
Total expenditures	<u>15,944,450</u>	<u>15,316,448</u>	<u>628,002</u>
Revenues over (under) expenditures	<u>(423,200)</u>	<u>273,416</u>	<u>696,616</u>
Other Financing Sources (Uses):			
Issuance of long-term debt	200,000	200,000	-
Proceeds from sale of capital assets	500	19,123	18,623
Intrafund transfers from - Electric Capital Project	62,250	62,250	-
Intrafund transfers to - Electric Capital Project	(197,700)	(197,700)	-
Transfers to - General Fund	(4,000)	(4,000)	-
Appropriated fund balance	<u>362,150</u>	<u>-</u>	<u>(362,150)</u>
Total other financing sources (uses)	<u>423,200</u>	<u>79,673</u>	<u>(343,527)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 353,089</u>	<u>\$ 353,089</u>

CITY OF NEWTON, NORTH CAROLINA

Schedule 9
Page 2 of 2

**ELECTRIC ENTERPRISE FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2014**

	Budget	Actual	Variance Over/Under
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 353,089	
Reconciling items:			
Capital project income		100,634	
Capital project expenditures		(477,408)	
Capital project expenditures capitalized to CIP		477,408	
Transfers to (from) - capital project fund		135,450	
Transfers to (from) - Water and Wastewater Fund		100,000	
Capital outlay capitalized		482,059	
Capital contribution - asset transferred from General Fund		28,033	
Loss on disposal of capital assets		(19,853)	
Payment of debt principal		803,626	
Depreciation		(655,365)	
(Increase) decrease in other post-employment benefit accrual		453	
(Increase) decrease in compensated absences		(4,763)	
Issuance of long-term debt		(200,000)	
Change in net position		\$ 1,123,363	

CITY OF NEWTON, NORTH CAROLINA

Schedule 10

**ELECTRIC FUND CAPITAL PROJECTS
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014**

	Project Authorization	Actual			Total to Date
		Prior Years	Current Year	Closed Projects	
Revenues:					
Restricted intergovernmental	\$ 468,550	\$ -	\$ -	\$ -	\$ -
Capital contributions	100,650	-	100,634	-	100,634
Total revenues	<u>569,200</u>	<u>-</u>	<u>100,634</u>	<u>-</u>	<u>100,634</u>
Expenditures:					
Electric system distribution conversion	\$ 518,350	\$ 145,274	\$ 373,077	\$ (518,351)	\$ -
Generator modifications	355,100	355,099	-	(355,099)	-
Smart Grid Implementation	200,000	-	-	-	-
Catawba County Justice Center	557,400	-	8,360	-	8,360
Circuit Reconfiguration	302,150	-	95,971	-	95,971
Total expenditures	<u>1,933,000</u>	<u>500,373</u>	<u>477,408</u>	<u>(873,450)</u>	<u>104,331</u>
Revenues over (under) expenditures	<u>(1,363,800)</u>	<u>(500,373)</u>	<u>(376,774)</u>	<u>873,450</u>	<u>(3,697)</u>
Other Financing Sources (Uses):					
Issuance of long-term debt	100,000	-	-	-	-
Transfers from - Electric Fund	1,226,050	1,028,350	197,700	(935,700)	290,350
Transfers from - Water and Wastewater Fund	100,000	-	100,000	-	100,000
Transfers to - Electric Fund	(62,250)	-	(62,250)	62,250	-
Total other financing sources (uses)	<u>1,363,800</u>	<u>1,028,350</u>	<u>235,450</u>	<u>(873,450)</u>	<u>390,350</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 527,977</u>	<u>\$ (141,324)</u>	<u>\$ -</u>	<u>\$ 386,653</u>

CITY OF NEWTON, NORTH CAROLINA

Schedule 11

**HEALTH INSURANCE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
PLAN AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Plan</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Charges for services	\$ 1,621,250	\$ 1,561,033	\$ (60,217)
Operating Expenditures - Group Insurance:			
Claims paid	1,342,300	1,029,731	312,569
Claims incurred but not reported	-	(22,978)	22,978
Stop-loss insurance fees	270,950	255,033	15,917
Administrative charges	<u>10,000</u>	<u>9,498</u>	<u>502</u>
Total operating expenditures	<u>1,623,250</u>	<u>1,271,284</u>	<u>351,966</u>
Operating income (loss)	<u>(2,000)</u>	<u>289,749</u>	<u>291,749</u>
Non-Operating Revenues:			
Investment earnings	<u>2,000</u>	<u>967</u>	<u>(1,033)</u>
Change in net position	<u>\$ -</u>	<u>\$ 290,716</u>	<u>\$ 290,716</u>

OTHER SCHEDULES

This section contains additional information required on property taxes and transfers.

- Schedule of Ad Valorem Taxes Receivable
 - Analysis of Current Tax Levy
-
-



CITY OF NEWTON, NORTH CAROLINA

Schedule 12

**SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2014**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013-2014	\$ -	\$ 5,495,149	\$ 5,267,703	\$ 227,446
2012-2013	273,794	-	132,737	141,057
2011-2012	116,922	-	29,991	86,931
2010-2011	68,293	-	11,589	56,704
2009-2010	51,633	-	6,482	45,151
2008-2009	44,198	-	4,175	40,023
2007-2008	34,447	-	3,140	31,307
2006-2007	37,462	-	2,008	35,454
2005-2006	21,137	-	1,562	19,575
2004-2005	20,000	-	1,929	18,071
2003-2004	<u>20,307</u>	-	<u>20,307</u>	-
Total	<u>\$ 688,193</u>	<u>\$ 5,495,149</u>	<u>\$ 5,481,623</u>	701,719
				<u>38,000</u>
Ad Valorem Taxes Receivable, Net				
General Fund				<u>\$ 663,719</u>
Reconcilement with Revenues:				
Ad valorem taxes - General Fund				\$ 5,522,391
Amounts written off per statute limitations				19,040
Miscellaneous				(1,417)
Interest and penalties collected				<u>(58,391)</u>
Total collections and credits				<u>\$ 5,481,623</u>

CITY OF NEWTON, NORTH CAROLINA

Schedule 13

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2014

	City-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Total property taxed at current year's rate	\$ 979,823,807	\$ 0.48	\$ 4,703,154	\$ 4,703,154	\$ -
Registered motor vehicles taxed at prior year's tax rate					
Registered motor vehicles taxed at current year's tax rate	160,355,327	0.48	769,706	-	769,706
Penalties	-		5,964	5,964	-
Total	<u>1,140,179,134</u>		<u>5,478,824</u>	<u>4,709,118</u>	<u>769,706</u>
Discoveries:					
Current year taxes	206,133,739		989,442	989,442	-
Prior year taxes	214,161		1,028	1,028	-
Penalties	-		12,067	12,067	-
Total	<u>206,347,900</u>		<u>1,002,537</u>	<u>1,002,537</u>	<u>-</u>
Releases:					
Property:					
Current year taxes	(200,341,579)		(961,640)	(961,640)	-
Prior year taxes	(20,583)		(98)	(98)	-
Motor Vehicles:					
Current year taxes	(2,736,596)		(13,136)	-	(13,136)
Prior year taxes	(1,459,926)		(7,044)	-	(7,044)
Penalties	-		(4,294)	(4,294)	-
Total	<u>(204,558,684)</u>		<u>(986,212)</u>	<u>(966,032)</u>	<u>(20,180)</u>
Total property valuation	<u>\$ 1,141,968,350</u>				
Net Levy			5,495,149	4,745,623	749,526
Less uncollected taxes at June 30, 2014			<u>227,446</u>	<u>184,748</u>	<u>42,698</u>
Current Year's Taxes Collected			<u>\$ 5,267,703</u>	<u>\$ 4,560,875</u>	<u>\$ 706,828</u>
Current Levy Collection Percentage			<u>95.86%</u>	<u>96.11%</u>	<u>94.30%</u>

STATISTICAL SECTION

(Unaudited)

This part of the City of Newton's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

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.

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.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

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.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.



CITY OF NEWTON, NORTH CAROLINA

Table 1

Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental Activities:										
Net investment in capital assets	\$ 4,143,227	\$ 4,926,632	\$ 5,716,932	\$ 6,427,305	\$ 6,559,160	\$ 7,025,672	\$ 7,130,316	\$ 7,704,679	\$ 7,819,537	\$ 8,097,287
Restricted	81,284	292,458	131,234	250,152	159,090	393,488	1,127,790	2,141,848	2,365,037	2,814,243
Unrestricted	4,537,617	4,034,295	4,675,329	4,200,628	4,136,962	3,381,059	2,640,730	2,783,144	3,163,055	3,517,744
Total governmental activities net position	\$ 8,762,128	\$ 9,253,385	\$ 10,523,495	\$ 10,878,085	\$ 10,855,212	\$ 10,800,219	\$ 10,898,836	\$ 12,629,671	\$ 13,347,629	\$ 14,429,274
Business-type Activities:										
Net investment in capital assets	\$ 24,986,710	\$ 25,061,497	\$ 25,436,728	\$ 28,311,430	\$ 28,914,131	\$ 29,030,185	\$ 29,078,708	\$ 30,854,510	\$ 30,063,136	\$ 29,665,815
Restricted	3,250,499	2,935,057	2,636,122	1,012,074	1,620,541	3,128,651	4,403,843	4,137,292	5,702,567	6,650,083
Total business-type activities net position	\$ 28,237,209	\$ 27,996,554	\$ 28,072,850	\$ 29,323,504	\$ 30,534,672	\$ 32,158,836	\$ 33,482,551	\$ 34,991,802	\$ 35,765,703	\$ 36,315,898
Primary Government:										
Net investment in capital assets	\$ 29,129,937	\$ 29,988,129	\$ 31,153,660	\$ 34,738,735	\$ 35,473,291	\$ 36,055,857	\$ 36,209,024	\$ 38,559,189	\$ 37,882,673	\$ 37,763,102
Restricted	81,284	292,458	131,234	250,152	159,090	393,488	1,127,790	2,141,848	2,365,037	2,814,243
Unrestricted	7,788,116	6,969,352	7,311,451	5,212,702	5,757,503	6,509,710	7,044,573	6,920,436	8,865,622	10,167,827
Total primary government net position	\$ 36,999,337	\$ 37,249,939	\$ 38,596,345	\$ 40,201,589	\$ 41,389,884	\$ 42,959,055	\$ 44,381,387	\$ 47,621,473	\$ 49,113,332	\$ 50,745,172

CITY OF NEWTON, NORTH CAROLINA

Table 2, page 1 of 3

Change in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses:										
Governmental activities:										
General government	\$ 1,426,533	\$ 1,424,397	\$ 1,385,640	\$ 1,661,543	\$ 1,678,411	\$ 1,591,739	\$ 1,946,752	\$ 1,313,202	\$ 1,016,494	\$ 1,280,351
Public safety	4,165,136	4,731,304	4,626,004	4,714,227	4,982,326	4,770,652	4,776,714	4,917,591	5,124,114	5,245,701
Transportation	823,558	681,982	857,363	976,990	1,004,258	839,025	975,976	934,979	1,047,081	1,162,093
Environmental protection	799,823	781,433	874,193	901,985	935,190	927,344	917,124	938,935	1,006,970	1,051,744
Cultural and recreational	1,279,295	1,465,194	1,312,900	1,451,556	1,526,225	2,108,551	2,076,673	2,089,168	2,076,132	1,906,260
Economic and physical development	-	2,206	-	3,000	271,659	105,699	42,698	-	1,000	50,000
Interest on long-term debt	115,869	105,513	97,610	170,515	173,087	150,324	98,794	151,154	102,178	140,224
Total governmental activities expenses	8,610,214	9,192,029	9,153,710	9,879,816	10,571,156	10,493,334	10,834,731	10,365,029	10,373,969	10,836,373
Business-type activities:										
Water and Wastewater	4,639,000	4,504,122	5,200,144	5,748,155	5,695,133	5,696,945	5,751,998	6,165,378	6,279,211	6,762,583
Electric	9,565,717	10,457,559	11,514,375	11,701,113	12,039,436	12,055,754	13,080,453	13,419,024	13,804,985	14,673,951
Total business-type activities expenses	14,204,717	14,961,681	16,714,519	17,449,268	17,734,569	17,752,699	18,832,451	19,584,402	20,084,196	21,436,534
Total primary government expenses	\$ 22,814,931	\$ 24,153,710	\$ 25,868,229	\$ 27,329,084	\$ 28,305,725	\$ 28,246,033	\$ 29,667,182	\$ 29,949,431	\$ 30,458,165	\$ 32,272,907
Program Revenues:										
Governmental activities:										
Charges for services										
General government	\$ 634,635	\$ 609,335	\$ 488,684	\$ 520,456	\$ 499,368	\$ 505,982	\$ 219,066	\$ 208,600	\$ 273,757	\$ 169,502
Public safety	76,622	95,949	117,418	120,337	205,268	178,450	86,706	119,909	102,231	75,350
Transportation	2,868	12,749	19,437	13,494	4,514	488	-	-	2,104	-
Environmental protection	418,224	366,593	487,772	476,222	587,051	578,162	574,846	575,067	757,023	881,425
Cultural and recreational	69,686	86,369	92,469	87,959	119,893	110,732	83,628	68,561	68,544	175,478
Economic and physical development	17,160	18,517	17,355	20,883	14,889	14,273	-	-	-	-
Operating grants and contributions	435,184	432,563	425,414	477,979	479,868	447,973	30,879	482,714	486,590	624,303
Capital grants and contributions	388,724	704,064	722,633	13,938	31,508	105,522	448,357	1,364,849	36,089	125,805
Total governmental activities program revenues	2,043,103	2,326,139	2,371,182	1,731,268	1,942,359	1,941,582	1,443,482	2,819,700	1,726,338	2,051,863

continued

CITY OF NEWTON, NORTH CAROLINA

Table 2, page 2 of 3

Change in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business-type activities:										
Charges for services-Water and Wastewater	5,274,509	3,890,343	4,352,866	4,433,887	5,094,620	5,699,745	6,094,148	5,970,545	6,010,519	6,143,604
Charges for services - Electric	9,071,578	9,654,266	10,819,757	11,323,152	11,796,063	12,536,124	13,721,107	13,801,529	14,529,294	15,265,571
Operating grants and contributions	-	-	-	-	-	-	-	-	161	1,441
Capital grants and contributions	3,463,731	289,500	277,115	2,050,276	1,179,515	(3,868)	52,815	1,039,758	23,667	195,592
Total business-type activities	17,809,818	13,834,109	15,449,738	17,807,315	18,070,198	18,232,001	19,868,070	20,811,832	20,563,641	21,606,208
program revenues	\$ 19,852,921	\$ 16,160,248	\$ 17,820,920	\$ 19,538,583	\$ 20,012,557	\$ 20,173,583	\$ 21,311,552	\$ 23,631,532	\$ 22,289,979	\$ 23,658,071
Total primary government program revenues										
Net revenue (expense)	\$ (6,567,112)	\$ (6,865,890)	\$ (6,782,528)	\$ (8,148,550)	\$ (8,628,797)	\$ (8,551,752)	\$ (9,391,248)	\$ (7,545,329)	\$ (8,647,631)	\$ (8,784,510)
Governmental activities	3,605,100	(1,127,572)	(1,264,781)	358,046	335,628	479,303	1,035,619	1,227,430	479,445	169,674
Business-type activities	\$ (2,962,012)	\$ (7,993,462)	\$ (8,047,309)	\$ (7,790,504)	\$ (8,293,169)	\$ (8,072,449)	\$ (8,355,629)	\$ (6,317,899)	\$ (8,168,186)	\$ (8,614,836)
Total primary government net expense										

General Revenues and Other Changes in Net Position:

Governmental activities:										
Ad valorem taxes	\$ 3,698,001	\$ 3,720,668	\$ 4,113,459	\$ 4,472,139	\$ 4,768,707	\$ 5,080,456	\$ 5,175,540	\$ 5,091,914	\$ 5,201,384	\$ 5,535,417
Local option sales tax	2,553,873	2,640,648	2,906,030	2,979,005	2,717,347	2,457,645	2,566,400	2,580,288	2,595,442	2,694,664
Franchise tax	695,351	676,425	707,527	735,324	768,977	776,181	785,773	781,701	759,087	810,418
Other taxes and licenses	245,099	291,783	295,132	332,767	354,549	390,137	948,139	811,413	788,672	813,734
Unrestricted investment earnings	55,401	151,292	211,644	144,014	37,402	6,913	9,013	7,498	11,004	7,922
Miscellaneous	(88,807)	77,979	98,748	(16,610)	173,943	252,347	-	-	-	-
Transfers	486,150	(201,650)	(279,900)	(143,500)	(215,000)	(466,921)	5,000	3,350	10,000	4,000
Total governmental activities	7,645,068	7,357,145	8,052,640	8,503,139	8,605,925	8,496,758	9,489,865	9,276,164	9,365,589	9,866,155

continued

CITY OF NEWTON, NORTH CAROLINA

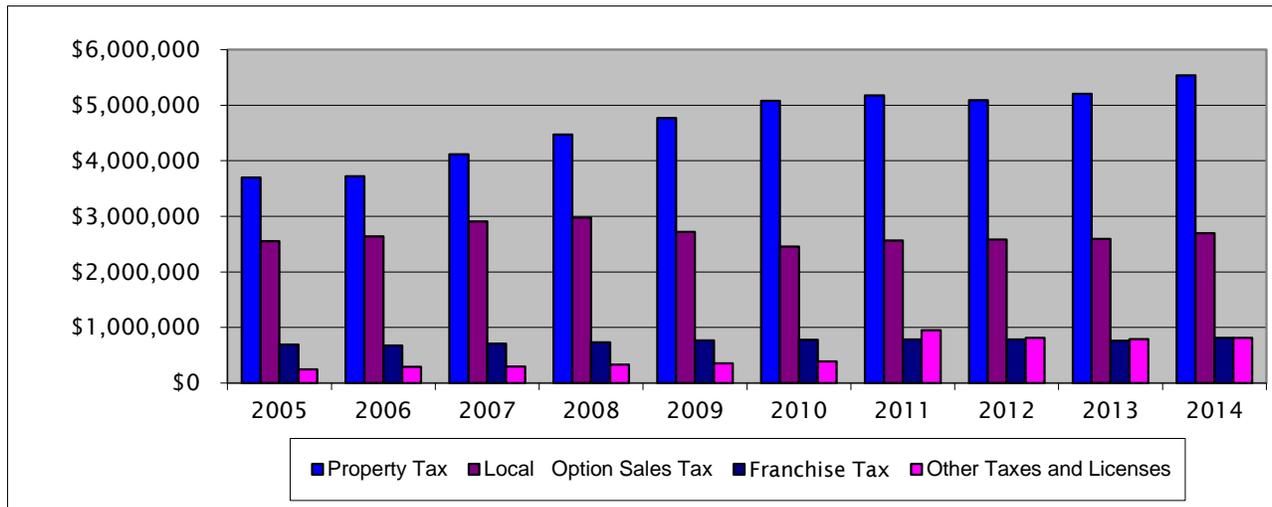
Table 2, page 3 of 3

Change in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business-type activities:										
Other taxes and licenses	257,235	272,619	302,426	293,824	285,311	293,352	286,181	277,993	297,967	319,537
Unrestricted investment earnings	116,662	122,910	156,135	91,899	20,600	8,464	6,915	7,177	6,490	5,081
Miscellaneous	126,529	289,739	602,615	363,383	354,628	376,124	-	-	-	31,870
Capital contributions	-	-	-	-	-	-	-	-	-	28,033
Transfers	(486,150)	201,650	279,900	143,500	215,000	466,921	(5,000)	(3,350)	(10,000)	(4,000)
Total business-type activities	14,276	886,918	1,341,076	892,606	875,539	1,144,861	288,096	281,820	294,457	380,521
Total primary government	\$ 7,659,344	\$ 8,244,063	\$ 9,393,716	\$ 9,395,745	\$ 9,481,464	\$ 9,641,619	\$ 9,777,961	\$ 9,557,984	\$ 9,660,046	\$ 10,246,676
Change in Net Position:										
Governmental activities	\$ 1,077,957	\$ 491,256	\$ 1,270,110	\$ 354,589	\$ (22,873)	\$ (54,993)	\$ 98,617	\$ 1,730,835	\$ 717,958	\$ 1,081,645
Business-type activities	3,619,376	(240,654)	76,296	1,250,654	1,211,168	1,624,165	1,323,715	1,509,250	773,902	550,195
Total primary government	\$ 4,697,333	\$ 250,602	\$ 1,346,406	\$ 1,605,243	\$ 1,188,295	\$ 1,569,172	\$ 1,422,332	\$ 3,240,085	\$ 1,491,860	\$ 1,631,840

**Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)**

Fiscal Year	Property Tax	Local Option Sales Tax	Franchise Tax	Other Taxes and Licenses	Total
2005	\$ 3,698,001	\$ 2,553,873	\$ 695,351	\$ 245,099	\$ 7,192,324
2006	3,720,668	2,640,648	676,425	291,783	7,329,524
2007	4,113,459	2,906,030	707,527	295,132	8,022,148
2008	4,472,139	2,979,005	735,324	332,767	8,519,235
2009	4,768,707	2,717,347	768,977	354,549	8,609,580
2010	5,080,456	2,457,645	776,181	390,137	8,704,419
2011	5,175,540	2,566,400	785,773	948,139	9,475,852
2012	5,091,914	2,580,288	781,701	811,413	9,265,316
2013	5,201,384	2,595,441	759,087	788,672	9,344,584
2014	5,535,417	2,694,664	810,418	813,734	9,854,233



CITY OF NEWTON, NORTH CAROLINA

Table 4

Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Basis of Accounting)
(Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund:										
Reserved	\$1,100,625	\$1,282,401	\$1,070,027	\$1,482,789	\$ 804,056	\$1,388,536				
Unreserved										
Designated	240,400	129,350	23,300	275,500	323,250	415,000				
Undesignated	2,208,343	2,262,782	2,842,104	2,353,432	2,694,337	1,872,934				
Non-Spendable - inventory	-	-	-	-	-	-	\$ 47,797	\$ 46,555	\$ 62,836	\$ 56,653
Restricted - Stabilization by State Statute	-	-	-	-	-	-	633,240	672,248	735,016	1,114,520
Restricted	-	-	-	-	-	-	413,353	2,368,989	1,763,479	2,017,530
Assigned	-	-	-	-	-	-	-	-	47,490	42,750
Unassigned	-	-	-	-	-	-	2,871,206	2,636,336	2,615,140	3,190,736
Total General Fund	\$3,549,368	\$3,674,533	\$3,935,431	\$4,111,721	\$3,821,643	\$3,676,470	\$3,965,596	\$5,724,128	\$5,223,961	\$6,422,189
All Other Governmental Funds:										
Unreserved, reported in										
Special revenue funds	\$ 39,497	\$ (6,175)	\$ 60	\$ 115,667	\$ (4,758)	\$ 10,587				
Capital projects funds	1,402,999	1,261,978	947,145	1,132,305	562,662	3,696				
Restricted - Stabilization by State Statute										
Special revenue funds	-	-	-	-	-	-	\$ 6,864	\$ 893	\$ -	\$ -
Capital projects funds	-	-	-	-	-	-	3,303	280	127,364	27,619
Restricted										
Special revenue funds	-	-	-	-	-	-	-	1,369	1,734	5,781
Capital projects funds	-	-	-	-	-	-	-	-	-	2,302,634
Committed										
Special revenue funds	-	-	-	-	-	-	14,919	2,595	-	-
Capital projects funds	-	-	-	-	-	-	35,724	87,538	97,930	-
Unassigned										
Special revenue funds	-	-	-	-	-	-	(6,748)	(893)	-	(251,783)
Total expenditures	\$1,442,496	\$1,255,803	\$ 947,205	\$1,247,972	\$ 557,904	\$ 14,283	\$ 54,062	\$ 91,782	\$ 227,028	\$2,084,251

CITY OF NEWTON, NORTH CAROLINA

Table 5

Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Basis of Accounting)
(Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues:										
Ad valorem taxes	\$ 3,664,645	\$ 3,670,356	\$ 4,050,291	\$ 4,438,510	\$ 4,778,068	\$ 5,055,130	\$ 5,122,713	\$ 5,045,726	\$ 5,136,073	\$ 5,522,391
Other taxes and licenses	2,798,972	2,932,431	3,201,162	3,311,772	3,078,204	2,857,098	2,930,535	2,969,847	2,961,194	3,062,603
Unrestricted intergovernmental	1,020,831	1,185,506	1,164,637	1,118,050	1,191,910	1,204,608	1,369,777	1,203,555	1,182,007	1,256,213
Restricted intergovernmental	454,422	724,477	679,678	529,144	513,078	597,264	474,851	667,112	495,228	734,785
Permits and fees	79,227	81,692	99,347	96,389	93,689	93,514	89,953	85,022	120,130	77,535
Sales and services	509,650	499,619	590,302	585,753	695,115	678,966	688,134	668,236	869,564	1,068,745
Investment earnings	55,404	151,292	211,644	144,014	37,581	6,934	7,244	6,751	10,271	6,955
Miscellaneous	674,319	511,270	462,232	165,048	219,541	134,051	190,544	1,399,330	241,416	170,798
Total revenues	9,257,470	9,756,643	10,459,293	10,388,680	10,607,186	10,627,565	10,873,751	12,045,579	11,015,883	11,900,025
Expenditures:										
Current:										
General government	1,397,385	1,347,987	1,340,147	1,653,311	1,509,016	1,473,652	1,421,950	1,226,079	1,190,651	1,297,639
Public safety	3,804,083	4,376,593	4,251,032	4,317,743	4,613,889	4,512,692	4,607,757	5,377,827	4,942,898	5,422,069
Transportation	737,015	597,820	759,744	872,692	893,155	705,417	860,236	990,918	1,106,278	932,167
Environmental protection	733,462	716,224	790,997	819,716	848,560	853,462	853,954	899,515	1,276,480	994,820
Cultural and recreational	1,240,124	1,442,367	1,272,118	1,411,037	1,480,708	2,072,172	2,009,886	2,008,898	2,080,553	1,699,457
Economic and physical development	797,300	788,336	1,007,041	908,077	920,126	170,216	391,090	133,577	1,000	50,000
Capital outlay	1,084,981	692,765	561,323	673,591	1,002,279	712,186	-	-	251,314	1,605,278
Debt service:										
Principal	1,813,797	449,670	486,407	566,692	792,708	748,659	772,042	777,353	878,663	768,247
Interest	87,249	102,507	106,265	125,270	161,982	178,738	133,930	136,849	122,930	101,897
Total expenditures	11,695,396	10,514,269	10,575,074	11,348,129	12,222,423	11,427,194	11,050,845	11,551,016	11,850,767	12,871,574
Revenues over (under) expenditures	(2,437,926)	(757,626)	(115,781)	(959,449)	(1,615,237)	(799,629)	(177,094)	494,563	(834,884)	(971,549)
Other Financing Sources (Uses):										
Issuance of debt	2,399,112	906,700	247,600	1,554,750	823,000	509,150	501,000	1,298,339	443,682	4,023,000
Other miscellaneous receipts	-	-	100,000	-	57,626	45,631	-	-	-	-
Transfers from other funds	1,586,000	465,794	404,900	1,208,843	215,650	418,136	375,330	177,685	445,417	267,676
Transfers to other funds	(1,099,850)	(667,444)	(684,800)	(1,352,343)	(430,650)	(885,057)	(370,330)	(174,335)	(435,417)	(263,676)
Capital contributions	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,885,262	705,050	67,700	1,411,250	665,626	87,860	506,000	1,301,689	453,682	4,023,000
Net change in fund balances	\$ 447,336	\$ (52,576)	\$ (48,081)	\$ 451,801	\$ (949,611)	\$ (711,769)	\$ 328,906	\$ 1,796,252	\$ (381,202)	\$ 3,055,451
Debt service as a percentage of non-capital expenditures	19.40%	6.10%	6.60%	7.10%	9.00%	8.70%	8.70%	8.90%	9.50%	8.30%

CITY OF NEWTON, NORTH CAROLINA

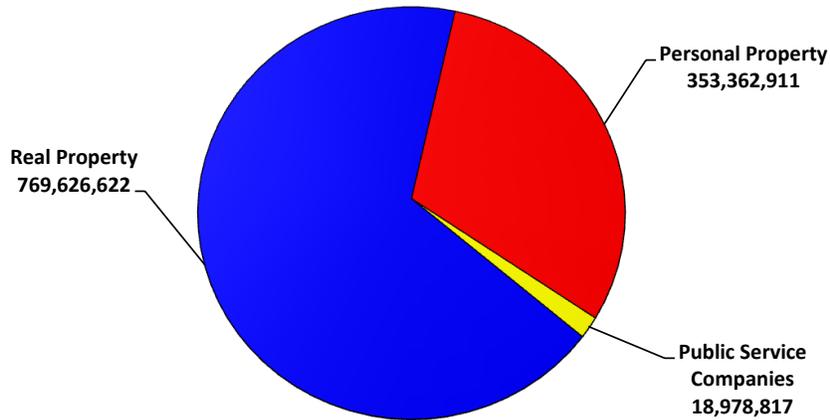
Table 6

**Assessed Valuation of Property
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Assessed Value ⁽¹⁾				Property Tax Rate (Per \$100 Assessed Value)	Percent Increase in Value ⁽²⁾
	Real Property	Personal Property ⁽³⁾	Public Service Companies	Total		
2005	\$ 643,469,380	\$ 190,257,576	\$ 18,612,781	\$ 852,339,737	0.44	-0.9%
2006	653,098,799	185,603,814	18,714,292	857,416,905	0.44	0.6%
2007	672,011,755	201,670,887	20,704,568	894,387,210	0.46	4.3%
2008 (2)	696,935,560	238,549,720	20,026,093	955,511,373	0.48	6.8%
2009	706,624,707	248,484,115	20,151,953	975,260,775	0.48	2.1%
2010	769,143,484	277,326,569	22,460,684	1,068,930,737	0.48	9.6%
2011 (2)	773,519,907	279,668,240	21,178,162	1,074,366,309	0.48	0.5%
2012	767,118,238	273,986,190	19,646,031	1,060,750,459	0.48	-1.3%
2013	770,022,896	293,650,012	19,881,983	1,083,554,891	0.48	2.1%
2014	769,626,622	353,362,911	18,978,817	1,141,968,350	0.48	5.4%

NOTES:

- (1) Assessed Value is established by Catawba County Assessor's office.
- (2) North Carolina General Statutes require that a reappraisal of real property be conducted every eight years. A revaluation of real property is conducted every four years for the City of Newton
- (3) Includes vehicles.



CITY OF NEWTON, NORTH CAROLINA

Table 7

**Property Tax Rates-Direct and Overlapping Governments
Last Ten Fiscal Years
(Unaudited)**

<u>Fiscal Year</u>	<u>City of Newton</u>	<u>Catawba County</u>	<u>Total City and County Rate</u>
2005	\$ 0.44	\$ 0.480	\$ 0.920
2006	0.44	0.490	0.930
2007	0.46	0.490	0.950
2008	0.48	0.535	1.015
2009	0.48	0.535	1.015
2010	0.48	0.535	1.015
2011	0.48	0.530	1.010
2012	0.48	0.530	1.010
2013	0.48	0.530	1.010
2014	0.48	0.530	1.010

Other Tax Data:

Tax rates are established on a per \$100 valuation basis and are levied on July 1, the first day of the fiscal year.

There is a State statutory tax rate limit of \$1.50 per hundred dollars valuation for operating expenses, but no limitation on the rate of tax, which may be levied for debt service.

The City has no financial responsibility for the public school system. The school system is funded with revenue derived from the County, State, and Federal governments.

CITY OF NEWTON, NORTH CAROLINA

Table 8

Principal Property Taxpayers
Nine Years Ago and Current Year
(Unaudited)

Taxpayer	Type of Enterprise	2014			2005		
		Total Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Total Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Target Corp.	Distribution Center	\$ 103,669,522	1	9.08%			
ZF Lemforder Corp.	Automotive Prod Mfg.	33,151,433	2	2.90%			
Sarstedt, Inc.	Pharmaceutical Plastics	23,664,428	3	2.07%	\$ 7,881,324	8	0.98%
Flowers Baking Co.	Bread and Pastries	22,347,011	4	1.96%			
Technibilt, Ltd.	Shopping Cart Manufacturing	13,417,157	5	1.17%	9,076,660	5	1.07%
Renwood Mills	Flour Mill	11,340,642	6	0.99%			
International Paper	Paper Products	9,747,990	7	0.85%			
Peoples Bank	Banking	9,165,220	8	0.80%	8,809,986	6	1.03%
Duke Energy Corporation	Electric Power	7,461,498	9	0.65%			
Bassett Furniture Industries	Furniture	7,379,419	10	0.65%	10,344,330	4	1.22%
Comm Scope, Inc.	Fiber				28,236,332	1	3.33%
Bell South Telephone Co.	Utility				8,563,004	7	1.01%
Prodelin	Satellite Equipment				6,553,620	10	0.77%
Willamette Industries	Paper Products				10,841,813	3	1.28%
Hickory Springs Mfg. Co.	Foam Manufacturer				6,859,572	9	0.81%
Midstate Mills, Inc.	Flour Mill				11,798,860	2	1.39%
Totals		\$ 241,344,320		21.12%	\$ 108,965,501		12.89%

CITY OF NEWTON, NORTH CAROLINA

Table 9

**Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Total Tax Levy for Fiscal Year	Current Year's		Percentage of Levy Collected	Collections in Subsequent Years	Total Collections and Credits	Percentage of Total Tax Collections To Net Levy	Taxes Receivable Balance- June 30 ⁽¹⁾
		Taxes Collected/ Credited	Percentage of Levy Collected					
2005	\$ 3,699,109	\$ 3,558,506	96.2%	\$ 122,532	\$ 3,681,038	99.5%	\$ 18,071	
2006	3,701,519	3,539,881	95.6%	142,063	3,681,944	99.5%	19,575	
2007	4,090,445	3,909,686	95.6%	145,305	4,054,991	99.1%	35,454	
2008	4,445,586	4,263,276	95.9%	151,003	4,414,279	99.3%	31,307	
2009	4,727,721	4,543,983	96.1%	143,715	4,687,698	99.2%	40,023	
2010	5,160,638	4,983,452	96.6%	132,035	5,115,487	99.1%	45,151	
2011	5,162,400	4,945,369	95.8%	160,327	5,105,696	98.9%	56,704	
2012	5,095,309	4,853,555	95.3%	154,823	5,008,378	98.3%	86,931	
2013	5,225,531	4,951,737	94.8%	132,737	5,084,474	97.3%	141,057	
2014	5,495,149	5,267,703	95.9%	-	5,267,703	95.9%	227,446	

NOTES:

⁽¹⁾ Includes current portion only of taxes receivable.

CITY OF NEWTON, NORTH CAROLINA

Table 10

Electricity Sold by Type of Customer
Last Ten Fiscal Years
(in millions of kWh)
(Unaudited)

Fiscal Year	Type of Customer			Total
	Residential	Industrial	Commercial	
2005	41.4	32.8	40.4	114.6
2006	44.8	35.0	40.7	120.5
2007	45.8	49.2	41.4	136.4
2008	47.5	52.9	40.6	141.0
2009	47.9	50.7	42.6	141.2
2010	45.9	52.0	53.2	151.1
2011	51.8	55.1	51.8	158.7
2012	46.9	56.3	47.4	150.6
2013	47.4	55.0	46.9	149.3
2014	48.5	52.8	47.6	148.9

Source: City of Newton Utility Billing

CITY OF NEWTON, NORTH CAROLINA

Table 11

Electricity Rates
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Residential					Industrial				
	Basic Facilities	Rate per kWh 1st 350	Rate per kWh next 950	Rate per kWh over 1300	Basic Facilities	Demand over 30 KW (per KW)	Rate per kWh 1st 3000	Rate per kWh next 9000	Rate per kWh over 12000	
2005	\$ 8.80	\$ 0.074338	\$ 0.083552	\$ 0.075208	\$ 18.20	\$ 5.90	\$ 0.103741	\$ 0.056725	\$ 0.049709	
2006	8.89	0.075081	0.084388	0.075960	18.38	5.96	0.104778	0.057292	0.050206	
2007	9.08	0.076660	0.086160	0.077556	18.77	6.09	0.106980	0.058496	0.051261	
2008	9.35	0.078960	0.088745	0.079883	19.15	6.18	0.109120	0.059666	0.052286	
2009	9.63	0.081329	0.091407	0.082279	19.53	6.30	0.111302	0.060859	0.053332	
2010	10.02	0.084582	0.095063	0.085570	20.12	6.49	0.114641	0.062685	0.054932	
2011	10.52	0.088811	0.099816	0.089849	21.13	6.81	0.120373	0.065819	0.057679	
2012	11.10	0.093696	0.105306	0.094791	22.29	7.18	0.126994	0.069439	0.060851	
2013	11.79	0.099505	0.111835	0.100668	23.67	7.63	0.134868	0.073744	0.064624	
2014	12.45	0.105077	0.118098	0.106305	25.00	8.06	0.142421	0.077874	0.068243	

Fiscal Year	Commercial				
	Basic Facilities	Demand over 30 KW	Rate per kWh 1st 3000	Rate per kWh next 9000	Rate per kWh over 12000
2005	\$ 11.81	\$ 6.45	\$ 0.104444	\$ 0.054853	\$ 0.049472
2006	11.93	6.51	0.105488	0.055402	0.049967
2007	12.18	6.65	0.107705	0.056565	0.051016
2008	12.55	6.85	0.110936	0.058262	0.052546
2009	12.93	7.05	0.114264	0.060010	0.054122
2010	13.45	7.33	0.118835	0.062410	0.056287
2011	14.12	7.70	0.124777	0.065531	0.059101
2012	14.90	8.12	0.131640	0.069135	0.062352
2013	15.82	8.63	0.139802	0.073421	0.066218
2014	16.71	9.11	0.147631	0.077533	0.069926

Source: City of Newton Utility Billing

CITY OF NEWTON, NORTH CAROLINA

Table 12

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Governmental Activities		Business-Type Activities		Total Government	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
	General Obligation Bonds	Loans Payable	General Obligation Bonds	Loans Payable			
2005	\$ 179,945	\$ 2,705,077	\$ 2,705,055	\$ 14,508,904	\$ 20,098,981	5.41%	\$ 1,548
2006	132,076	3,406,978	2,252,924	17,272,816	23,064,794	5.87%	1,764
2007	98,102	3,202,144	1,821,898	16,428,141	21,550,285	5.25%	1,629
2008	74,088	4,214,217	1,375,912	14,856,831	20,521,048	4.76%	1,514
2009	50,329	4,268,268	934,671	17,749,555	23,002,823	5.42%	1,683
2010	27,080	4,052,008	502,920	15,939,600	20,521,608	4.57%	1,485
2011	4,343	3,803,702	80,657	13,923,727	17,812,429	4.11%	1,371
2012	-	4,329,031	-	16,468,617	20,797,648	4.62%	1,603
2013	-	3,894,050	-	16,571,480	20,465,530	N/A	1,579
2014	-	7,148,803	-	16,068,940	23,217,743	N/A	1,782

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

(1) See Schedule of Demographic and Economic Statistics.

CITY OF NEWTON, NORTH CAROLINA

Table 13

**Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Population ⁽¹⁾	Total Assessed Value	Gross Bonded Debt	Percentage of Estimated Actual Taxable Value of Property	Percentage of Personal Income	Per Capita
2005	12,986	\$ 852,339,737	\$ 2,885,000	0.34%	0.78%	\$ 222
2006	13,075	857,416,905	2,385,000	0.28%	0.61%	182
2007	13,229	894,387,210	1,920,000	0.21%	0.47%	145
2008	13,554	955,511,373	1,450,000	0.15%	0.34%	107
2009	13,670	975,260,775	985,000	0.10%	0.23%	72
2010	13,819	1,068,930,737	530,000	0.05%	0.12%	38
2011	12,995	1,074,366,309	85,000	0.01%	0.02%	7
2012	12,971	1,060,750,459	-	0.00%	0.00%	-
2013	12,961	1,083,554,891	-	0.00%	N/A	-
2014	13,031	1,141,968,350	-	0.00%	N/A	-

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

(1) See Schedule of Demographic and Economic Statistics.

CITY OF NEWTON, NORTH CAROLINA

Table 14

**Direct and Overlapping Government Activities Debt
June 30, 2014
(Unaudited)**

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes:			
County of Catawba	\$ 166,987,317	6.84%	<u>\$ 11,421,932</u>
Subtotal, overlapping debt			<u>11,421,932</u>
City of Newton direct debt			<u>7,148,803</u>
Total			<u><u>\$ 18,570,735</u></u>

Note: The percentage of overlapping debt is based on the June 30, 2014 assessed valuation of the County of Catawba of \$16,700,602,238 as compared to the June 30, 2014 assessed valuation for the City of Newton of \$1,141,968,350.

CITY OF NEWTON, NORTH CAROLINA

Table 15

Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assessed value of taxable property	\$ 852,339,737	\$ 857,416,905	\$ 894,387,210	\$ 955,511,373	\$ 975,260,775	\$ 1,068,930,737	\$ 1,074,366,309	\$ 1,060,750,459	\$ 1,083,554,891	\$ 1,141,968,350
Debt limit, 8% of assessed value (statutory limitation)	\$ 68,187,179	\$ 68,593,352	\$ 71,550,977	\$ 76,440,910	\$ 78,020,862	\$ 85,514,459	\$ 85,949,305	\$ 84,860,037	\$ 86,684,391	\$ 91,357,468
Debt applicable to limit:										
General obligation bonds	2,885,000	2,385,000	1,920,000	1,450,000	985,000	530,000	85,000	-	-	-
Loans payable	17,410,984	20,679,793	19,630,285	19,071,048	22,017,823	19,991,608	17,727,429	20,797,648	20,465,530	23,217,743
Total net debt applicable to limit	20,295,984	23,064,793	21,550,285	20,521,048	23,002,823	20,521,608	17,812,429	20,797,648	20,465,530	23,217,743
Legal debt margin	\$ 47,891,195	\$ 45,528,559	\$ 50,000,692	\$ 55,919,862	\$ 55,018,039	\$ 64,992,851	\$ 68,136,876	\$ 64,062,389	\$ 66,218,861	\$ 68,139,725
Total net debt applicable to the limit as a percentage of assessed property tax value	2.38%	2.69%	2.41%	2.15%	2.36%	1.92%	1.66%	1.96%	1.89%	2.03%

Note: North Carolina General Statute 159-55 limits the City's outstanding debt to 8% of the appraised value of property subject to taxation.

CITY OF NEWTON, NORTH CAROLINA

Table 16

**Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Population⁽¹⁾	Personal Income (amounts expressed in thousands)⁽⁵⁾	Per Capita Personal Income⁽²⁾⁽⁵⁾	Median Age⁽¹⁾	School Enrollment⁽³⁾	Unemployment Rate⁽⁴⁾
2005	12,986	\$ 371,374	\$ 28,598	36.6	2,815	6.6%
2006	13,075	393,218	30,074	36.7	2,901	5.4%
2007	13,229	410,774	31,051	36.7	2,852	5.6%
2008	13,554	431,329	31,823	37.0	2,863	7.2%
2009	13,670	424,481	31,052	38.1	2,808	15.5%
2010	13,819	449,173	32,504	38.2	2,861	13.0%
2011	12,995	432,993	33,320	39.6	2,863	12.1%
2012	12,971	450,301	34,716	40.0	2,889	11.3%
2013	12,961	N/A	N/A	40.3	2,977	10.8%
2014	13,031	N/A	N/A	40.5	3,073	7.1%

Data sources:

- (1) North Carolina Office of State Budget and Management
- (2) U.S. Department of Commerce, Bureau of Economic Analysis
- (3) North Carolina Department of Public Instruction
- (4) North Carolina Department of Commerce
- (5) Information not available for some years

Note: Separate data for the City of Newton in not available except for the population amounts, and school enrollment. Catawba County data was provided. Personal income information is a total for the previous year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the end of the school year.

CITY OF NEWTON, NORTH CAROLINA

Table 17

Principal Employers
Current Year and Nine Years Ago
(Unaudited)

Employer	2014			2005		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Catawba County Schools	2,015	1	2.80%	2,076	1	2.70%
Catawba County Government	1,188	2	1.70%	1,050	2	1.40%
Lee Industries	612	3	0.90%	363	6	0.50%
Target Distribution Center	500	4	0.70%			
McCreary Modern	448	5	0.60%	750	3	1.00%
Newton-Conover City Schools	423	6	0.60%	441	5	0.60%
Technibilt	356	7	0.50%	236	8	0.30%
United Church Homes and Services (Abernethy Laurels)	350	8	0.50%	303	7	0.40%
General Dynamics	250	9	0.30%			
Flowers Baking Company	234	10	0.30%			
Goldtoe-Moretz				606	4	0.80%
Sarstedt				194	9	0.30%
City of Newton				166	10	0.20%
Total	6,376		8.90%	6,185		8.00%
Total Civilian Labor Force	71,452			77,357		

Source: City of Newton Public Information Office

CITY OF NEWTON, NORTH CAROLINA

Table 18

**Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years
(Unaudited)**

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
City Manager	3	3	3	3	3	3	3	3	4	4
Human Resources	2	2	2	2	2	2	2	2	2	2
Finance	13	12	12	12	13	11	11	11	11	11
Information systems						2	2	2	2	2
Public Safety										
Police										
Officers	35	35	35	35	35	34	35	35	35	36
Civilians	8	8	8	8	8	9	8	8	9	8
Fire										
Firefighters and officers	16	25	25	25	26	25	26	26	26	26
Recreation										
Administration	11	11	11	11	11	11	10	10	10	10
Community appearance	4	4	4	4	4	4	4	4	4	4
Public Works										
Administration	3	3	3	2	3	3	2	2	2	2
Street	9	9	9	10	10	10	9	9	9	9
Equipment services	2	2	2	2	2	2	2	2	2	2
Environmental Protection										
Solid Waste	12	12	12	13	13	13	13	13	13	14
Economic and Physical Development										
Planning and zoning	4	4	4	4	5	5	4	4	3	3
Water and Sewer										
Water Treatment Plant	8	8	8	8	8	8	8	9	9	8
Distribution and collection	11	11	12	11	10	10	10	11	11	11
Wastewater Treatment Plant	13	13	13	13	13	13	12	12	12	12
Electric	12	14	15	15	15	15	15	15	15	14
Total	166	176	178	178	181	180	176	178	179	178

Source: Budgeted personnel records

CITY OF NEWTON, NORTH CAROLINA

Table 19, page 1 of 2

Operating Indicators By Function
Last Ten Fiscal Years
(Unaudited)

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police**										
Calls for service	21,341	20,336	19,587	17,812	22,720	25,078	26,517	23,609	22,265	20,352
Arrests	653	731	680	712	739	599	601	742	659	644
Traffic stops	3,330	2,719	2,518	1,801	2,169	1,580	2,903	2,779	2,596	2,242
Citations	3,611	3,075	2,491	1,677	1,945	1,435	2,665	2,561	1,797	1,597
Property checks*	663	442	235	347	5,554	8,611	8,669	6,148	4,656	5,255
Incidents	2,133	2,296	2,275	2,097	2,145	1,944	2,003	1,823	1,817	2,408
Fire										
Emergency incidents (calls)	665	823	689	828	806	826	883	911	1,110	1,098
Fire inspections completed	756	801	529	546	601	543	492	575	535	578
Fire prevention programs	153	172	442	265	237	257	176	244	131	76
Permits issued	121	56	40	51	39	28	40	42	42	24
Training hours completed	7,922	9,248	8,218	10,181	7,829	8,721	9,282	10,453	8,638	8,795
Highways and Streets										
Paved/resurfaced (miles)	-	2.09	-	1.39	3.00	2.00	2.00	1.27	1.04	-
Potholes repaired	26	43	53	65	11	69	72	28	35	54
Sanitation										
Residential collections (tons)	7,459	6,493	4,711	4,495	4,114	4,263	4,343	4,281	4,260	4,360
Recyclables (tons)	564	531	422	418	472	464	418	439	418	387
Yardwaste collected (tons)	1,947	2,009	717	279	440	733	1,940	994	2,115	1,191
Households served**	5,037	5,077	5,077	5,368	5,368	5,368	5,440	5,440	4,632	4,642

CITY OF NEWTON, NORTH CAROLINA

Table 19, page 2 of 2

Operating Indicators By Function
Last Ten Fiscal Years
(Unaudited)

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Culture and Recreation (participants)										
Center activities	8,000	9,713	17,691	18,011	19,252	21,126	23,351	24,123	24,150	26,149
Athletic	20,984	21,022	34,086	36,250	56,205	58,093	60,874	70,326	65,987	60,175
Fitness room	909	1,761	1,901	2,565	3,575	3,721	3,250	3,200	1,200	1,204
Swimming pool	4,240	3,837	5,300	5,611	6,571	-	983	3,106	3,227	3,424
Shelters	500	607	750	842	1,085	1,750	2,345	2,514	3,255	4,215
Cemetery burials	63	55	61	60	50	59	48	46	57	90
Water										
New connection	156	47	59	83	38	28	21	15	20	11
Water main breaks	18	15	22	44	46	32	33	23	12	12
Avg daily consumption (MGD)	2.02	2.36	3.29	3.4	3.4	3.6	3.8	3.6	3.7	3.7
Number of customers	5,927	5,974	5,950	6,007	6,010	5,989	5,956	5,977	5,965	5,974
Wastewater										
Average daily usage (MGD)	3.69	2.40	2.03	1.64	1.64	1.90	1.80	1.70	1.80	1.95
Number of customers	4,587	4,668	4,653	4,682	4,681	4,663	4,679	4,653	4,656	4,670
Electric										
Average daily usage (Kwh)	314,263	325,466	394,807	386,553	387,314	411,850	434,421	436,351	431,198	426,462
Peak demand	24,941	26,944	29,748	31,033	28,969	33,758	35,394	32,221	31,076	34,514
Number of customers	4,399	4,443	4,465	4,571	4,560	4,526	4,428	4,428	4,425	4,435

Sources: Various government departments.

Note: Indicators are not available for the general government function.

* Substantial increase beginning in Fiscal Year 2008-2009 is due to including churches as part of daily property checks.

** Beginning in Fiscal Year 2012-2013 tracking was completed through the use of updated computer software programs.

CITY OF NEWTON, NORTH CAROLINA

Table 20, page 1 of 2

Capital Asset Statistics by Function
Last Ten Fiscal Years
(Unaudited)

Function	Fiscal Year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police											
Police stations	2	2	2	4	3	3	3	3	3	3	3
Police patrol vehicles	36	36	36	28	29	30	35	30	31	30	35
Other police vehicles	12	12	12	19	19	18	18	18	22	16	16
Fire											
Fire stations	3	3	3	3	3	3	3	3	3	3	3
Fire suppression vehicles	9	9	9	9	9	9	9	9	9	10	10
Other fire vehicles	5	5	5	6	7	7	7	7	7	7	7
Highways and Streets											
Streets maintained (miles)	76.83	76.83	76.83	77.22	77.39	77.39	76.34	76.58	77.39	77.39	77.39
Storm sewer (miles)	25.83	26.19	26.19	26.46	26.52	26.52	56.48	56.53	65.36	65.4	65.4
Sidewalk (miles)	27.50	27.50	27.50	27.84	27.84	27.84	27.84	27.84	27.84	27.84	27.84
Catch Basin inlets	1,360	1,362	1,364	1,377	1,380	1,380	1,380	1,380	1,380	1,380	1,380
Powell Bill equipment	17	17	15	15	15	15	15	15	15	9	9
Street equipment	17	18	18	18	18	18	18	18	18	28	30
Sanitation											
Residential trucks	4	4	4	4	4	4	4	4	4	4	4
Dumpster trucks	2	2	2	2	2	2	2	2	2	2	2
Other equipment	11	11	11	11	11	11	11	11	11	10	10

CITY OF NEWTON, NORTH CAROLINA

Table 20, page 2 of 2

Capital Asset Statistics by Function
Last Ten Fiscal Years
(Unaudited)

Function	Fiscal Year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Culture and Recreation											
Recreation centers	2	2	2	2	2	2	2	2	2	2	2
Parks	5	5	5	5	5	5	5	5	5	5	5
Park acreage	63.5	63.5	63.5	63.5	63.5	63.5	153.5	153.5	153.5	153.5	153.5
Swimming pool	1	1	1	1	1	1	1	1	1	1	1
Tennis courts	8	8	8	8	8	8	8	8	8	8	8
Cemeteries	3	3	3	3	3	3	3	3	3	3	3
Water											
Water lines (miles)	165.0	178.5	178.5	175.7	182.9	182.9	182.9	182.9	182.5	182.5	182.5
Fire hydrants	1,049	1,061	1,067	1,070	1,075	1,075	1,077	1,077	1,077	1,022	1,022
Max. daily capacity (MGD)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Wastewater											
Max. daily capacity (MGD)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Sanitary sewer lines (miles)	123	125	127	119	130.5	132.5	132.5	132.5	134.7	132	132
Electric											
Substations	5	5	5	5	5	5	5	5	3	2	2
Service lines (miles)	107	107	110	125	125	125	125	125	125	125	125

Sources: Various government departments.

Note: Indicators are not available for the general government function.

COMPLIANCE SECTION

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*

Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act

Schedule of Findings and Questioned Costs

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Newton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Newton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Newton'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 City'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 of Newton's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 22, 2014

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Newton, North Carolina's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Newton's major federal programs for the year ended June 30, 2014. The City of Newton's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Newton's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133 and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newton's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Newton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City of Newton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Newton's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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, non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 22, 2014

CITY OF NEWTON, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
· Material weakness identified?	No
· Significant deficiency identified that are not considered to be material weaknesses?	None reported
Non-compliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
· Material weakness identified?	No
· Significant deficiency identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No

Identification of major federal programs:

<u>Names of Federal Program or Cluster</u>	<u>CFDA No.</u>
Clean Water State Revolving Fund	66.458
Dollar threshold used to distinguish between Type A and Type B Programs	\$300,000
Auditee qualified as low risk auditee?	No

CITY OF NEWTON, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

2. Financial Statements Findings

None reported.

3. Federal Award Findings

None reported.

CITY OF NEWTON, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

CITY OF NEWTON, NORTH CAROLINA

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal (Direct and Pass-through) Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
Cash Programs:				
<u>National Highway Traffic Safety Administration</u>				
Passed-through the N.C. Department of Transportation: NC Governor's Highway Safety Program	20.600	PT-2013-03-04-13	\$ 3,730	\$ -
<u>U.S. Department of Homeland Security</u>				
Passed-through Federal Emergency Management Agency: Assistance to Firefighters Grant	97.044	EMW-2012-FO-00422	125,805	-
Passed-through the N.C. Department of Public Safety: Division of Emergency Management: Disaster Grants - Public Assistance: July 27, 2013 Mountain Floods	97.036	FEMA-4153-DR-NC	137,705	-
Total Federal Emergency Management Agency			<u>263,510</u>	<u>-</u>
<u>U.S. Environmental Protection Agency</u>				
Passed-through N.C. Department of Environment and Natural Resources: Division of Water Quality: Clean Water State Revolving Fund	66.458	E-SRF-T-13-0335	863,864	-
Total assistance - federal programs			<u>1,131,104</u>	<u>-</u>
State Grants:				
Cash Assistance:				
<u>N.C. Department of Transportation:</u>				
Powell Bill		32570	-	392,320
<u>N.C. Department of Commerce</u>				
Community Development Urban Development			-	50,000
Total assistance - State programs			-	442,320
Total assistance			<u>\$ 1,131,104</u>	<u>\$ 442,320</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the Federal and State grant activity of the City of Newton and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2 - Loans Outstanding

City of Newton had the following loan balances outstanding at June 30, 2014. These loan balances outstanding are also included in the Federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
Clean Water State Revolving Fund	66.458	E-SRF-T-13-0335	\$ 863,864

