

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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PREPARED BY  
CITY OF NEWTON FINANCE DEPARTMENT



**CITY OF NEWTON, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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# INTRODUCTORY SECTION

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  - GOFA Certificate of Achievement
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# CITY OF NEWTON

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P.O. Box 550 · Newton, N.C. 28658 · phone 828.695.4300 · fax 828.465.7405

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October 26, 2016

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, 2016 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, 2016.

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, 2016 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 unmodified opinion that the financial statements of the City of Newton for the fiscal year ended June 30, 2016 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 auditor's report.

## **Profile of the City**

The City of Newton, founded in 1843 and incorporated in 1855, is the county seat of Catawba County. It is located in the western part of the Piedmont 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 12,982.

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 the 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 – a 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; and electric, water and sewer services. 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 Green Room (Old Post Office Playhouse), the Historical Association of Catawba County, 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 Green Room (Old Post Office Playhouse) in downtown which provides a modern venue for the performing arts; the Newton-Conover Auditorium which 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 which 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 annual Soldiers Reunion celebration is believed to be the longest-running patriotic celebration not based on a holiday. The 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 downtown. This year marked the 127th anniversary of the Soldiers Reunion.

### ***Foothills Folk Art Festival***

October 1, 2016 marked the inaugural Foothills Fork Art Festival. The festival was held around the 1924 Courthouse Square through a partnership between the Downtown Newton Development Association and Hickory Museum of Art. The festival consisted of more than 90 artists and more than 4,500 guests.

### ***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. A one and one-

half mile extension of this popular trail is in the planning process. This projected extension to the south will connect two neighborhoods, Westside/Jaycee Park and Southside Park, directly to the trail, adding access and trailheads to the Greenway.

### ***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 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 River and the Henry Fork River 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 track combines cycling with coordination, fitness, balance, and control, which 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 includes 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. The Depot houses a railroad museum and model railroad club, as well as a banquet room available for public and civic rentals. The Newton Depot is the only railroad museum in the southeast that focuses on narrow gauge and shortline aspects of railroad history.

The Newton Depot's Welcome Center features five operating model train displays. Highlights of the historic Newton Depot include displays and artifacts that contain local railroad history and the Southeastern Narrow Gauge and Shortline Museum, an outdoor museum that houses preserved antique railroad rolling stock.

### ***Electric Vehicle Charging Station***

The City of Newton, in partnership with Catawba County, offers an electric charging station at the Newton Branch of the Catawba County Public Library. The electric charging station should prove to be an incentive to draw people to downtown Newton to shop and dine while they charge their vehicle.

## **Business and Economic Development**

### ***Business Advisory Committee***

The 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.

### ***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 on public outreach concerning the Streetscape Master Plan and the Strategic Growth Plan initiatives. This year, the DNDA has supported two downtown facade renovations through the City's Facade Grant Program and a Solutions Grant for a new restaurant awarded by the N.C. Main Street Center.

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.

### ***Branding and Marketing Initiative***

The City is in the process of developing a comprehensive branding and marketing campaign. This City is seeking to focus on growing the City's population through recruiting active adults, professionals, and entrepreneurs. This initiative will focus on the following elements:

- Conduct research to determine existing attitudes, perceptions, opportunities and challenges to enhance the City’s image;
- Develop a creative “look” to bring the community’s current economic strategies, assets, and amenities to life;
- Develop strategies and tactical plans to position the messaging statements based on qualitative research and analysis of quantitative data; and
- Define how the core message can be expanded to existing economic development and visitor initiatives, as well as broader regional partners and assets.

***Other Strategic Initiatives for Economic Development***

The City continues to develop and implement strategic initiatives to attract industrial and small business development. These initiatives include the following:

- The City has earned the designation as a “Certified Site” for the Newton Corporate Center, which is a 110-acre business park located on NC Highway 10 West. This official certification ensures that the site is “shovel ready” for industrial development;
- The completion of a Wayfinding Project that demonstrates the City’s renewed desire to generate interest in the City’s core business district, where the City can showcase its assets, including shopping, dining, entertainment, and other amenities characteristic of a community with a high quality of living;
- The City has completed a street and sidewalk condition assessment prioritizing the repairs and resurfacing needs of City-owned streets and sidewalks based on condition, age, and other factors;
- The development of a Parks and Recreation Master Plan that will focus on enhancing the overall wellbeing of Newton’s residents and promote healthy lifestyles; and
- The City’s 2015 Strategic Growth Plan identified the need to develop core parking areas in the downtown core business district. As a result, the City has purchased two parking lots which will create additional parking and also enhance the appearance of the downtown area.

## **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, and 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 1,100 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, the Council recently appointed a Business Advisory Committee to guide and direct non-industrial business growth in the City.

### **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 percent 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.

#### ***10-Year Capital Improvement Plan (CIP)***

The City adopted a 10-Year Capital Improvement Plan for fiscal years 2017-2026, which encompasses \$46.8 million in long-range capital improvements and coordinates community infrastructure needs with the financial capacity of the City. Key capital projects within the 10-Year CIP are as follows:

- \$12.5 million Downtown Streetscape Project based on the City's Downtown Streetscape Master Plan:
  - Widened sidewalks, bike lanes, two rows of parking, and two moving lanes;
  - Improved open spaces, including a redesigned and expanded Yount Park, and suggestions for enhancements to the Courthouse grounds; and
  - The addition of an outdoor stage on the west side of the Square to allow outdoor concerts and other events.
- \$1.6 million and \$4.9 million in water rehabilitation projects and wastewater rehabilitation projects, respectively, 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.

- \$690,800 in stormwater rehabilitation projects due to deteriorated infrastructure.
- 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 N.C. Highway 16 South 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. Right-of-way acquisition has begun, and the first phase will be bid in February 2017.
- \$1.9 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 N.C. Highway 10 and U.S. Highway 321 intersection.
- \$1 million to continue updating existing HPS (High Pressure Sodium) Lighting with Energy Efficiency Lighting.

#### ***Jacob Fork Disc Golf Course***

Construction has begun on the Jacob Fork Disc Golf Course located at Jacob Fork Park. The course will encompass about 20 acres of the interior of Jacob Fork Park, and it is designed to serve not only beginners, but also players with advanced skills. Once complete, the course will be a championship course that will allow the City to host disc golf tournaments. The object of Disc Golf is much like traditional golf in that players try to complete each hole with the fewest number of strokes, or in the case of disc golf, the fewest number of throws. Disc golf players use a flying disc in lieu of a ball and clubs.

#### ***Downtown Streetscape Master Plan***

The citizens and leaders in Newton are planning for growth and success by beginning the community revitalization process in the historic heart of the City. In the Square, a beautiful Beaux Arts Courthouse building is surrounded on four sides with distinguished historic commercial buildings. Providing widened and enhanced sidewalks offers the amenities that attract new businesses and the environment that younger generations demand in order to consider making Newton their home. The creation of a destination in the downtown will help market the community to employers, new residents, and new businesses. Additional recommendations for improvements to entry corridors and enhanced parking and downtown alleys will all work together to make this vision a reality for Newton.

The Streetscape Master Plan is intended to begin the revitalization process not just for the downtown, but for the entire community. By focusing on the heart of the City, people in Newton and in the surrounding areas will begin to take notice, visit, shop, dine, and take pride in the community. Sidewalk widening and open space improvements, accompanied by wayfinding signs, improvements to the corridors approaching the downtown, and increased marketing, will bring new businesses and restaurants to the Square to take advantage of opportunities for outdoor dining and improved community image.



**Before**



**After**

Improvements to the Square include:

- Widened sidewalks, bike lanes, two rows of parking, and two moving lanes;
- Improved open spaces, including a redesigned and expanded Yount Park, and suggestions for enhancements to the Courthouse grounds; and
- The addition of an outdoor stage on the west side of the Square to allow outdoor concerts and other events.

To implement this important project, the City has applied for a \$1.9 million Surface Transportation Program – Direct Attributable (STP-DA) Grant for engineering and construction along A Street between downtown and the newly expanded Catawba County Government Center. This will provide an improved connection between two activity centers for vehicles, bicycles and pedestrians.

Another important endeavor is a demonstration project for the Streetscape Master Plan. When fully implemented, the improved streetscape in downtown will improve the quality of life and provide an economic boost to the downtown. In order for the citizens to understand the transformation this project will have, the City will temporarily install the enlarged sidewalk, bicycle lane, and traffic pattern, which will serve a tangible example of the future improvements, as well as test the plan recommendations.

#### ***NCDOT Pedestrian Plan***

The North Carolina Department of Transportation awarded the City a \$49,500 grant for a Comprehensive Pedestrian Plan. The planning grant initiative is jointly sponsored by the NCDOT Division of Bicycle and Pedestrian Transportation and the Transportation Planning Branch. The Bicycle and Pedestrian Planning Grant Program helps North Carolina communities develop a comprehensive strategy for expanding bicycle and pedestrian opportunities within the awarded community. The City of Newton was one of nine jurisdictions (out of 17 applicants) to receive the grant for 2016.

#### **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, 2015. This marked the thirty-first 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 fourth consecutive year by the Arbor Day Foundation, the nation's largest nonprofit organization dedicated to planting trees.

The City has been honored for the fourteenth consecutive year with the Area Wide Optimization Program Award (AWOP) presented by the North Carolina Department of Environment and Natural Resources (NCDENR). The Area-Wide Optimization Program enhances public health protection by encouraging superior performance and operations at water treatment facilities across the country. Facilities that adopt the program aim to reach sustainable water quality standards far more stringent than those required by government regulators.

The City received national recognition for achieving exceptional electric reliability in 2015. The recognition comes from the American Public Power Association (APPA), a trade group in Washington, D.C., that represents more than 2,000 not-for-profit, community-owned electric utilities.

The City was recognized by the Department of Insurance Office of State Fire Marshall for the Newton Fire Department's excellent response to fires and emergencies. The rating is based on inspections that look for proper staffing levels, sufficient equipment, proper maintenance of equipment, communications capabilities, and availability of a water source.

### **Acknowledgements**

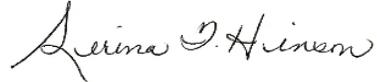
The preparation of this report could not have been accomplished without the efficient and dedicated efforts of the City of Newton Finance Department and our independent auditors, Martin Starnes and Associates, CPAs, P.A. We wish to express our appreciation to all who assisted and contributed to the preparation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

In closing, we would like to express our appreciation to the Mayor and the 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

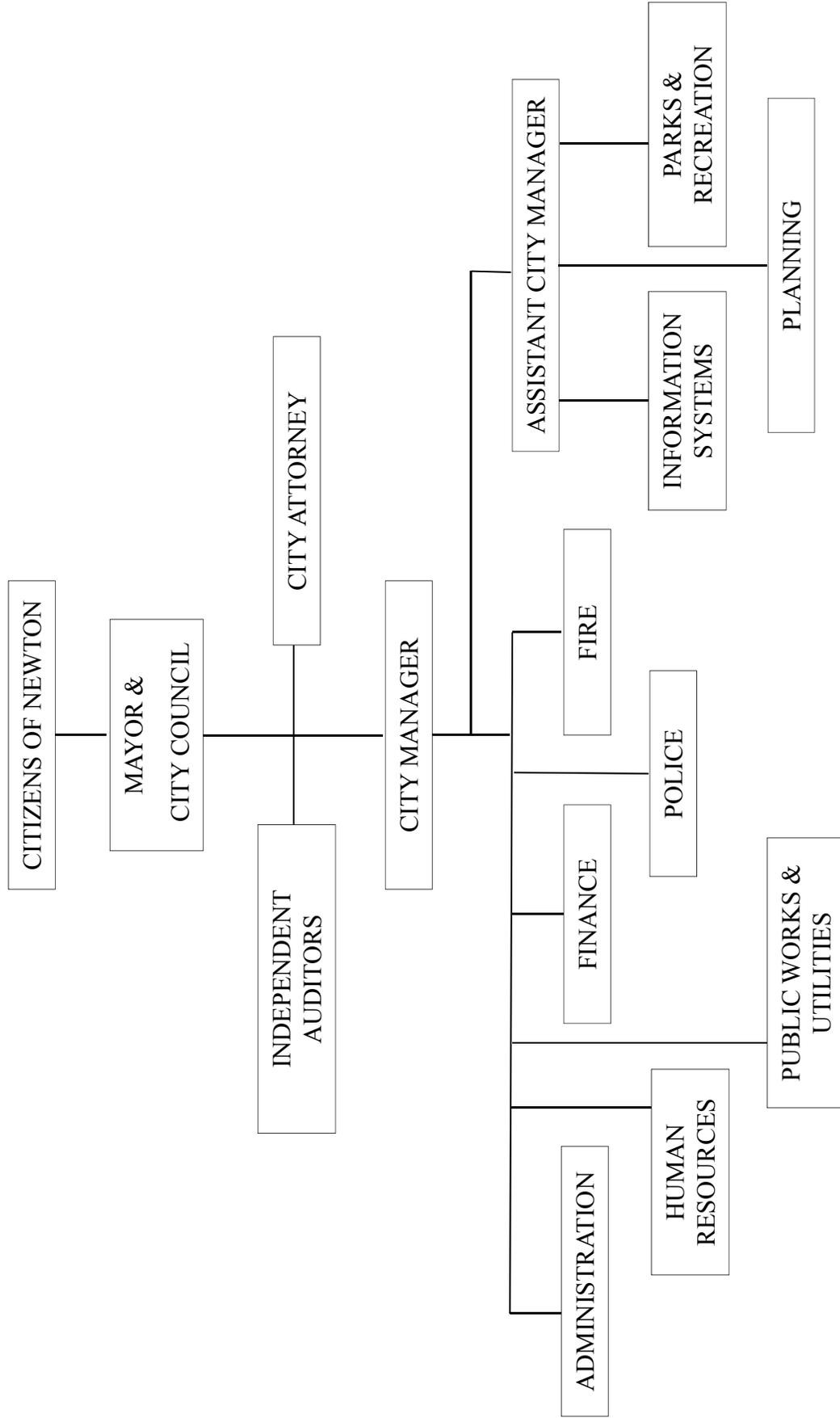
**City of Newton  
North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

# CITY OF NEWTON ORGANIZATIONAL CHART



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CITY OF NEWTON, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

---

CITY COUNCIL



**ANNE P. STEDMAN**  
*Mayor*



**JERRY T. HODGE**



**WES WEAVER**



**H. TOM ROWE**



**JODY DIXON**



**JOHN STIVER**  
*Mayor Pro Tem*



**ROBERT C. ABERNETHY JR.**

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CITY OF NEWTON, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

---

CITY ADMINISTRATION



E. TODD CLARK  
City Manager

DONALD G. BROWN II  
Police Chief

KEVIN L. YODER  
Fire Chief

SEAN A. HOVIS  
Assistant City Manager

SERINA T. HINSON  
Finance Director

TERESA B. LAFFON  
Human Resources Director

AMY S. FALOWSKI  
City Clerk

JAMES (DUSTY) B. WENTZ  
Public Works/Utilities Director

CHRISTOPHER B. LITTLE  
Information Systems Director

JOHN CILLEY  
City Attorney

RANDOLPH (RANDY) WILLIAMS  
Planning Director

SANDRA A. WATERS  
Parks and Recreation Director



**NEWTON**  
NORTH CAROLINA



At the City of Newton, we're committed to serving our customers better. Whether they're looking to open a new business, want to pay their utility bill, or just need to make sure their recycling is picked up on schedule, we strive to provide the best City services possible.

We've met with businesses, nonprofits, and members of the community to find out what excellent customer service means to them, and we're applying what we learned across all City services.

To guide us in serving, we developed the nine Keys to Service Excellence. The Keys are our customer service goals when we're working with our customers and with one another.

We hope to set the standard for customer service excellence at the City of Newton by Serving Hometown Hospitality every day.

### Build Positive Relationships

- ◆ Be welcoming and eager to help
- ◆ Demonstrate respect
- ◆ Be accommodating
- ◆ Recognize that everyone counts

### Demonstrate Professionalism

- ◆ Be accessible
- ◆ Be prepared
- ◆ Be consistent and reliable
- ◆ Know your resources
- ◆ Take pride in yourself and your job responsibilities

### Practice Positive Service Recovery

- ◆ Demonstrate empathy and caring
- ◆ Think win-win
- ◆ Make it right
- ◆ Bring out your best

### Anticipate Customer Needs

- ◆ Be proactive
- ◆ Get to know your customers
- ◆ Be prepared for frequently asked questions
- ◆ Consider customer schedules

### Provide Reasonable and Timely Responses

- ◆ Make time for people
- ◆ Respond quickly
- ◆ Look for reasonable compromises
- ◆ Streamline processes

### Exceed Expectations

- ◆ Go above and beyond
- ◆ Create memorable experiences
- ◆ Set the standard for service excellence

### Use Good Communications

- ◆ Be approachable, smiling and friendly
- ◆ Practice active listening
- ◆ Keep customers and co-workers informed
- ◆ Ask for feedback
- ◆ Network with customers

### Take Ownership

- ◆ Follow through with commitments
- ◆ Be accountable
- ◆ Don't pass the buck

### Promote Teamwork

- ◆ Share knowledge
- ◆ Show respect for all city employees
- ◆ Express appreciation
- ◆ Encourage each other
- ◆ Look for opportunities to help



# FINANCIAL SECTION

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- **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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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, 2016, 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 Schedule of Funding Progress, the Other Post-Employment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, and the Local Government Employees' Retirement System Schedules of the Proportionate Share of the Net Pension Liability (Asset) and 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost*

*Principles, and Audit Requirements for Federal Awards* 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 relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 26, 2016 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 26, 2016



## 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, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements which follow this narrative.

### Financial Highlights

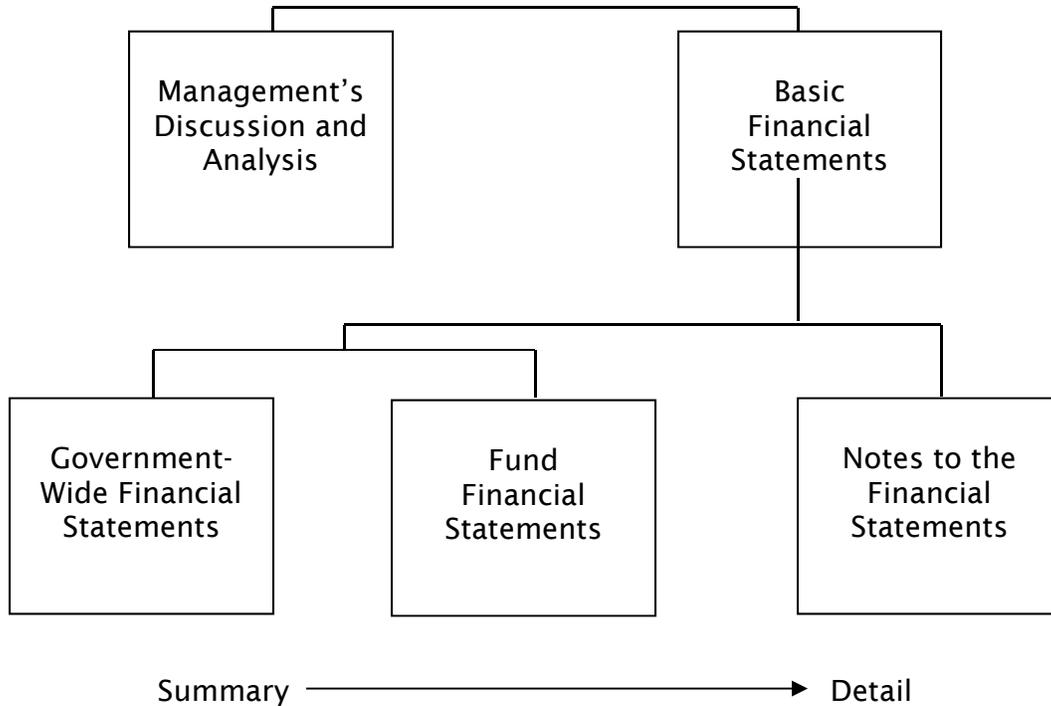
- The assets and deferred outflows of the City of Newton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$53,912,997 (net position). Of this amount, \$14,000,715 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$2,140,815 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 \$8,642,483 with a net change of \$679,496 in fund balance. Approximately, 37.21% of this total amount, or \$3,215,647, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,960,008, or 40.72% of total General Fund expenditures and transfers out for the fiscal year.
- The City of Newton's total long-term debt decreased by \$1,473,486, or 5.6%. Outstanding debt principal is \$23,429,714 or \$1,805 per capita.
- The City's legal debt limit is \$82,714,582 (8% of assessed valuation), and the City's legal debt margin is \$59,284,868. The total legal indebtedness of the City is \$23,429,714, which represents 2.27% of assessed valuation.

### Overview of the Financial Statements

This discussion and analysis is 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.

Following the notes is the required supplemental information. This section contains funding information about the City's pension plans.

## 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 governmental 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 44-84 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 85 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 89-105 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

|   | Governmental Activities |                      | Business-Type Activities |                      | Total                |                     |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|---------------------|
|   | 2016                    | 2015                 | 2016                     | 2015                 | 2016                 | 2015                |
| Current and other assets                            | \$ 10,863,534           | \$ 10,786,834        | \$10,649,991             | \$ 13,326,638        | \$ 21,513,525        | \$24,113,472        |
| Capital assets                                      | 15,058,465              | 14,834,894           | 45,091,276               | 43,892,917           | 60,149,741           | 58,727,811          |
| Deferred outflows of resources                      | 404,722                 | 403,656              | 117,943                  | 127,042              | 522,665              | 530,698             |
| Total assets and deferred outflows of resources     | <u>26,326,721</u>       | <u>26,025,384</u>    | <u>55,859,210</u>        | <u>57,346,597</u>    | <u>82,185,931</u>    | <u>83,371,981</u>   |
| Long-term liabilities                               | 6,891,326               | 6,832,968            | 14,481,495               | 16,030,202           | 21,372,821           | 22,863,170          |
| Other liabilities                                   | 2,157,104               | 2,175,763            | 4,352,415                | 4,543,024            | 6,509,519            | 6,718,787           |
| Deferred inflows of resources                       | 297,288                 | 1,533,606            | 93,306                   | 484,236              | 390,594              | 2,017,842           |
| Total liabilities and deferred inflows of resources | <u>9,345,718</u>        | <u>10,542,337</u>    | <u>18,927,216</u>        | <u>21,057,462</u>    | <u>28,272,934</u>    | <u>31,599,799</u>   |
| Net Position:                                       |                         |                      |                          |                      |                      |                     |
| Net investment in capital assets                    | 8,406,848               | 7,984,441            | 28,842,217               | 29,007,878           | 37,249,065           | 36,992,319          |
| Restricted  | 2,663,217               | 3,125,095            | -                        | -                    | 2,663,217            | 3,125,095           |
| Unrestricted  | 5,910,938               | 4,373,511            | 8,089,777                | 7,281,257            | 14,000,715           | 11,654,768          |
| Total net position                                  | <u>\$ 16,981,003</u>    | <u>\$ 15,483,047</u> | <u>\$36,931,994</u>      | <u>\$ 36,289,135</u> | <u>\$ 53,912,997</u> | <u>\$51,772,182</u> |

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Newton exceeded liabilities and deferred inflows by \$53,912,997 as of June 30, 2016. The City's net position increased by \$2,140,815 for the fiscal year ended June 30, 2016, primarily due to increases in both governmental and business-type activities.

The largest portion is \$37,249,065, or 69.09%, 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.

The restricted portion of the City of Newton's net position, \$2,663,217, or 4.94%, represents resources that are subject to external restrictions on how they may be used.

The final portion of net position is unrestricted, which is \$14,000,715, or 26.0%, of the total net position, which may be used to meet the City's ongoing obligations to citizens and creditors.

For the fiscal year ended June 30, 2016, the City of Newton is able to report positive balances in all three categories of net position, which includes the government as a whole, governmental activities, and business-type activities. This would be true for the prior fiscal year as well.

Total net position increased by \$1,497,956 in the City of Newton's governmental activities. This increase is associated with the increase in non-restricted cash and short-term investments.

For Fiscal Year 2016, total net position for business-type activities increased \$642,859. This increase can be associated with a decrease in the City's electric wholesale rate, as well as a 3% rate increase to the City's water and wastewater customers.

### City of Newton's Changes in Net Position

Figure 3

|   | 2016                    |                          |                     | 2015                    |                          |                     |
|---|-------------------------|--------------------------|---------------------|-------------------------|--------------------------|---------------------|
|   | Governmental Activities | Business-Type Activities | Total               | Governmental Activities | Business-Type Activities | Total               |
| <b>Revenues:</b>  |                         |                          |                     |                         |                          |                     |
| Program revenues:   |                         |                          |                     |                         |                          |                     |
| Charges for services  | \$ 1,237,015            | \$ 21,562,688            | \$22,799,703        | \$ 1,251,545            | \$ 21,429,562            | \$22,681,107        |
| Operating grants and contributions                                  | 486,903                 | 5,584                    | 492,487             | 524,449                 | 240,491                  | 764,940             |
| Capital grants and contributions                                    | 119,417                 | 31,653                   | 151,070             | 294,285                 | 19,865                   | 314,150             |
| General revenues:   |                         |                          |                     |                         |                          |                     |
| Property taxes  | 5,627,039               | -                        | 5,627,039           | 5,723,810               | -                        | 5,723,810           |
| Other taxes   | 5,061,027               | 737,150                  | 5,798,177           | 4,770,983               | 735,702                  | 5,506,685           |
| Miscellaneous   | -                       | 1,732                    | 1,732               | -                       | 4,728                    | 4,728               |
| Unrestricted investment earnings                                    | 36,540                  | 20,922                   | 57,462              | 16,443                  | 8,758                    | 25,201              |
| <b>Total revenues</b>   | <b>12,567,941</b>       | <b>22,359,729</b>        | <b>34,927,670</b>   | <b>12,581,515</b>       | <b>22,439,106</b>        | <b>35,020,621</b>   |
| <b>Expenses:</b>  |                         |                          |                     |                         |                          |                     |
| General government  | 1,352,512               | -                        | 1,352,512           | 1,389,614               | -                        | 1,389,614           |
| Transportation  | 1,347,083               | -                        | 1,347,083           | 1,162,092               | -                        | 1,162,092           |
| Environmental protection  | 1,086,149               | -                        | 1,086,149           | 1,043,820               | -                        | 1,043,820           |
| Public Safety   | 5,586,817               | -                        | 5,586,817           | 5,316,433               | -                        | 5,316,433           |
| Culture and recreation  | 1,510,818               | -                        | 1,510,818           | 1,551,277               | -                        | 1,551,277           |
| Economic development  | -                       | -                        | -                   | -                       | -                        | -                   |
| Operations  | -                       | 21,252,827               | 21,252,827          | -                       | 21,713,351               | 21,713,351          |
| Interest on long-term debt:   |                         |                          |                     |                         |                          |                     |
| Governmental  | 186,606                 | -                        | 186,606             | 190,377                 | -                        | 190,377             |
| Water and wastewater  | -                       | 289,175                  | 289,175             | -                       | 303,370                  | 303,370             |
| Electric  | -                       | 174,868                  | 174,868             | -                       | 173,107                  | 173,107             |
| <b>Total expenses</b>   | <b>11,069,985</b>       | <b>21,716,870</b>        | <b>32,786,855</b>   | <b>10,653,613</b>       | <b>22,189,828</b>        | <b>32,843,441</b>   |
| Increase in net position before transfers and capital contributions | 1,497,956               | 642,859                  | 2,140,815           | 1,927,902               | 249,278                  | 2,177,180           |
| Capital contributions   | -                       | -                        | -                   | -                       | -                        | -                   |
| Transfers   | -                       | -                        | -                   | -                       | -                        | -                   |
| <b>Increase in net position</b>                                     | <b>1,497,956</b>        | <b>642,859</b>           | <b>2,140,815</b>    | <b>1,927,902</b>        | <b>249,278</b>           | <b>2,177,180</b>    |
| <b>Net Position:</b>  |                         |                          |                     |                         |                          |                     |
| Beginning of year - July 1  | 15,483,047              | 36,289,135               | 51,772,182          | 14,429,274              | 36,315,898               | 50,745,172          |
| Beginning of year, restated   | 15,483,047              | 36,289,135               | 51,772,182          | 13,555,145              | 36,039,857               | 49,595,002          |
| <b>End of year - June 30</b>  | <b>\$ 16,981,003</b>    | <b>\$ 36,931,994</b>     | <b>\$53,912,997</b> | <b>\$ 15,483,047</b>    | <b>\$ 36,289,135</b>     | <b>\$51,772,182</b> |

**Governmental Activities.** Governmental activities increased the City’s net position by \$1,497,956, accounting for a 69.97% of the total growth in the net position of the City of Newton. Key elements of this increase are as follows:

- The collection of property taxes increased from 97.59% to 97.71% compared to the prior year.
- Increased sales tax revenues of \$193,220, or 6.6%, which indicates the economy continues to recover.
- Increased utilities sales tax and other taxes of \$96,824 due to economic growth.
- Controlled spending also influenced the positive net position.

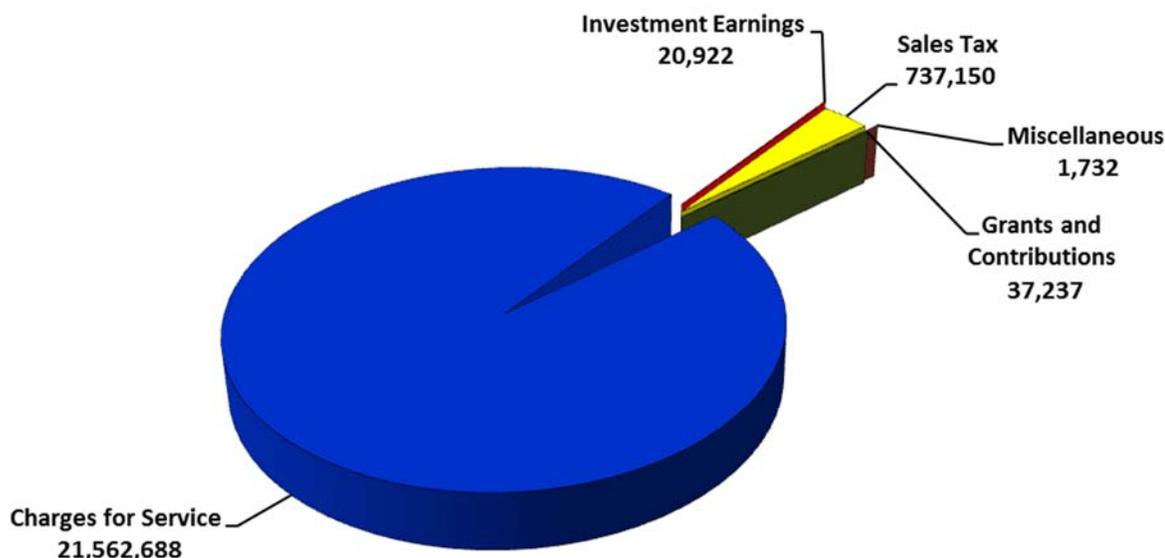
### Revenues by Source - Governmental Activities



**Business-Type Activities.** Business-type activities increased the City of Newton’s net position by \$642,859, accounting for a 30.03% 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 \$642,859 in the Proprietary Funds, primarily due to a decrease in electric wholesale rates from the North Carolina Municipal Power Agency 1 (Agency). The Agency refinanced bond indebtedness in an effort to control wholesale rate increase for the next five years. As a result, the City’s cost for electric decreased \$568,850.
- The City implemented a 3% rate increase for both water and wastewater services.

### 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 \$7,420,355, while total fund balance was \$8,621,096. 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 60.92% of the total General Fund expenditures and transfers out, while total fund balance represents 70.78% of that same amount.

At June 30, 2016, the governmental funds of the City of Newton reported a combined fund balance of \$8,642,483, with a net increase in fund balance of \$679,496. Included in this change is an increase of \$688,503 in fund balance in the General Fund and a decrease of \$9,007 in fund balance in the special revenue funds and the capital project funds. Key factors in these changes are as follows:

- The City's General Fund revenues exceeded operating expenditures by \$409,560.
- Other taxes and licenses increased by \$218,764, or 6.5%, primarily due an increase in sales tax revenues as a result of economic growth.
- Investment earnings have increased 124%, which is another indication of the recovering economy.
- Expenditures decreased \$259,855, or 2.1%, compared to the prior year due to controlled spending.
- Expenditures were under the final budget by \$1,129,557, which is another indication of controlled spending.

**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.

During Fiscal Year 2016, there was a \$693,350 net increase in appropriations between the original and final amended General Fund budget. The largest component of this increase was for prior year encumbrances in the amount of \$704,650.

Actual revenues were greater than final budgeted amounts by \$559,953. This was due mainly to increases in collections of property taxes at 1.04% of budget, sales tax at 1.05% of budget, and utilities sales tax at 1.09% of budget.

Actual expenditures were less than final budgeted amounts by \$1,129,557, a variance of 8.5% from the final budget. These favorable savings resulted mainly from unspent appropriations of \$320,790 in salaries and related benefits due to temporary vacancies in various departments and the remaining savings from controlled spending throughout the City.

**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 \$2,918,805 and for the Electric Fund amounted to \$4,860,701. The total change in net position for the Water and Wastewater Fund and the Electric Fund was \$(67,465) and \$692,544, respectively. The primary change in net position is due

to a decrease in electric wholesale rates from the North Carolina Municipal Power Agency 1 (Agency). The Agency refinanced bond indebtedness in an effort to control wholesale rate increase for the next five years. As a result, the City's wholesale cost for electric power decreased approximately \$568,850 within the Electric Fund. In addition, the City implemented a 3% rate increase within the Water and Wastewater Fund to offset increased operating costs and to build upon the financial position within this fund.

## 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, 2016 totaled \$60,149,741 (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:

- Construction in progress for business-type activities is primarily the implementation of the Advanced Metering Infrastructure (AMI) Technology for \$3.6 million and \$189,400 for voltage regulators' infrastructure.
- Strategic land acquisitions of \$99,266 for improvements to the downtown and to provide additional parking in the downtown area.
- Retirement of public safety vehicles in the amount of \$335,065.
- Various equipment and vehicle replacement purchases for governmental and business-type activities of \$290,765 and \$70,531, respectively.
- Completion of South Caldwell Court stormwater rehabilitation project in the amount of \$402,785.
- Completion of wastewater rehabilitation projects in the amount of \$540,892.

Additional information on the City's capital assets can be found beginning on page 60 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>2016</u>                    | <u>2015</u>          | <u>2016</u>                     | <u>2015</u>          | <u>2016</u>          | <u>2015</u>          |
| Land                         | \$ 2,144,396                   | \$ 1,509,571         | \$ 215,332                      | \$ 215,332           | \$ 2,359,728         | \$ 1,724,903         |
| Buildings and improvements   | 6,171,824                      | 3,295,324            | 6,066,955                       | 6,637,090            | 12,238,779           | 9,932,414            |
| Distribution systems         | -                              | -                    | 31,044,947                      | 31,917,802           | 31,044,947           | 31,917,802           |
| Public domain infrastructure | 3,901,060                      | 3,622,222            | -                               | -                    | 3,901,060            | 3,622,222            |
| Equipment                    | 820,448                        | 887,673              | 3,110,345                       | 3,437,973            | 3,930,793            | 4,325,646            |
| Vehicles                     | 1,602,154                      | 1,508,868            | 696,962                         | 858,060              | 2,299,116            | 2,366,928            |
| Construction in progress     | 418,583                        | 4,011,236            | 3,956,735                       | 826,660              | 4,375,318            | 4,837,896            |
| <b>Total</b>                 | <b>\$ 15,058,465</b>           | <b>\$ 14,834,894</b> | <b>\$ 45,091,276</b>            | <b>\$ 43,892,917</b> | <b>\$ 60,149,741</b> | <b>\$ 58,727,811</b> |

**Long-Term Debt.** Gross debt obligations of the City are \$23,429,714 as of June 30, 2016 which solely consists of notes payable.

### City of Newton's Outstanding Debt

**Figure 5**

|                                     | Governmental Activities |                     | Business-Type Activities |                      | Total                |                     |
|-------------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|---------------------|
|                                     | 2016                    | 2015                | 2016                     | 2015                 | 2016                 | 2015                |
| Loans payable                       | \$ 6,937,435            | \$ 7,346,731        | \$16,492,279             | \$ 18,160,439        | \$ 23,429,714        | \$25,507,170        |
| Compensated absences                | 495,622                 | 475,430             | 118,231                  | 104,029              | 613,853              | 579,459             |
| Other post-employment benefits      | 20,449                  | 52,143              | 6,715                    | 17,122               | 27,164               | 69,265              |
| Net pension liability(LGERS)        | 461,249                 | -                   | 145,657                  | -                    | 606,906              | -                   |
| Net pension benefit obligation(LEO) | 336,010                 | 331,239             | -                        | -                    | 336,010              | 331,239             |
| <b>Total</b>                        | <b>\$ 8,250,765</b>     | <b>\$ 8,205,543</b> | <b>\$16,762,882</b>      | <b>\$ 18,281,590</b> | <b>\$ 25,013,647</b> | <b>\$26,487,133</b> |

The City of Newton's total debt decreased by \$1,473,486, or 5.6%. Debt associated with the purchase of capital items decreased as a result of a \$3,211,756 reduction of existing debt due to principal payments and new debt acquired during the past fiscal year in the amount of \$1,134,300. New debt resulted from installment purchase agreements for replacement of vehicles and motorized equipment and stormwater infrastructure improvements.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Newton is \$59,284,868.

Additional information regarding the City of Newton's long-term debt can be found beginning on page 77 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 2017 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.

- Management carefully considered personnel expenses for all operating funds and has included salary increases that maintain a competitive, market-based approach to help retain the City's most valuable asset. Fiscal Year 2017 marks the second year of the City's 2015 Pay and Class Study Implementation.
- Continuing to move the City forward in accordance with the City's Strategic Growth Plan adopted in June 2015.

- Budgeted expenditures are included in Fiscal Year 2017 to encourage economic development in the City through new marketing efforts. The City has begun marketing efforts directed at showing Newton as a highly desirable place to live, work and play outside Charlotte's northwest corridor. Also, North Carolina Department of Transportation is currently working on the completion of N.C. Highway 16 in Catawba County to a multi-lane highway connecting Charlotte to Newton, which will establish Newton as a geographically accessible market within the Charlotte Metro Area.
- Initiating a Downtown Streetscape Project that will lead to increased property values and to draw individuals and businesses to Newton.
- 2% increase in operational expenditures.
- Water and wastewater rates will increase by 5%, primarily to cover increased costs of operations, capital expenses, and increased financial stability within the Water and Wastewater Fund. General operating expenses will increase by 2% to cover increased costs of material, supplies, and other operating expenses.
- Rates for electricity will increase by 1% to cover a 1.5% wholesale rate increase for allocated demand charges and to fund costs associated with the City's Downtown Streetscape initiative. Expenses within the Electric Fund include a 2% operational increase. \$337,200 has been budgeted for rate stabilization in an effort to minimize future electric rate increases to the City's customers.

### **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](http://www.newtonnc.gov), or send an email to [shinson@newtonnc.gov](mailto:shinson@newtonnc.gov) for more information.

# BASIC FINANCIAL STATEMENTS

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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.

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**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit A**

**STATEMENT OF NET POSITION  
JUNE 30, 2016**

|   | <u>Primary Government</u>          |                                     |                      |
|---|------------------------------------|-------------------------------------|----------------------|
|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>         |
| <b>Assets:</b>  |                                    |                                     |                      |
| Current assets:   |                                    |                                     |                      |
| Cash and short-term investments                               | \$ 7,414,655                       | \$ 6,207,350                        | \$ 13,622,005        |
| Taxes receivable, net   | 531,953                            | -                                   | 531,953              |
| Accounts receivable, net                                      | 826,695                            | 2,123,646                           | 2,950,341            |
| Interest receivable, net                                      | 4,290                              | 2,239                               | 6,529                |
| Due from other governments                                    | 94,402                             | 256,082                             | 350,484              |
| Prepays   | 248,698                            | 296,468                             | 545,166              |
| Internal balances   | (310,271)                          | 310,271                             | -                    |
| Inventories   | 41,442                             | 660,911                             | 702,353              |
| Restricted cash and cash equivalents                          | 2,011,670                          | 793,024                             | 2,804,694            |
| Total current assets  | <u>10,863,534</u>                  | <u>10,649,991</u>                   | <u>21,513,525</u>    |
| Non-current assets:   |                                    |                                     |                      |
| Capital assets:   |                                    |                                     |                      |
| Land, non-depreciable assets, and<br>construction in progress | 2,562,979                          | 4,172,067                           | 6,735,046            |
| Other capital assets, net of depreciation                     | 12,495,486                         | 40,919,209                          | 53,414,695           |
| Total capital assets  | <u>15,058,465</u>                  | <u>45,091,276</u>                   | <u>60,149,741</u>    |
| Total assets  | <u>25,921,999</u>                  | <u>55,741,267</u>                   | <u>81,663,266</u>    |
| <b>Deferred Outflows of Resources:</b>                        |                                    |                                     |                      |
| Contributions to pension plan in current fiscal year          | 404,722                            | 117,943                             | 522,665              |
| <b>Liabilities:</b>   |                                    |                                     |                      |
| Current liabilities:  |                                    |                                     |                      |
| Accounts payable and other current liabilities                | 771,552                            | 1,478,968                           | 2,250,520            |
| Due to other governments                                      | -                                  | 42,282                              | 42,282               |
| Liabilities to be paid from restricted assets                 | 26,113                             | 549,778                             | 575,891              |
| Compensated absences  | 344,838                            | 117,390                             | 462,228              |
| Current portion of long-term liabilities                      | 1,014,601                          | 2,163,997                           | 3,178,598            |
| Total current liabilities                                     | <u>2,157,104</u>                   | <u>4,352,415</u>                    | <u>6,509,519</u>     |
| Long-term liabilities:  |                                    |                                     |                      |
| Compensated absences, non-current                             | 150,784                            | 841                                 | 151,625              |
| Net pension liability   | 461,249                            | 145,657                             | 606,906              |
| Unfunded pension obligation                                   | 336,010                            | -                                   | 336,010              |
| Unfunded other post-employment benefits                       | 20,449                             | 6,715                               | 27,164               |
| Due in more than one year                                     | 5,922,834                          | 14,328,282                          | 20,251,116           |
| Total long-term liabilities                                   | <u>6,891,326</u>                   | <u>14,481,495</u>                   | <u>21,372,821</u>    |
| Total liabilities   | <u>9,048,430</u>                   | <u>18,833,910</u>                   | <u>27,882,340</u>    |
| <b>Deferred Inflows of Resources:</b>                         |                                    |                                     |                      |
| Prepaid taxes   | 1,822                              | -                                   | 1,822                |
| Pension deferrals   | 295,466                            | 93,306                              | 388,772              |
| Total deferred inflows of resources                           | <u>297,288</u>                     | <u>93,306</u>                       | <u>390,594</u>       |
| <b>Net Position:</b>  |                                    |                                     |                      |
| Net investment in capital assets                              | 8,406,848                          | 28,842,217                          | 37,249,065           |
| Restricted for stabilization by State statute                 | 954,523                            | -                                   | 954,523              |
| Restricted for transportation                                 | 189,697                            | -                                   | 189,697              |
| Restricted for public safety                                  | 2,277                              | -                                   | 2,277                |
| Restricted for cultural and recreational                      | 1,509,957                          | -                                   | 1,509,957            |
| Restricted for economic and physical development              | 6,763                              | -                                   | 6,763                |
| Unrestricted  | <u>5,910,938</u>                   | <u>8,089,777</u>                    | <u>14,000,715</u>    |
| Total net position  | <u>\$ 16,981,003</u>               | <u>\$ 36,931,994</u>                | <u>\$ 53,912,997</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, 2016**

|                                      | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |                |
|--------------------------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|
|                                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business-Type Activities | Total          |
| <b>Primary Government:</b>           |                      |                                    |                                  |   |                          |                |
| <b>Governmental Activities:</b>      |                      |                                    |                                  |   |                          |                |
| General government                   | \$ 1,352,512         | \$ 199,335                         | \$ 4,706                         | \$ (1,148,471)                                    | \$ -                     | \$ (1,148,471) |
| Transportation                       | 1,347,083            | 4,767                              | 390,092                          | (952,224)   | -                        | (952,224)      |
| Environmental protection             | 1,086,149            | 880,225                            | -                                | (205,924)   | -                        | (205,924)      |
| Public safety                        | 5,586,817            | 73,717                             | 40,194                           | (5,372,023)                                       | -                        | (5,372,023)    |
| Cultural and recreation              | 1,510,818            | 78,971                             | 51,911                           | (1,361,402)                                       | -                        | (1,361,402)    |
| Interest on long-term debt           | 186,606              | -                                  | -                                | (186,606)   | -                        | (186,606)      |
| Total governmental activities        | 11,069,985           | 1,237,015                          | 486,903                          | (9,226,650)                                       | -                        | (9,226,650)    |
| <b>Business-Type Activities:</b>     |                      |                                    |                                  |   |                          |                |
| Water and wastewater                 | 6,747,790            | 6,681,287                          | -                                | -   | (66,503)                 | (66,503)       |
| Electric                             | 14,969,080           | 14,881,401                         | 5,584                            | -   | (50,442)                 | (50,442)       |
| Total business-type activities       | 21,716,870           | 21,562,688                         | 5,584                            | -   | (116,945)                | (116,945)      |
| Total primary government             | \$ 32,786,855        | \$ 22,799,703                      | \$ 492,487                       | \$ (9,226,650)                                    | \$ (116,945)             | \$ (9,343,595) |
| <b>General Revenues:</b>             |                      |                                    |                                  |   |                          |                |
| Taxes:                               |                      |                                    |                                  |   |                          |                |
| Property taxes                       |                      |                                    |                                  | 5,627,039   | -                        | 5,627,039      |
| Local option sales tax               |                      |                                    |                                  | 3,111,139   | -                        | 3,111,139      |
| Utilities sales tax                  |                      |                                    |                                  | 971,859   | -                        | 971,859        |
| Other taxes                          |                      |                                    |                                  | 978,029   | 737,150                  | 1,715,179      |
| Miscellaneous revenues, unrestricted |                      |                                    |                                  | -   | 1,732                    | 1,732          |
| Investment earnings, unrestricted    |                      |                                    |                                  | 36,540  | 20,922                   | 57,462         |
| Total general revenues               |                      |                                    |                                  | 10,724,606  | 759,804                  | 11,484,410     |
| Change in net position               |                      |                                    |                                  | 1,497,956   | 642,859                  | 2,140,815      |
| <b>Net Position:</b>                 |                      |                                    |                                  |   |                          |                |
| Beginning of year - July 1           |                      |                                    |                                  | 15,483,047  | 36,289,135               | 51,772,182     |
| End of year - June 30                |                      |                                    |                                  | \$ 16,981,003                                     | \$ 36,931,994            | \$ 53,912,997  |

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

**CITY OF NEWTON, NORTH CAROLINA**

Exhibit C

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016**

|  | <u>Major Fund</u>       | <u>Nonmajor<br/>Funds</u>               |                      |
|--|-------------------------|---|----------------------|
|  | <u>General<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>         |
| <b>Assets:</b>   |                         |   |                      |
| Cash and short-term investments  | \$ 5,921,078            | \$ 9,040                                | \$ 5,930,118         |
| Taxes receivable, net  | 531,953                 | -                                       | 531,953              |
| Accounts receivable, net   | 826,695                 | -                                       | 826,695              |
| Interest receivable  | 3,786                   | -                                       | 3,786                |
| Due from other funds   | 7,962                   | -                                       | 7,962                |
| Due from other governments   | 84,786                  | 9,616                                   | 94,402               |
| Prepays  | 214,392                 | 10,693                                  | 225,085              |
| Inventories  | 41,442                  | -                                       | 41,442               |
| Restricted cash and cash equivalents   | 2,011,670               | -                                       | 2,011,670            |
| Total assets   | <u>\$ 9,643,764</u>     | <u>\$ 29,349</u>                        | <u>\$ 9,673,113</u>  |
| <b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>  |                         |   |                      |
| <b>Liabilities:</b>  |                         |   |                      |
| Accounts payable and other current liabilities   | \$ 462,780              | \$ -                                    | \$ 462,780           |
| Due to other funds   | -                       | 7,962                                   | 7,962                |
| Liabilities to be paid from restricted assets  | 26,113                  | -                                       | 26,113               |
| Total liabilities  | <u>488,893</u>          | <u>7,962</u>                            | <u>496,855</u>       |
| <b>Deferred Inflows of Resources:</b>  |                         |   |                      |
| Unavailable revenue - property taxes   | 531,953                 | -                                       | 531,953              |
| Prepaid taxes  | 1,822                   | -                                       | 1,822                |
| Total deferred inflows of resources  | <u>533,775</u>          | <u>-</u>                                | <u>533,775</u>       |
| <b>Fund Balances:</b>  |                         |   |                      |
| Non-spendable - inventories  | 41,442                  | -                                       | 41,442               |
| Non-spendable - prepaids   | 214,392                 | 10,693                                  | 225,085              |
| Restricted - stabilization by State statute  | 944,907                 | 9,616                                   | 954,523              |
| Restricted   | 1,985,557               | 9,040                                   | 1,994,597            |
| Assigned   | 474,790                 | -                                       | 474,790              |
| Unassigned   | 4,960,008               | (7,962)                                 | 4,952,046            |
| Total fund balances  | <u>8,621,096</u>        | <u>21,387</u>                           | <u>8,642,483</u>     |
| Total liabilities, deferred inflows of resources, and fund balances  | <u>\$ 9,643,764</u>     | <u>\$ 29,349</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.  |                         |   | 15,058,465           |
| Net pension liability  |                         |   | (461,249)            |
| Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.  |                         |   | 404,722              |
| Liabilities for earned revenues considered deferred inflows of resources in fund statements.   |                         |   | 531,953              |
| 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. |                         |   | 982,101              |
| 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.                              |                         |   | (7,882,006)          |
| Pension related deferrals  |                         |   | <u>(295,466)</u>     |
| Net position of governmental activities  |                         |   | <u>\$ 16,981,003</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, 2016**

|  | <u>Major Fund</u>       | <u>Nonmajor<br/>Funds</u>               |                     |
|--|-------------------------|---|---------------------|
|  | <u>General<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>        |
| <b>Revenues:</b>                       |                         |   |                     |
| Ad valorem taxes                       | \$ 5,661,736            | \$ -                                    | \$ 5,661,736        |
| Other taxes and licenses               | 3,593,002               | -                                       | 3,593,002           |
| Unrestricted intergovernmental         | 1,468,025               | -                                       | 1,468,025           |
| Restricted intergovernmental           | 565,485                 | 10,544                                  | 576,029             |
| Permits and fees                       | 74,062                  | -                                       | 74,062              |
| Sales and services                     | 974,145                 | -                                       | 974,145             |
| Investment earnings                    | 31,649                  | 37                                      | 31,686              |
| Miscellaneous                          | <u>219,099</u>          | -                                       | <u>219,099</u>      |
| Total revenues                         | <u>12,587,203</u>       | <u>10,581</u>                           | <u>12,597,784</u>   |
| <b>Expenditures:</b>                   |                         |   |                     |
| Current:                               |                         |   |                     |
| General government                     | 1,441,187               | -                                       | 1,441,187           |
| Transportation                         | 1,116,908               | -                                       | 1,116,908           |
| Environmental protection               | 1,065,055               | -                                       | 1,065,055           |
| Public safety                          | 5,765,867               | 8,014                                   | 5,773,881           |
| Cultural and recreational              | 1,531,592               | -                                       | 1,531,592           |
| Capital outlay                         | -                       | 387,731                                 | 387,731             |
| Debt service:                          |                         |   |                     |
| Principal retirement                   | 1,064,396               | -                                       | 1,064,396           |
| Interest and fees                      | <u>192,638</u>          | -                                       | <u>192,638</u>      |
| Total expenditures                     | <u>12,177,643</u>       | <u>395,745</u>                          | <u>12,573,388</u>   |
| Revenues over (under) expenditures     | <u>409,560</u>          | <u>(385,164)</u>                        | <u>24,396</u>       |
| <b>Other Financing Sources (Uses):</b> |                         |   |                     |
| Issuance of debt                       | 255,100                 | 400,000                                 | 655,100             |
| Transfers from other funds             | 26,628                  | 2,785                                   | 29,413              |
| Transfers to other funds               | <u>(2,785)</u>          | <u>(26,628)</u>                         | <u>(29,413)</u>     |
| Total other financing sources (uses)   | <u>278,943</u>          | <u>376,157</u>                          | <u>655,100</u>      |
| Net change in fund balances            | 688,503                 | (9,007)                                 | 679,496             |
| <b>Fund Balances:</b>                  |                         |   |                     |
| Beginning of year - July 1             | <u>7,932,593</u>        | <u>30,394</u>                           | <u>7,962,987</u>    |
| End of year - June 30                  | <u>\$ 8,621,096</u>     | <u>\$ 21,387</u>                        | <u>\$ 8,642,483</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, 2016**

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

|  |                    |                     |
|--|--------------------|---------------------|
| Net changes in fund balances - total governmental funds (Exhibit D)  |                    | \$ 679,496          |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.   |                    |                     |
| Property taxes   |                    | (34,697)            |
| 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   | \$ 1,329,013       |                     |
| Depreciation expense for governmental assets   | <u>(1,102,238)</u> | 226,775             |
| Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities.  |                    | 404,722             |
| In the Statement of Activities, only the gain or loss on the reduction of capital assets is reported; whereas, in governmental funds, the proceeds of the sale increase the financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets less any depreciation.   |                    |                     |
| Disposal of capital assets   |                    | (3,204)             |
| 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  | (655,100)          |                     |
| Principal payments on long-term debt   | 1,064,396          |                     |
| Change in accrued interest payable   | <u>6,032</u>       | 415,328             |
| 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   | (20,192)           |                     |
| Pension expense (LGRS)   | (250,547)          |                     |
| Net pension obligation (LEO)   | (4,771)            |                     |
| Other post-employment benefits   | <u>31,694</u>      | (243,816)           |
| The net revenue of the internal service funds are reported with governmental activities.   |                    | <u>53,352</u>       |
| Total changes in net position of governmental activities (Exhibit B)   |                    | <u>\$ 1,497,956</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, 2016**

|  | General Fund      |                    |                     | Variance with<br>Final Budget<br>Over/Under |
|--|-------------------|--------------------|---------------------|---|
|  | Budgeted Amounts  |                    | Actual              |   |
|  | Original          | Final              |                     |   |
| <b>Revenues:</b>                       |                   |                    |                     |   |
| Ad valorem taxes                       | \$ 5,468,150      | \$ 5,468,150       | \$ 5,661,736        | \$ 193,586                                  |
| Other taxes and licenses               | 3,431,250         | 3,431,250          | 3,593,002           | 161,752                                     |
| Unrestricted intergovernmental         | 1,391,800         | 1,391,800          | 1,468,025           | 76,225                                      |
| Restricted intergovernmental           | 461,500           | 531,800            | 565,485             | 33,685                                      |
| Permits and fees                       | 78,400            | 78,400             | 74,062              | (4,338)                                     |
| Sales and services                     | 963,200           | 963,200            | 974,145             | 10,945                                      |
| Investment earnings                    | 10,750            | 10,750             | 31,649              | 20,899                                      |
| Miscellaneous                          | <u>128,050</u>    | <u>151,900</u>     | <u>219,099</u>      | <u>67,199</u>                               |
| Total revenues                         | <u>11,933,100</u> | <u>12,027,250</u>  | <u>12,587,203</u>   | <u>559,953</u>                              |
| <b>Expenditures:</b>                   |                   |                    |                     |   |
| Current:                               |                   |                    |                     |   |
| General government                     | 1,927,700         | 1,743,900          | 1,441,187           | 302,713                                     |
| Transportation                         | 1,255,650         | 1,267,600          | 1,116,908           | 150,692                                     |
| Environmental protection               | 1,292,400         | 1,299,450          | 1,065,055           | 234,395                                     |
| Public safety                          | 5,284,300         | 6,098,550          | 5,765,867           | 332,683                                     |
| Cultural and recreation                | 1,599,050         | 1,640,150          | 1,531,592           | 108,558                                     |
| Debt service:                          |                   |                    |                     |   |
| Principal retirement                   | 1,064,700         | 1,064,700          | 1,064,396           | 304   |
| Interest and fees                      | <u>192,850</u>    | <u>192,850</u>     | <u>192,638</u>      | <u>212</u>                                  |
| Total expenditures                     | <u>12,616,650</u> | <u>13,307,200</u>  | <u>12,177,643</u>   | <u>1,129,557</u>                            |
| Revenues over (under) expenditures     | <u>(683,550)</u>  | <u>(1,279,950)</u> | <u>409,560</u>      | <u>1,689,510</u>                            |
| <b>Other Financing Sources (Uses):</b> |                   |                    |                     |   |
| Issuance of debt                       | 655,650           | 255,650            | 255,100             | (550)                                       |
| Transfers from other funds             | -                 | 26,650             | 26,628              | (22)  |
| Transfers to other funds               | -                 | (2,800)            | (2,785)             | 15  |
| Appropriated fund balance              | <u>27,900</u>     | <u>1,000,450</u>   | <u>-</u>            | <u>(1,000,450)</u>                          |
| Total other financing sources (uses)   | <u>683,550</u>    | <u>1,279,950</u>   | <u>278,943</u>      | <u>(1,001,007)</u>                          |
| Net change in fund balance             | <u>\$ -</u>       | <u>\$ -</u>        | <u>688,503</u>      | <u>\$ 688,503</u>                           |
| <b>Fund Balance:</b>                   |                   |                    |                     |   |
| Beginning of year - July 1             |                   |                    | <u>7,932,593</u>    |   |
| End of year - June 30                  |                   |                    | <u>\$ 8,621,096</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, 2016**

|   | Major                           |                      |                      |                             |
|---|---------------------------------|----------------------|----------------------|-----------------------------|
|   | Water and<br>Wastewater<br>Fund | Electric<br>Fund     | Total                | Internal<br>Service<br>Fund |
| <b>Assets:</b>  |                                 |                      |                      |                             |
| Current assets:   |                                 |                      |                      |                             |
| Cash and cash equivalents   | \$ 2,425,987                    | \$ 3,781,363         | \$ 6,207,350         | \$ 1,484,537                |
| Accounts receivable, net  | 732,001                         | 1,391,645            | 2,123,646            | -                           |
| Interest receivable   | 858                             | 1,381                | 2,239                | 504                         |
| Due from other governments  | 41,119                          | 214,963              | 256,082              | -                           |
| Prepays   | 46,616                          | 249,852              | 296,468              | 23,613                      |
| Inventories   | 117,754                         | 543,157              | 660,911              | -                           |
| Restricted cash and cash equivalents  | 90,930                          | 702,094              | 793,024              | -                           |
| Total current assets  | <u>3,455,265</u>                | <u>6,884,455</u>     | <u>10,339,720</u>    | <u>1,508,654</u>            |
| Non-current assets:   |                                 |                      |                      |                             |
| Capital assets:   |                                 |                      |                      |                             |
| Non-depreciable capital assets  | 237,308                         | 3,934,759            | 4,172,067            | -                           |
| Depreciable capital assets, net   | <u>30,367,913</u>               | <u>10,551,296</u>    | <u>40,919,209</u>    | <u>-</u>                    |
| Total capital assets, net   | <u>30,605,221</u>               | <u>14,486,055</u>    | <u>45,091,276</u>    | <u>-</u>                    |
| Total assets  | <u>34,060,486</u>               | <u>21,370,510</u>    | <u>55,430,996</u>    | <u>1,508,654</u>            |
| <b>Deferred Outflows of Resources:</b>  |                                 |                      |                      |                             |
| Contributions to pension plan   | <u>79,069</u>                   | <u>38,874</u>        | <u>117,943</u>       | <u>-</u>                    |
| <b>Liabilities:</b>   |                                 |                      |                      |                             |
| Current liabilities:  |                                 |                      |                      |                             |
| Accounts payable and other current liabilities  | 109,508                         | 1,143,283            | 1,252,791            | 216,282                     |
| Accrued interest payable  | 126,638                         | 99,539               | 226,177              | -                           |
| Due to other government   | 42,282                          | -                    | 42,282               | -                           |
| Accrued compensated absences - current  | 81,978                          | 35,412               | 117,390              | -                           |
| Installment loans payable - current   | 1,423,206                       | 740,791              | 2,163,997            | -                           |
| Liabilities to be paid from restricted assets   | 90,930                          | 458,848              | 549,778              | -                           |
| Total current liabilities   | <u>1,874,542</u>                | <u>2,477,873</u>     | <u>4,352,415</u>     | <u>216,282</u>              |
| Non-current liabilities:  |                                 |                      |                      |                             |
| Accrued compensated absences  | -                               | 841                  | 841                  | -                           |
| Long-term installment loans payable   | 8,928,728                       | 5,399,554            | 14,328,282           | -                           |
| Net pension liability   | 97,105                          | 48,552               | 145,657              | -                           |
| Other post-employment benefits obligation   | 4,884                           | 1,831                | 6,715                | -                           |
| Total non-current liabilities   | <u>9,030,717</u>                | <u>5,450,778</u>     | <u>14,481,495</u>    | <u>-</u>                    |
| Total liabilities   | <u>10,905,259</u>               | <u>7,928,651</u>     | <u>18,833,910</u>    | <u>216,282</u>              |
| <b>Deferred Inflows of Resources:</b>   |                                 |                      |                      |                             |
| Pension deferrals   | <u>62,204</u>                   | <u>31,102</u>        | <u>93,306</u>        | <u>-</u>                    |
| <b>Net Position:</b>  |                                 |                      |                      |                             |
| Net investment in capital assets  | 20,253,287                      | 8,588,930            | 28,842,217           | -                           |
| Unrestricted  | <u>2,918,805</u>                | <u>4,860,701</u>     | <u>7,779,506</u>     | <u>1,292,372</u>            |
| Total net position  | <u>\$ 23,172,092</u>            | <u>\$ 13,449,631</u> | 36,621,723           | <u>\$ 1,292,372</u>         |
| Internal balance due from (to) governmental activities<br>due to consolidation of Internal Service Fund |                                 |                      | <u>310,271</u>       |                             |
| Business-type activities net position (Exhibit A)   |                                 |                      | <u>\$ 36,931,994</u> |                             |

*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, 2016**

|   | Major                           |                      |                   |                             |
|---|---------------------------------|----------------------|-------------------|-----------------------------|
|   | Water and<br>Wastewater<br>Fund | Electric<br>Fund     | Total             | Internal<br>Service<br>Fund |
| <b>Operating Revenues:</b>  |                                 |                      |                   |                             |
| Charges for services  | \$ 6,198,209                    | \$ 14,460,734        | \$ 20,658,943     | \$ 1,541,289                |
| Other operating revenues  | 390,424                         | 346,042              | 736,466           | -                           |
| Total operating revenues  | <u>6,588,633</u>                | <u>14,806,776</u>    | <u>21,395,409</u> | <u>1,541,289</u>            |
| <b>Operating Expenses:</b>  |                                 |                      |                   |                             |
| Administration  | 958,516                         | 778,575              | 1,737,091         | 11,204                      |
| Power for resale  | -                               | 10,832,718           | 10,832,718        | -                           |
| Operations  | 2,469,460                       | 2,501,565            | 4,971,025         | 1,463,807                   |
| Maintenance   | 1,049,503                       | -                    | 1,049,503         | -                           |
| Depreciation  | <u>1,990,026</u>                | <u>690,244</u>       | <u>2,680,270</u>  | <u>-</u>                    |
| Total operating expenses  | <u>6,467,505</u>                | <u>14,803,102</u>    | <u>21,270,607</u> | <u>1,475,011</u>            |
| Operating income (loss)   | <u>121,128</u>                  | <u>3,674</u>         | <u>124,802</u>    | <u>66,278</u>               |
| <b>Non-Operating Revenues (Expenses):</b>                         |                                 |                      |                   |                             |
| Sales tax   | -                               | 737,150              | 737,150           | -                           |
| Investment earnings   | 7,012                           | 13,910               | 20,922            | 4,854                       |
| Interest expense  | (289,175)                       | (174,868)            | (464,043)         | -                           |
| Rental income and other non-operating items                       | 92,654                          | 74,625               | 167,279           | -                           |
| Non-capital contributions   | -                               | 5,584                | 5,584             | -                           |
| Proceeds from sale of capital assets                              | <u>916</u>                      | <u>816</u>           | <u>1,732</u>      | <u>-</u>                    |
| Total non-operating revenues (expenses)                           | <u>(188,593)</u>                | <u>657,217</u>       | <u>468,624</u>    | <u>4,854</u>                |
| Income (loss) before capital contributions                        | (67,465)                        | 660,891              | 593,426           | 71,132                      |
| Capital contributions   | <u>-</u>                        | <u>31,653</u>        | <u>31,653</u>     | <u>-</u>                    |
| Change in net position  | (67,465)                        | 692,544              | 625,079           | 71,132                      |
| <b>Net Position:</b>  |                                 |                      |                   |                             |
| Beginning of year - July 1  | <u>23,239,557</u>               | <u>12,757,087</u>    |                   | <u>1,221,240</u>            |
| End of year - June 30   | <u>\$ 23,172,092</u>            | <u>\$ 13,449,631</u> |                   | <u>\$ 1,292,372</u>         |
| Internal service activities allocated to business-type activities |                                 |                      | <u>17,780</u>     |                             |
| Change in net position-business type activities (Exhibit B)       |                                 |                      | <u>\$ 642,859</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, 2016**

|   | Major                           |                     |                     |                             |
|---|---------------------------------|---------------------|---------------------|-----------------------------|
|   | Water and<br>Wastewater<br>Fund | Electric<br>Fund    | Total               | Internal<br>Service<br>Fund |
| <b>Cash Flows from Operating Activities:</b>  |                                 |                     |                     |                             |
| Cash received from customers and users  | \$ 6,670,954                    | \$ 14,872,492       | \$ 21,543,446       | \$ 1,541,289                |
| Cash paid for goods and services  | (3,179,882)                     | (13,544,442)        | (16,724,324)        | (1,551,833)                 |
| Cash paid to or on behalf of employees for services   | (1,574,972)                     | (740,492)           | (2,315,464)         | -                           |
| Net cash provided (used) by operating activities  | <u>1,916,100</u>                | <u>587,558</u>      | <u>2,503,658</u>    | <u>(10,544)</u>             |
| <b>Cash Flows from Non-Capital Financing Activities:</b>  |                                 |                     |                     |                             |
| Non-capital contributions   | -                               | 5,584               | 5,584               | -                           |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                                      |                                 |                     |                     |                             |
| Acquisition and construction of capital assets  | (196,350)                       | (3,682,279)         | (3,878,629)         | -                           |
| Capital contributions - grants  | -                               | 31,653              | 31,653              | -                           |
| Proceeds from sale of capital assets  | 916                             | 816                 | 1,732               | -                           |
| Sales tax   | -                               | 737,150             | 737,150             | -                           |
| Payments of installment loans payable   | (1,420,592)                     | (726,768)           | (2,147,360)         | -                           |
| Interest paid on general obligation bonds and loans payable   | (313,804)                       | (183,495)           | (497,299)           | -                           |
| Proceeds from issuance of general obligation bonds and loans payable                                  | -                               | 479,200             | 479,200             | -                           |
| Net cash provided (used) by capital and related financing activities                                  | <u>(1,929,830)</u>              | <u>(3,343,723)</u>  | <u>(5,273,553)</u>  | <u>-</u>                    |
| <b>Cash Flows from Investing Activities:</b>  |                                 |                     |                     |                             |
| Interest on investments   | 6,225                           | 13,649              | 19,874              | 4,643                       |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>   | <u>(7,505)</u>                  | <u>(2,736,932)</u>  | <u>(2,744,437)</u>  | <u>(5,901)</u>              |
| <b>Cash and Cash Equivalents:</b>   |                                 |                     |                     |                             |
| Beginning of Year - July 1  | <u>2,524,422</u>                | <u>7,220,389</u>    | <u>9,744,811</u>    | <u>1,490,438</u>            |
| End of Year - June 30   | <u>\$ 2,516,917</u>             | <u>\$ 4,483,457</u> | <u>\$ 7,000,374</u> | <u>\$ 1,484,537</u>         |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b> |                                 |                     |                     |                             |
| Operating income (loss)   | \$ 121,128                      | \$ 3,674            | \$ 124,802          | \$ 66,278                   |
| Adjustments to reconcile operating income (loss) to:  |                                 |                     |                     |                             |
| Depreciation  | 1,990,026                       | 690,244             | 2,680,270           | -                           |
| Rental income and other non-operating revenues  | 92,654                          | 74,625              | 167,279             | -                           |
| Change in assets and liabilities:   |                                 |                     |                     |                             |
| (Increase) decrease in accounts receivable  | (642)                           | 15,277              | 14,635              | -                           |
| (Increase) decrease in due from other governmental agencies   | 10,699                          | (167,027)           | (156,328)           | -                           |
| (Increase) decrease in inventories  | (23,212)                        | (80,735)            | (103,947)           | -                           |
| (Increase) decrease in prepaid items  | (226)                           | (19)                | (245)               | (23,613)                    |
| (Increase) decrease in net pension asset  | 131,282                         | 65,641              | 196,923             | -                           |
| (Increase) decrease in deferred outflows of resources for pension                                     | 5,567                           | 3,532               | 9,099               | -                           |
| Increase (decrease) in due to other governmental agencies   | 2,047                           | -                   | 2,047               | -                           |
| Increase (decrease) in accounts payable and accrued expenses  | (249,171)                       | 61,107              | (188,064)           | (53,209)                    |
| Increase (decrease) in accrued vacation pay   | 8,118                           | 6,084               | 14,202              | -                           |
| Increase (decrease) in deferred inflows of resources for pension                                      | (260,620)                       | (130,310)           | (390,930)           | -                           |
| Increase (decrease) in net pension liability  | 97,105                          | 48,552              | 145,657             | -                           |
| Increase (decrease) in other post-employment benefits   | (7,570)                         | (2,837)             | (10,407)            | -                           |
| Increase (decrease) in customer deposits  | (1,085)                         | (250)               | (1,335)             | -                           |
| Net cash provided (used) by operating activities  | <u>\$ 1,916,100</u>             | <u>\$ 587,558</u>   | <u>\$ 2,503,658</u> | <u>\$ (10,544)</u>          |

**Supplemental Schedule of Non-Cash Financing Activities:**

Water Fund transferred capital assets to the General Fund with cost of \$29,197 and accumulated depreciation of \$29,197 at June 30, 2016. NBV was \$-0-.

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



# NOTES TO THE FINANCIAL STATEMENTS

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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.

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# CITY OF NEWTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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### 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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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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:

**Emergency Telephone Systems Fund.** This Special Revenue Fund is used to account for 911 revenues received by the State 911 Board to enhance the State's 911 system.

**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.

**General 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:

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

**Electric Enterprise Fund.** This fund is used to account for the City's electric fund 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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### 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.

*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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the City, are recognized as revenue. Sales taxes are considered a shared revenue for the City of Newton because the tax is levied by Catawba County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. 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 is 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, the Emergency Telephone System Special Revenue Fund, and the enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the General Capital Projects Fund, Special Revenue Fund, 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 departmental level for all annually budgeted funds and at the object level for

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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the multi-year funds. Amendments are required for any revisions that alter the total expenditures of any fund. 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) 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 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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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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. Non-participating interest earning contracts are accounted for at cost. The NCCMT Cash Portfolio, an SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

#### **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 General Fund, the Water and 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 are classified as restricted assets because the contributor placed a restriction that the principal only be utilized for capital costs of recreational facilities.

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**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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|   | <b>General<br/>Fund</b>                  | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Restricted<br/>Cash</b> |
|---|--|---|--------------------------------------|
| <b>Governmental Activities:</b>               |  |   |                                      |
| Unexpended debt proceeds plus interest        | \$ 285,903                               | \$ -                                    | \$ 285,903                           |
| Liabilities to be paid from restricted assets | 26,113                                   | -                                       | 26,113                               |
| Transportation                                | 189,697                                  | -                                       | 189,697                              |
| Cultural and Recreational                     | 1,509,957                                | -                                       | 1,509,957                            |
| Total governmental activities                 | \$ 2,011,670                             | \$ -                                    | \$ 2,011,670                         |
| <br>  |  |   |                                      |
|   | <b>Water and<br/>Wastewater<br/>Fund</b> | <b>Electric<br/>Fund</b>                | <b>Total<br/>Restricted<br/>Cash</b> |
| <b>Business-Type Activities:</b>              |  |   |                                      |
| Unexpended debt proceeds plus interest        | \$ -                                     | \$ 243,246                              | \$ 243,246                           |
| Liabilities to be paid from restricted assets | 90,930                                   | 458,848                                 | 549,778                              |
| Total business-type activities                | \$ 90,930                                | \$ 702,094                              | \$ 793,024                           |

**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 1<sup>st</sup>, the beginning of the fiscal year. These taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. Liens are placed on these taxes as of March 1<sup>st</sup> each year. These taxes are based on the assessed values as of January 1, 2015.

**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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

#### 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. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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. The City has one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. 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

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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revenue until then. The City has several items that meet the criteria for this category – prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

#### **Long-Term Obligations**

In the government-wide financial statements and proprietary fund 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 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 policy of the City provides 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.

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**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**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.

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.

|   | <u>General</u><br><u>Fund</u> | <u>Other</u><br><u>Governmental</u><br><u>Special</u><br><u>Revenue</u> | <u>Total</u>      |
|---|-------------------------------|---|-------------------|
| <i>Inventories</i> - portion of fund balance that is not an available resource because it represents the year-end balance of inventories, which are not spendable resource. | <u>\$ 41,442</u>              | <u>\$ -</u>   | <u>\$ 41,442</u>  |
| <i>Prepays</i> - portion of fund balance that is not an available resource because it represents prepaid amounts, which are not spendable resources.                        | <u>\$ 214,392</u>             | <u>\$ 10,693</u>  | <u>\$ 225,085</u> |

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CITY OF NEWTON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

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**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<br>Fund | Other Governmental |                     |            |
|---|-----------------|--------------------|---------------------|------------|
|   |                 | Special<br>Revenue | Capital<br>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)]. | \$ 944,907      | \$ 1,412           | \$ 8,204            | \$ 954,523 |

**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

|   | <b>General<br/>Fund</b> | <b>Other<br/>Governmental<br/>Special<br/>Revenue</b> | <b>Total</b>        |
|---|-------------------------|---|---------------------|
| <i>Restricted for Transportation</i> - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures.   | \$ 189,697              | \$ -  | \$ 189,697          |
| <i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures.   | -                       | 2,277   | 2,277               |
| <i>Restricted for Environmental Protection</i> - portion of fund balance that is restricted by revenue source (unspent debt proceeds plus interest) for sanitation.   | 201,714                 | -   | 201,714             |
| <i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source (unspent debt proceeds plus interest) for police.  | 75,954                  | -   | 75,954              |
| <i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source (unspent debt proceeds plus interest) for fire.  | 6,460                   | -   | 6,460               |
| <i>Restricted for Cultural and Recreational</i> - portion of fund balance that is restricted by revenue source (unspent debt proceeds plus interest) for recreational building improvements.                    | 1,775                   | -   | 1,775               |
| <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 for capital improvements to recreational facilities. | 1,509,957               | -   | 1,509,957           |
| <i>Restricted for Economic and Physical Development</i> - portion of fund balance that is restricted by revenue source for community development.   | -                       | 6,763   | 6,763               |
| <b>Total restricted fund balance (Exhibit C)</b>  | <b>\$ 1,985,557</b>     | <b>\$ 9,040</b>                                       | <b>\$ 1,994,597</b> |

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds plus interest of \$285,903 as of June 30, 2016.

**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. Once adopted, 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:

|   | <u>General<br/>Fund</u> |
|---|-------------------------|
| <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. | \$ 48,390               |
| <i>Subsequent year's expenditures</i> - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.      | <u>426,400</u>          |
| Total assigned fund balance (Exhibit C)   | <u>\$ 474,790</u>       |

**Unassigned Fund Balance** - portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. Only the General Fund may report a positive unassigned fund balance.

#### **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 | \$ 8,621,096        |
| <b>Less:</b>                      |                     |
| Inventories                       | (41,442)            |
| Prepays                           | (214,392)           |
| Stabilization by State statute    | <u>(944,907)</u>    |
| Remaining fund balance            | <u>\$ 7,420,355</u> |

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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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 is 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 at June 30, 2016 were \$21,678.

#### **Pensions**

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

## **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

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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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, 2016, the City's deposits had a carrying amount of \$6,612,739 and a bank balance of \$7,149,320. The City also had petty cash and cash on hand of \$835. 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, 2016, the City's investment balances were as follows:

| <u>Investment Type</u>                          | <u>Valuation<br/>Measurement<br/>Method</u> | <u>Book Value<br/>at June 30,<br/>2016</u> | <u>Maturity</u> | <u>Rating</u> |
|---|---|--|-----------------|---------------|
| NC Capital Management Trust -<br>Cash Portfolio | Amortized Cost                              | \$ 3,735,680                               | N/A             | AAAm          |
| NC Capital Management Trust -<br>Term Portfolio | Fair Value Level 1                          | <u>6,077,445</u>                           | 0.14 years      | Unrated       |
| Total   |   | <u>\$ 9,813,125</u>                        |                 |               |

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

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

*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

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**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

*Credit Risk.* The City has no formal policy regarding credit risk, but has internal management procedures that limits the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investment in the NC Capital Management Trust Cash Portfolio carried a rating of AAAM by Standard and Poor's as of June 30, 2016. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies and in high grade money market instruments as permitted under North Carolina General Statute 159-30 as amended.

**Receivables**

Receivables at the government-wide level at June 30, 2016 were as follows:

|                                  | <u>Accounts</u>     | <u>Taxes</u>      | <u>Due from<br/>Other<br/>Governments</u> | <u>Other</u>    | <u>Total</u>        |
|----------------------------------|---------------------|-------------------|---|-----------------|---------------------|
| <b>Governmental Activities:</b>  |                     |                   |   |                 |                     |
| General                          | \$ 826,695          | \$ 565,953        | \$ 84,786                                 | \$ 4,290        | \$ 1,481,724        |
| Other governmental               | -                   | -                 | 9,616                                     | -               | 9,616               |
| Total receivables                | 826,695             | 565,953           | 94,402                                    | 4,290           | 1,491,340           |
| Allowance for doubtful accounts  | -                   | (34,000)          | -   | -               | (34,000)            |
| Total governmental activities    | <u>\$ 826,695</u>   | <u>\$ 531,953</u> | <u>\$ 94,402</u>                          | <u>\$ 4,290</u> | <u>\$ 1,457,340</u> |
| <b>Business-Type Activities:</b> |                     |                   |   |                 |                     |
| Water and wastewater             | \$ 743,501          | \$ -              | \$ 41,119                                 | \$ 858          | \$ 785,478          |
| Electric                         | 1,409,045           | -                 | 214,963                                   | 1,381           | 1,625,389           |
| Total receivables                | 2,152,546           | -                 | 256,082                                   | 2,239           | 2,410,867           |
| Allowance for doubtful accounts  | (28,900)            | -                 | -   | -               | (28,900)            |
| Total business-type activities   | <u>\$ 2,123,646</u> | <u>\$ -</u>       | <u>\$ 256,082</u>                         | <u>\$ 2,239</u> | <u>\$ 2,381,967</u> |

The total due from other governments consists of the following:

|                                    |                   |
|------------------------------------|-------------------|
| Governmental activities            | \$ 94,402         |
| Business-type activities           | <u>256,082</u>    |
| Total due from other governments   | <u>\$ 350,484</u> |
| <br>                               |                   |
| Sales tax reimbursement            | \$ 349,605        |
| Emergency telephone system revenue | <u>879</u>        |
| Total due from other governments   | <u>\$ 350,484</u> |

**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Capital Assets**

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

|  | <u>Balances<br/>June 30, 2015</u> | <u>Additions</u>   | <u>Disposals</u>  | <u>Adjust/<br/>Trans</u> | <u>Balances<br/>June 30, 2016</u> |
|--|-----------------------------------|--------------------|-------------------|--------------------------|-----------------------------------|
| <b>Governmental Activities:</b>                        |                                   |                    |                   |                          |                                   |
| <i>Capital assets not being depreciated:</i>           |                                   |                    |                   |                          |                                   |
| Land   | \$ 1,509,571                      | \$ 99,266          | \$ -              | \$ 535,559               | \$ 2,144,396                      |
| Construction in progress                               | 4,011,236                         | 804,035            | -                 | (4,396,688)              | 418,583                           |
| <i>Total assets not being depreciated:</i>             | <u>5,520,807</u>                  | <u>903,301</u>     | <u>-</u>          | <u>(3,861,129)</u>       | <u>2,562,979</u>                  |
| <i>Capital assets being depreciated:</i>               |                                   |                    |                   |                          |                                   |
| Buildings and improvements                             | 8,960,159                         | 93,775             | -                 | 3,037,889                | 12,091,823                        |
| Equipment  | 3,397,776                         | 146,935            | (24,135)          | -                        | 3,520,576                         |
| Vehicles   | 7,371,860                         | 143,830            | (335,065)         | 449,652                  | 7,630,277                         |
| Infrastructure   | 6,086,505                         | 41,172             | -                 | 402,785                  | 6,530,462                         |
| Total assets being depreciated:                        | <u>25,816,300</u>                 | <u>425,712</u>     | <u>(359,200)</u>  | <u>3,890,326</u>         | <u>29,773,138</u>                 |
| <i>Less accumulated depreciation:</i>                  |                                   |                    |                   |                          |                                   |
| Building and improvements                              | (5,664,835)                       | (255,164)          | -                 | -                        | (5,919,999)                       |
| Equipment  | (2,510,103)                       | (214,160)          | 24,135            | -                        | (2,700,128)                       |
| Vehicles   | (5,862,992)                       | (467,795)          | 331,861           | (29,197)                 | (6,028,123)                       |
| Infrastructure   | (2,464,283)                       | (165,119)          | -                 | -                        | (2,629,402)                       |
| Total accumulated depreciation                         | <u>(16,502,213)</u>               | <u>(1,102,238)</u> | <u>355,996</u>    | <u>(29,197)</u>          | <u>(17,277,652)</u>               |
| <i>Total assets being depreciated, net</i>             | <u>9,314,087</u>                  | <u>(676,526)</u>   | <u>(3,204)</u>    | <u>3,861,129</u>         | <u>12,495,486</u>                 |
| <b>Governmental activities<br/>capital assets, net</b> | <u>\$ 14,834,894</u>              | <u>\$ 226,775</u>  | <u>\$ (3,204)</u> | <u>\$ -</u>              | <u>\$ 15,058,465</u>              |

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

|  |                     |
|--|---------------------|
| General government                                   | \$ 109,089          |
| Public safety  | 532,498             |
| Transportation                                       | 277,974             |
| Environmental protection                             | 86,148              |
| Cultural and recreational                            | <u>96,529</u>       |
| Total depreciation expense - governmental activities | <u>\$ 1,102,238</u> |

# CITY OF NEWTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

|  | Balances<br>June 30, 2015 | Additions           | Disposals   | Adjust/<br>Trans | Balances<br>June 30, 2016 |
|--|---------------------------|---------------------|-------------|------------------|---------------------------|
| <b>Business-Type Activities:</b>             |                           |                     |             |                  |                           |
| <b>Water and Wastewater Fund:</b>            |                           |                     |             |                  |                           |
| <i>Capital assets not being depreciated:</i> |                           |                     |             |                  |                           |
| Land   | \$ 210,332                | \$ -                | \$ -        | \$ -             | \$ 210,332                |
| Construction in progress                     | 491,952                   | 75,916              | -           | (540,892)        | 26,976                    |
| <i>Total assets not being depreciated:</i>   | <u>702,284</u>            | <u>75,916</u>       | <u>-</u>    | <u>(540,892)</u> | <u>237,308</u>            |
| <i>Capital assets being depreciated:</i>     |                           |                     |             |                  |                           |
| Buildings and improvements                   | 22,979,930                | 33,224              | -           | -                | 23,013,154                |
| Equipment                                    | 1,193,218                 | 16,110              | -           | -                | 1,209,328                 |
| Vehicles                                     | 1,196,724                 | 25,259              | -           | (29,197)         | 1,192,786                 |
| Distribution systems                         | 39,861,368                | 45,841              | -           | 540,892          | 40,448,101                |
| <i>Total assets being depreciated:</i>       | <u>65,231,240</u>         | <u>120,434</u>      | <u>-</u>    | <u>511,695</u>   | <u>65,863,369</u>         |
| Less accumulated depreciation:               |                           |                     |             |                  |                           |
| Building and improvements                    | (16,566,179)              | (590,704)           | -           | -                | (17,156,883)              |
| Equipment                                    | (578,633)                 | (89,908)            | -           | -                | (668,541)                 |
| Vehicles                                     | (681,461)                 | (126,300)           | -           | 29,197           | (778,564)                 |
| Distribution systems                         | (15,708,354)              | (1,183,114)         | -           | -                | (16,891,468)              |
| <i>Total accumulated depreciation</i>        | <u>(33,534,627)</u>       | <u>(1,990,026)</u>  | <u>-</u>    | <u>29,197</u>    | <u>(35,495,456)</u>       |
| <i>Total assets being depreciated, net</i>   | <u>31,696,613</u>         |                     |             |                  | <u>30,367,913</u>         |
| <b>Water and Wastewater Fund</b>             |                           |                     |             |                  |                           |
| <b>capital assets, net</b>                   | <u>32,398,897</u>         |                     |             |                  | <u>30,605,221</u>         |
| <b>Electric Fund:</b>                        |                           |                     |             |                  |                           |
| <i>Capital assets not being depreciated:</i> |                           |                     |             |                  |                           |
| Land   | 5,000                     | -                   | -           | -                | 5,000                     |
| Construction in progress                     | 334,708                   | 3,595,051           | -           | -                | 3,929,759                 |
| <i>Total assets not being depreciated:</i>   | <u>339,708</u>            | <u>3,595,051</u>    | <u>-</u>    | <u>-</u>         | <u>3,934,759</u>          |
| <i>Capital assets being depreciated:</i>     |                           |                     |             |                  |                           |
| Buildings and improvements                   | 375,032                   | -                   | -           | -                | 375,032                   |
| Equipment                                    | 7,960,573                 | 10,005              | -           | -                | 7,970,578                 |
| Vehicles                                     | 942,493                   | 19,157              | -           | -                | 961,650                   |
| Distribution systems                         | 11,847,377                | 58,066              | -           | -                | 11,905,443                |
| <i>Total assets being depreciated:</i>       | <u>21,125,475</u>         | <u>87,228</u>       | <u>-</u>    | <u>-</u>         | <u>21,212,703</u>         |
| Less accumulated depreciation:               |                           |                     |             |                  |                           |
| Building and improvements                    | (151,693)                 | (12,655)            | -           | -                | (164,348)                 |
| Equipment                                    | (5,137,185)               | (263,835)           | -           | -                | (5,401,020)               |
| Vehicles                                     | (599,696)                 | (79,214)            | -           | -                | (678,910)                 |
| Distribution systems                         | (4,082,589)               | (334,540)           | -           | -                | (4,417,129)               |
| <i>Total accumulated depreciation</i>        | <u>(9,971,163)</u>        | <u>\$ (690,244)</u> | <u>\$ -</u> | <u>\$ -</u>      | <u>(10,661,407)</u>       |
| <i>Total assets being depreciated, net</i>   | <u>11,154,312</u>         |                     |             |                  | <u>10,551,296</u>         |
| <b>Electric Fund capital assets, net</b>     | <u>11,494,020</u>         |                     |             |                  | <u>14,486,055</u>         |
| <b>Business-type activities capital</b>      |                           |                     |             |                  |                           |
| <b>assets, net</b>                           | <u>\$ 43,892,917</u>      |                     |             |                  | <u>\$ 45,091,276</u>      |

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2016 is composed of the following elements:

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> |
|---|------------------------------------|-------------------------------------|
| Capital assets                              | \$ 15,058,465                      | \$ 45,091,276                       |
| Long-term debt                              | (8,250,765)                        | (16,762,882)                        |
| Accrued compensated absences, OPEB, and LEO | 1,313,330                          | 270,603                             |
| Unspent debt proceeds                       | <u>285,818</u>                     | <u>243,220</u>                      |
| Net investment in capital assets            | <u>\$ 8,406,848</u>                | <u>\$ 28,842,217</u>                |

#### Construction Commitments

The government has active construction projects as of June 30, 2016. The government's commitments with contractors are as follows:

| <u>Project</u>                          | <u>Spent-to Date</u> | <u>Remaining<br/>Commitment</u> |
|---|----------------------|---------------------------------|
| Governmental activities:                |                      |                                 |
| 800 MHz Radio System                    | \$ 396,449           | \$ 30,834                       |
| Disc Golf Course                        | 22,134               | 916                             |
| Business-type activities:               |                      |                                 |
| Water Rehabilitation Projects           | 26,976               | -                               |
| Catawba County Justice Center expansion | 73,207               | 484,193                         |
| Smart Grid                              | 3,620,572            | 79,428                          |
| Voltage regulators                      | 189,439              | 73,061                          |
| Heavy equipment                         | <u>46,541</u>        | <u>8,659</u>                    |
| Total                                   | <u>\$ 4,375,318</u>  | <u>\$ 677,091</u>               |

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### B. Liabilities

##### Accounts Payable

Payables at the government-wide level at June 30, 2016 were as follows:

|                                  | <u>Vendors</u>      | <u>Salaries and<br/>Benefits</u> | <u>Accrued<br/>Interest</u> | <u>Total</u>        |
|----------------------------------|---------------------|----------------------------------|-----------------------------|---------------------|
| <b>Governmental Activities:</b>  |                     |                                  |                             |                     |
| General                          | \$ 463,470          | \$ 215,592                       | \$ 92,490                   | \$ 771,552          |
| <b>Business-Type Activities:</b> |                     |                                  |                             |                     |
| Water and wastewater             | \$ 66,408           | \$ 43,100                        | \$ 126,638                  | \$ 236,146          |
| Electric                         | 1,122,630           | 20,653                           | 99,539                      | 1,242,822           |
| Total payables                   | <u>\$ 1,189,038</u> | <u>\$ 63,753</u>                 | <u>\$ 226,177</u>           | <u>\$ 1,478,968</u> |

##### Pension Plan Obligations

##### Local Governmental Employees' Retirement System

**Plan Description.** The City is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The 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, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

**Benefits Provided.** LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Newton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Newton's contractually required contribution rate for the year ended June 30, 2016 was 7.15% of compensation for law enforcement officers and 6.77% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Newton were \$522,665 for the year ended June 30, 2016.

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

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2016, the City reported a liability of \$606,906 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing updated procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the City's proportion was 0.135%, which was an decrease of 0.004% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$329,239. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ -                                      | \$ 142,657                               |
| Changes of assumptions  | -   | -  |
| Net difference between projected and actual earnings on pension plan investments                          | -   | 172,783                                  |
| Changes in proportion and differences between City contributions and proportionate share of contributions | -   | 73,332                                   |
| City contributions subsequent to the measurement date   | 522,665                                   | -  |
| Total   | <u>\$ 522,665</u>                         | <u>\$ 388,772</u>                        |

\$522,665 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2017.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending</u><br><u>June 30</u> |                     |
|--------------------------------------|---------------------|
| 2017                                 | \$ (221,492)        |
| 2018                                 | (221,492)           |
| 2019                                 | (221,229)           |
| 2020                                 | 275,441             |
| 2021                                 | -                   |
| Total                                | <u>\$ (388,772)</u> |

**Actuarial Assumptions.** The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital market data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple-year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

| <u>Asset Class</u>   | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate</u> |
|----------------------|--------------------------|-------------------------------------|
| Fixed income         | 29.0%                    | 2.2%                                |
| Global equity        | 42.0%                    | 5.8%                                |
| Real estate          | 8.0%                     | 5.2%                                |
| Alternatives         | 8.0%                     | 9.8%                                |
| Credit               | 7.0%                     | 6.8%                                |
| Inflation protection | 6.0%                     | 3.4%                                |
| Total                | <u>100%</u>              |                                     |

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.** The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the City's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

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**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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|   | 1%<br>Decrease<br>(6.25%) | Discount<br>Rate<br>(7.25%) | 1%<br>Increase<br>(8.25%) |
|---|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability (asset) | <u>\$ 4,232,026</u>       | <u>\$ 606,906</u>           | <u>\$(2,447,181)</u>      |

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

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

|  |    |
|--|----|
| Retirees receiving benefits  | 5  |
| Terminated plan members entitled to, but not yet receiving, benefits | -  |
| Active plan members  | 33 |
| Total  | 38 |

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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 5.00% investment rate of return and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was market value. The remaining amortization period at December 31, 2014 was 16 years.

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

|   |    |                 |
|---|----|-----------------|
| Annual required contribution                  | \$ | 86,845          |
| Interest on net pension obligation            |    | 16,562          |
| Adjustment to annual required contribution    |    | <u>(29,108)</u> |
| Annual pension cost                           |    | 74,299          |
| Contributions made                            |    | <u>(69,528)</u> |
| Increase (decrease) in net pension obligation |    | 4,771           |
| Net pension obligation:                       |    |                 |
| Beginning of year - July 1                    |    | <u>331,239</u>  |
| End of year - June 30                         | \$ | <u>336,010</u>  |

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### Three-Year Trend Information

| <u>Year Ended<br/>June 30</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net Pension<br/>Obligation</u> |
|-------------------------------|--|--|-----------------------------------|
| 2014                          | \$ 56,191                                | 89.53%                                       | \$ 322,452                        |
| 2015                          | 70,602                                   | 87.55%                                       | 331,239                           |
| 2016                          | 74,299                                   | 93.58%                                       | 336,010                           |

#### Funding Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$982,044. The covered payroll (annual payroll of active employees covered by the plan) was \$1,484,503, and the ratio of the UAAL to the covered payroll was 66.15 percent.

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 the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the 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, 2016 were \$82,748, which consisted of \$73,609 from the City and \$9,139 from the law enforcement officers.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### 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 eight retirees can purchase coverage for post-employment health benefits. For the fiscal year ended June 30, 2016, the City made payments for post-retirement health benefit premiums of \$208,918. 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, 2014, the date of the latest actuarial valuation:

|   | <u>General<br/>Employees</u> | <u>Law<br/>Enforcement<br/>Officers</u> |
|---|------------------------------|---|
| Retirees and dependents receiving benefits                              | 8                            | 1                                       |
| Terminated plan members entitled to,<br>but not yet receiving, benefits | -                            | -                                       |
| Active plan members   | <u>67</u>                    | <u>13</u>                               |
| Total   | <u><u>75</u></u>             | <u><u>14</u></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.

The current ARC rate is 2.56% of annual covered payroll. For the current year, the City contributed \$126,136, or 3.79%, 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 1.7% and 0.2% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$8,986. Retirees are responsible for the difference between the amount charged for an active

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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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                | \$ | 85,116           |
| Interest on net OPEB obligation             |    | 2,771            |
| Adjustments to annual required contribution |    | <u>(3,852)</u>   |
| Annual OPEB cost (expense)                  |    | 84,035           |
| Contributions made                          |    | <u>(126,136)</u> |
| Increase (decrease) in net OPEB obligation  |    | (42,101)         |
| Net OPEB obligation:                        |    |                  |
| Beginning of year - July 1                  |    | <u>69,265</u>    |
| End of year - June 30                       | \$ | <u>27,164</u>    |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 were as follows:

| Year Ended<br>June 30 | Annual<br>OPEB Cost | Percentage of<br>Annual OPEB<br>Cost Contributed | Net OPEB<br>Obligation |
|-----------------------|---------------------|--|------------------------|
| 2014                  | \$ 111,872          | 93.1%  | \$ 186,401             |
| 2015                  | 91,782              | 227.6%   | 69,265                 |
| 2016                  | 84,035              | 150.1%   | 27,164                 |

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### **Funding Status and Funding Progress**

As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$957,931. The covered payroll (annual payroll of active employees covered by the plan) was \$3,327,307, and the ratio of the UAAL to the covered payroll was 28.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial accrued liabilities for benefits.

#### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% 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 7.5 to 5.00% annually. Both rates included a 3.00% 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, 2014 was 30 years.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### Deferred Outflows and Inflows of Resources

The City has one deferred outflow of resources. Deferred outflows of resources are comprised of the following:

| <u>Source</u>  | <u>Amount</u> |
|--|---------------|
| Contributions to pension plan in current fiscal year | \$ 522,665    |

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

| <u>Source</u>  | <u>Amount</u>     |
|--|-------------------|
| Prepaid taxes (General Fund)   | \$ 1,822          |
| Taxes receivable, (net) (General Fund)   | 531,953           |
| Differences between expected and actual experience   | 142,657           |
| Net difference between projected and actual earnings<br>on pension plan investments                              | 172,783           |
| Changes in proportion and differences between employer<br>contributions and proportionate share of contributions | 73,332            |
| Total  | <u>\$ 922,547</u> |

#### 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; and commercial inland marine of \$1,558,631. 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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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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.

#### **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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### Claims, Judgments, and Contingent Liabilities

At June 30, 2016, 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.

#### 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 \$126,610 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>2016</u>        | <u>2015</u>        |
|-------------------------------------|--------------------|--------------------|
| Claims liability, beginning of year | \$ 269,491         | \$ 176,464         |
| Claims incurred                     | 1,129,004          | 1,273,145          |
| Payments on claims                  | <u>(1,182,213)</u> | <u>(1,180,118)</u> |
| Claims liability, end of year       | <u>\$ 216,282</u>  | <u>\$ 269,491</u>  |

**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**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.

Loans payable at June 30, 2016 are comprised of the following:

|   | Serviced by:    |                                 |                  |
|---|-----------------|---------------------------------|------------------|
|   | General<br>Fund | Water and<br>Wastewater<br>Fund | Electric<br>Fund |
| \$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         | \$ 52,964       | \$ 39,722                       | \$ -             |
| \$213,393, 2006, Balls Creek Sewer non-interest loan payable to Catawba County, due in annual installments of \$16,908 through January 2017                       | -               | 16,908                          | -                |
| \$131,000, 2008, 3.69% loan to bank in annual installments of \$15,903 for a vehicle, due in 2017   | 30,128          | -                               | -                |
| \$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                      | 15,664          | -                               | 22,167           |
| \$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                          | -               | 683,353                         | -                |
| \$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 | 71,428          | -                               | -                |
| \$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         | 94,793          | 78,312                          | -                |

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**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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|  | Serviced by:    |                                 |                  |
|--|-----------------|---------------------------------|------------------|
|  | General<br>Fund | Water and<br>Wastewater<br>Fund | Electric<br>Fund |
| \$370,000, 2005, 3.97% loan payable to bank in annual installments of \$33,208 for fire truck, due in 2019   | 120,628         | -                               | -                |
| \$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                                     | -               | 726,095                         | -                |
| \$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                     | 441,574         | 264,983                         | 40,347           |
| \$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                        | 163,800         | -                               | -                |
| \$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                                     | -               | 802,890                         | -                |
| \$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                      | -               | -                               | 118,497          |
| \$388,359, 2015, 1.60% loan payable to bank in annual installments of a fixed payment of \$77,672, plus interest, for vehicle and equipment, due in 2020                         | 310,687         | -                               | -                |
| \$108,200, 2015, 1.71% loan payable to bank in annual installments of a fixed payment of \$21,640, plus interest, for vehicles, due in 2020                                      | 53,400          | -                               | 54,800           |
| \$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 | 287,785         | 227,115                         | 1,354,742        |

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**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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|   | Serviced by:    |                                 |                  |
|---|-----------------|---------------------------------|------------------|
|   | General<br>Fund | Water and<br>Wastewater<br>Fund | Electric<br>Fund |
| \$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   | 303,800         | -                               | -                |
| \$626,100, 2015, 1.97% loan to bank in annual installments of a fixed payment of \$89,443, plus interest, for vehicles, due in 2022   | 201,700         | -                               | 424,400          |
| \$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 | 186,627         | 901,270                         | 1,546,769        |
| \$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   | 232,000         | -                               | -                |
| \$896,033, 2015, 2.37% loan payable to bank in annual installments of a fixed payment of \$89,603, plus interest, for police radio communication system and a fire tanker, due in 2025                              | 806,430         | -                               | -                |
| \$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         | -               | 1,868,057                       | 519,842          |
| \$403,790, 2013, 2.60% loan payable to bank in annual installments of a fixed payment of \$26,919, plus interest, for street and water capital improvements, due in 2028  | 165,360         | 157,672                         | -                |

**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

|   | Serviced by:        |                                 |                    |
|---|---------------------|---------------------------------|--------------------|
|   | General<br>Fund     | Water and<br>Wastewater<br>Fund | Electric<br>Fund   |
| \$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 | -                   | 586,764                         | 485,448            |
| \$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           | 2,998,667           | -                               | -                  |
| \$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                     | -                   | 339,907                         | 173,333            |
| \$3,940,000, 2015, 2.78% loan payable to bank in annual installments of a fixed payment of \$262,667 plus interest for water and electric smart grid AMI metering system due in 2029        | -                   | 2,277,333                       | 1,400,000          |
| \$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                        | -                   | 393,885                         | -                  |
| \$400,000, 2016, 2.90% loan payable to the bank annual installments of a fixed payment of \$26,667 plus interest for stormwater infrastructure due in 2031                                  | 400,000             | -                               | -                  |
| \$1,097,409, 2014, 2.00% loan payable to the State in annual installments of a fixed payment of \$54,870 plus interest for wastewater capital improvements due in 2034                      | -                   | 987,668                         | -                  |
| Total   | <u>\$ 6,937,435</u> | <u>\$10,351,934</u>             | <u>\$6,140,345</u> |

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**CITY OF NEWTON, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

| Year Ended<br><u>June 30</u>      | <u>Loans Payable</u> |                    |
|-----------------------------------|----------------------|--------------------|
|                                   | <u>Principal</u>     | <u>Interest</u>    |
| <b>Governmental Activities:</b>   |                      |                    |
| 2017                              | \$ 1,014,601         | \$ 182,601         |
| 2018                              | 948,969              | 158,676            |
| 2019                              | 853,057              | 135,510            |
| 2020                              | 653,887              | 114,511            |
| 2021                              | 545,718              | 97,112             |
| 2022-2026                         | 2,068,309            | 278,741            |
| 2027-2031                         | 852,894              | 53,117             |
| 2032-2036                         | -                    | -                  |
| Total Governmental activities     | <u>6,937,435</u>     | <u>1,020,268</u>   |
| <b>Business-Type Activities:</b>  |                      |                    |
| <b>Water and Wastewater Fund:</b> |                      |                    |
| 2017                              | 1,423,206            | 278,754            |
| 2018                              | 1,383,219            | 241,945            |
| 2019                              | 1,361,150            | 205,289            |
| 2020                              | 1,050,682            | 168,788            |
| 2021                              | 654,266              | 139,713            |
| 2022-2026                         | 2,886,150            | 432,232            |
| 2027-2031                         | 1,428,650            | 101,544            |
| 2032-2036                         | 164,611              | 6,584              |
| Total Water and Wastewater        | <u>10,351,934</u>    | <u>1,574,849</u>   |
| <b>Electric Fund:</b>             |                      |                    |
| 2017                              | 740,791              | 172,619            |
| 2018                              | 724,849              | 151,999            |
| 2019                              | 731,259              | 131,885            |
| 2020                              | 724,410              | 111,579            |
| 2021                              | 701,582              | 91,335             |
| 2022-2026                         | 1,949,289            | 210,362            |
| 2027-2031                         | 568,165              | 34,729             |
| 2032-2036                         | -                    | -                  |
| Total Electric Fund               | <u>6,140,345</u>     | <u>904,508</u>     |
| Total business-type activities    | <u>16,492,279</u>    | <u>2,479,357</u>   |
| Total all activities              | <u>\$23,429,714</u>  | <u>\$3,499,625</u> |

At June 30, 2016, the City of Newton had a legal debt margin of \$59,284,868.

# CITY OF NEWTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Changes in Long-Term Liabilities

The following is a summary of changes in long-term debt for the year ended June 30, 2016.

|                                     | <u>July 1, 2015</u>  | <u>Increases</u>    | <u>Decreases</u>    | <u>June 30, 2016</u> | <u>Portion of<br/>Balance</u> |
|-------------------------------------|----------------------|---------------------|---------------------|----------------------|-------------------------------|
| <b>Governmental Activities:</b>     |                      |                     |                     |                      |                               |
| Loans payable                       | \$ 7,346,731         | \$ 655,100          | \$ 1,064,396        | \$ 6,937,435         | \$ 1,014,601                  |
| Compensated absences                | 475,430              | 398,633             | 378,441             | 495,622              | 344,838                       |
| Other post-employment benefits      | 52,143               | 63,262              | 94,956              | 20,449               | -                             |
| Net pension liability (LGERS)       | -                    | 461,249             | -                   | 461,249              | -                             |
| Net pension benefit obligation(LEO) | 331,239              | 74,299              | 69,528              | 336,010              | -                             |
| Total governmental activities       | <u>\$ 8,205,543</u>  | <u>\$ 1,652,543</u> | <u>\$ 1,607,321</u> | <u>\$ 8,250,765</u>  | <u>\$ 1,359,439</u>           |
| <b>Business-Type Activities:</b>    |                      |                     |                     |                      |                               |
| <b>Water and Wastewater Fund:</b>   |                      |                     |                     |                      |                               |
| Loans payable                       | \$ 11,772,526        | \$ -                | \$ 1,420,592        | \$ 10,351,934        | \$ 1,423,206                  |
| Compensated absences                | 73,860               | 84,442              | 76,324              | 81,978               | 81,978                        |
| Other post-employment benefits      | 12,454               | 15,109              | 22,679              | 4,884                | -                             |
| Net pension liability (LGERS)       | -                    | 97,105              | -                   | 97,105               | -                             |
| Total Water and Wastewater Fund     | <u>11,858,840</u>    | <u>196,656</u>      | <u>1,519,595</u>    | <u>10,535,901</u>    | <u>1,505,184</u>              |
| <b>Electric Fund:</b>               |                      |                     |                     |                      |                               |
| Loans payable                       | 6,387,913            | 479,200             | 726,768             | 6,140,345            | 740,791                       |
| Compensated absences                | 30,169               | 43,059              | 36,975              | 36,253               | 35,412                        |
| Other post-employment benefits      | 4,668                | 5,664               | 8,501               | 1,831                | -                             |
| Net pension liability (LGERS)       | -                    | 48,552              | -                   | 48,552               | -                             |
| Total Electric Fund                 | <u>6,422,750</u>     | <u>576,475</u>      | <u>772,244</u>      | <u>6,226,981</u>     | <u>776,203</u>                |
| Total business-type activities      | <u>\$ 18,281,590</u> | <u>\$ 773,131</u>   | <u>\$ 2,291,839</u> | <u>\$ 16,762,882</u> | <u>\$ 2,281,387</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 | <u>\$ 7,962</u> |
|-------------------------------|-----------------|

Due from governmental activities for Internal Service Fund activity  
allocation to business-type activities

|                   |
|-------------------|
| <u>\$ 310,271</u> |
|-------------------|

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.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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Transfers to/from other funds at June 30, 2016 consist of the following:

|   |                  |
|---|------------------|
| From the General Fund to the General Capital Projects<br>Fund for capital project expenditures      | \$ 2,785         |
| From the General Capital Projects Fund to the General<br>Fund for return of unspent project funding | <u>26,628</u>    |
| Total   | <u>\$ 29,413</u> |

Transfers are used to move unrestricted 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.

#### D. Revenues, Expenditures, and Expenses

##### On-Behalf Payments for Fringe Benefits and Salaries

The City has recognized as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$10,936 for the salary supplement and stipend benefits paid to eligible firefighters by the local Board of Trustees of the Firefighters' Relief Fund during the fiscal year ended June 30, 2016. 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.

#### 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, 2016 was \$10,615,919.

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## CITY OF NEWTON, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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#### **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, 2016.

#### **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 \$15,242 during fiscal year ended June 30, 2016.

#### **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 \$31,627 to WPRTA during fiscal year ended June 30, 2016.

#### **4. 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

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This section contains additional information required by generally accepted accounting principles

- Schedule of Funding Progress 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
  - Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
  - Schedule of Contributions for Local Government Employees' Retirement System
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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, 2016**

**Schedule of Funding Progress**

| <b>Actuarial Valuation Date</b> | <b>Actuarial Value of Assets (A)</b> | <b>Actuarial Liability (AAL) Projected Unit Credit (B)</b> | <b>Unfunded AAL (UAAL) (B-A)</b> | <b>Funded Ratio (A/B)</b> | <b>Covered Payroll (C)</b> | <b>UAAL as a % of Covered Payroll ((B-A)/C)</b> |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|---|
| 12/31/2015                      | \$ -                                 | \$ 982,044   | \$ 982,044                       | 0.00%                     | \$ 1,484,503               | 66.15%  |
| 12/31/2014                      | -                                    | 651,562  | 651,562                          | 0.00%                     | 1,459,460                  | 44.64%  |
| 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%  |

**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, 2015   |
| Actuarial cost method         | Entry Age Normal    |
| Amortization method           | Level dollar closed |
| Remaining amortization period | 15 years            |
| Asset valuation method        | Market value        |
| Actuarial assumptions:        |                     |
| Investment rate of return*    | 3.57%               |
| Projected salary increases*   | 3.5% to 7.35%       |
| *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, 2016**

**Schedule of Funding Progress**

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(A)</b> | <b>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>Projected Unit<br/>Credit<br/>(B)</b> | <b>Unfunded<br/>AAL (UAAL)<br/>(B-A)</b> | <b>Funded<br/>Ratio<br/>(A/B)</b> | <b>Covered<br/>Payroll<br/>(C)</b> | <b>UAAL as a<br/>% of Covered<br/>Payroll<br/>((B-A)/C)</b> |
|---|--|--|--|-----------------------------------|------------------------------------|---|
| 12/31/2014                              | \$ -   | \$ 957,931   | \$ 957,931                               | 0.00%                             | \$ 3,327,307                       | 28.79%  |
| 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%  |
| 12/31/2007                              | -  | 2,408,866  | 2,408,866                                | 0.00%                             | 6,077,871                          | 39.63%  |

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**

| <b>Year Ended<br/>June 30</b> | <b>Annual<br/>Required<br/>Contribution<br/>(ARC)</b> | <b>Percentage<br/>of ARC<br/>Contributed</b> |
|-------------------------------|---|--|
| 2016                          | \$ 85,116   | 148.19%                                      |
| 2015                          | 94,691  | 220.63%                                      |
| 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%                                       |

**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, 2014         |
| Actuarial cost method         | Projected unit credit     |
| Amortization method           | Level dollar amount, open |
| Remaining amortization period | 30 years                  |
| Amortization factor           | 17.9837                   |
| Asset valuation method        | Market value of assets    |
| Actuarial assumptions         |                           |
| Investment rate of return*    | 4.00%                     |
| Medical trend assumptions     |                           |
| Pre-Medicare trend rate       | 7.50% - 5.00%             |
| Year of ultimate trend rate   | 2020                      |
| * Includes inflation at 3.00% |                           |

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**CITY OF NEWTON, NORTH CAROLINA**

Schedule A-3

**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
LAST THREE FISCAL YEARS\***

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|   | <u>2016</u>  | <u>2015</u>  | <u>2014</u>  |
|---|--------------|--------------|--------------|
| Proportion of the net pension liability (asset) (%)   | 0.13523%     | 0.13913%     | 0.13720%     |
| Proportion of the net pension liability (asset) (\$)  | \$ 606,906   | \$ (820,513) | \$ 1,653,787 |
| Covered-employee payroll  | \$ 7,169,996 | \$ 7,082,583 | \$ 6,704,520 |
| Proportionate share of the net pension liability (asset)<br>as a percentage of its covered-employee payroll | 8.46%        | -11.58%      | 24.67%       |
| Plan fiduciary net position as a percentage of the total<br>pension liability**                             | 98.09%       | 102.64%      | 94.35%       |

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

\*\* This will be the same percentage for all participant employers in the LGERS plan.

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CITY OF NEWTON, NORTH CAROLINA

Schedule A-4

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
CONTRIBUTIONS  
LAST THREE FISCAL YEARS

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|  | <u>2016</u>    | <u>2015</u>    | <u>2014</u>    |
|--|----------------|----------------|----------------|
| Contractually required contribution                                  | \$ 522,665     | \$ 530,698     | \$ 503,617     |
| Contributions in relation to the contractually required contribution | <u>522,665</u> | <u>530,698</u> | <u>503,617</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    |
| Covered-employee payroll   | \$ 7,564,686   | \$ 7,169,996   | \$ 7,082,583   |
| Contributions as a percentage of covered-employee payroll            | 6.91%          | 7.40%          | 7.11%          |

# GOVERNMENTAL ACTIVITIES MAJOR FUNDS

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## 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.

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**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, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015**

|   | 2016              |                   |                        | 2015<br>Actual    |
|---|-------------------|-------------------|------------------------|-------------------|
|   | Final<br>Budget   | Actual            | Variance<br>Over/Under |                   |
| <b>Revenues:</b>                                |                   |                   |                        |                   |
| <b>Ad Valorem Taxes:</b>                        |                   |                   |                        |                   |
| Current year                                    | \$ 5,273,150      | \$ 5,467,059      | \$ 193,909             | \$ 5,538,243      |
| Prior years                                     | 150,000           | 144,898           | (5,102)                | 222,959           |
| Penalties and interest                          | 45,000            | 49,779            | 4,779                  | 59,677            |
| Total   | <u>5,468,150</u>  | <u>5,661,736</u>  | <u>193,586</u>         | <u>5,820,879</u>  |
| <b>Other Taxes and Licenses:</b>                |                   |                   |                        |                   |
| Local option sales tax                          | 2,956,700         | 3,111,139         | 154,439                | 2,917,919         |
| Solid waste disposal tax                        | 8,000             | 8,437             | 437                    | 8,409             |
| Other taxes and licenses                        | 8,000             | 12,906            | 4,906                  | 9,842             |
| Rural fire district tax                         | 458,550           | 460,520           | 1,970                  | 438,068           |
| Total   | <u>3,431,250</u>  | <u>3,593,002</u>  | <u>161,752</u>         | <u>3,374,238</u>  |
| <b>Unrestricted Intergovernmental Revenues:</b> |                   |                   |                        |                   |
| Payments in lieu of taxes                       | 438,900           | 438,900           | -                      | 399,250           |
| Utilities sales tax                             | 894,500           | 971,859           | 77,359                 | 935,345           |
| Beer and wine tax                               | 58,400            | 57,266            | (1,134)                | 62,150            |
| Total   | <u>1,391,800</u>  | <u>1,468,025</u>  | <u>76,225</u>          | <u>1,396,745</u>  |
| <b>Restricted Intergovernmental Revenues:</b>   |                   |                   |                        |                   |
| Federal grants                                  | 111,150           | 152,794           | 41,644                 | 86,411            |
| Federal asset seizure allocation                | -                 | 6,092             | 6,092                  | 2,160             |
| Other   | -                 | 5,571             | 5,571                  | 2,178             |
| On-behalf payments - fire                       | 25,000            | 10,936            | (14,064)               | 9,646             |
| Powell Bill State street aid allocation         | 395,650           | 390,092           | (5,558)                | 393,650           |
| Total   | <u>531,800</u>    | <u>565,485</u>    | <u>33,685</u>          | <u>494,045</u>    |
| <b>Permits and Fees:</b>                        |                   |                   |                        |                   |
| Licenses  | 400               | 90                | (310)                  | 260               |
| Local franchise - cable tv                      | 78,000            | 73,972            | (4,028)                | 77,361            |
| Total   | <u>78,400</u>     | <u>74,062</u>     | <u>(4,338)</u>         | <u>77,621</u>     |
| <b>Sales and Services:</b>                      |                   |                   |                        |                   |
| Supportive court services                       | 5,000             | 3,501             | (1,499)                | 3,713             |
| Refuse collection fees                          | 853,200           | 859,531           | 6,331                  | 859,618           |
| Recreation fees and concessions                 | 58,000            | 54,521            | (3,479)                | 51,611            |
| Other   | 47,000            | 56,592            | 9,592                  | 72,292            |
| Total   | <u>963,200</u>    | <u>974,145</u>    | <u>10,945</u>          | <u>987,234</u>    |
| <b>Investment Earnings</b>                      | <u>10,750</u>     | <u>31,649</u>     | <u>20,899</u>          | <u>14,160</u>     |
| <b>Miscellaneous:</b>                           |                   |                   |                        |                   |
| Rentals and sale of property                    | 56,750            | 71,356            | 14,606                 | 67,735            |
| Other   | 95,150            | 147,743           | 52,593                 | 430,853           |
| Total   | <u>151,900</u>    | <u>219,099</u>    | <u>67,199</u>          | <u>498,588</u>    |
| Total revenues                                  | <u>12,027,250</u> | <u>12,587,203</u> | <u>559,953</u>         | <u>12,663,510</u> |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 1  
Page 2 of 5

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015**

|                                | 2016            |                | 2015<br>Actual |
|--------------------------------|-----------------|----------------|----------------|
|                                | Final<br>Budget | Actual         |                |
| <b>Expenditures:</b>           |                 |                |                |
| <b>General Government:</b>     |                 |                |                |
| <b>Governing Body:</b>         |                 |                |                |
| Salaries and employee benefits | 40,400          | 40,086         | 40,420         |
| Other operating expenditures   | 27,950          | 23,848         | 12,423         |
| Interdepartmental charges      | (49,800)        | (49,800)       | (42,550)       |
| <b>Total</b>                   | <b>18,550</b>   | <b>14,134</b>  | <b>10,293</b>  |
| <b>Administration:</b>         |                 |                |                |
| Salaries and employee benefits | 391,650         | 383,746        | 352,715        |
| Other operating expenditures   | 150,850         | 131,938        | 114,393        |
| Interdepartmental charges      | (314,000)       | (314,000)      | (304,300)      |
| <b>Total</b>                   | <b>228,500</b>  | <b>201,684</b> | <b>162,808</b> |
| <b>Finance:</b>                |                 |                |                |
| Salaries and employee benefits | 488,450         | 475,504        | 460,654        |
| Other operating expenditures   | 222,950         | 193,636        | 206,263        |
| Interdepartmental charges      | (588,200)       | (588,200)      | (555,750)      |
| <b>Total</b>                   | <b>123,200</b>  | <b>80,940</b>  | <b>111,167</b> |
| <b>Purchasing/Warehouse:</b>   |                 |                |                |
| Salaries and employee benefits | 111,950         | 110,511        | 109,374        |
| Other operating expenditures   | 14,750          | 7,919          | 13,211         |
| Interdepartmental charges      | (105,900)       | (105,900)      | (108,850)      |
| <b>Total</b>                   | <b>20,800</b>   | <b>12,530</b>  | <b>13,735</b>  |
| <b>Technology/MIS:</b>         |                 |                |                |
| Salaries and employee benefits | 141,200         | 118,021        | 126,049        |
| Other operating expenditures   | 180,950         | 153,208        | 136,800        |
| Capital outlay                 | 15,100          | 15,097         | 99,270         |
| Interdepartmental charges      | (188,600)       | (188,600)      | (181,750)      |
| <b>Total</b>                   | <b>148,650</b>  | <b>97,726</b>  | <b>180,369</b> |
| <b>Human Resources:</b>        |                 |                |                |
| Salaries and employee benefits | 304,250         | 301,135        | 263,156        |
| Other operating expenditures   | 173,200         | 156,153        | 150,654        |
| Interdepartmental charges      | (78,050)        | (78,050)       | (82,950)       |
| <b>Total</b>                   | <b>399,400</b>  | <b>379,238</b> | <b>330,860</b> |
| <b>Planning:</b>               |                 |                |                |
| Salaries and employee benefits | 232,550         | 219,228        | 178,343        |
| Other operating expenditures   | 186,650         | 87,205         | 160,054        |
| Capital outlay                 | -               | -              | 4,500          |
| Interdepartmental charges      | (53,700)        | (53,700)       | (45,600)       |
| <b>Total</b>                   | <b>365,500</b>  | <b>252,733</b> | <b>297,297</b> |
| <b>Municipal Building:</b>     |                 |                |                |
| Other operating expenditures   | 135,350         | 125,834        | 141,109        |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 1  
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**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015**

|                                     | 2016             |                  | 2015<br>Actual   |
|-------------------------------------|------------------|------------------|------------------|
|                                     | Final<br>Budget  | Actual           |                  |
| <b>Public Works Administration:</b> |                  |                  |                  |
| Salaries and employee benefits      | 157,050          | 154,900          | 162,466          |
| Other operating expenditures        | 76,450           | 63,566           | 60,608           |
| Interdepartmental charges           | (151,150)        | (151,150)        | (159,050)        |
| Total                               | <u>82,350</u>    | <u>67,316</u>    | <u>64,024</u>    |
| <b>Garage:</b>                      |                  |                  |                  |
| Salaries and employee benefits      | 113,900          | 111,850          | 110,767          |
| Other operating expenditures        | 54,350           | 46,600           | 51,624           |
| Interdepartmental charges           | (55,800)         | (55,800)         | (55,750)         |
| Total                               | <u>112,450</u>   | <u>102,650</u>   | <u>106,641</u>   |
| <b>Downtown Public Parking:</b>     |                  |                  |                  |
| Other operating expenditures        | 9,250            | 7,136            | 6,023            |
| Capital outlay                      | 99,900           | 99,266           | -                |
| Total                               | <u>109,150</u>   | <u>106,402</u>   | <u>6,023</u>     |
| Total general government            | <u>1,743,900</u> | <u>1,441,187</u> | <u>1,424,326</u> |
| <b>Transportation:</b>              |                  |                  |                  |
| <b>Streets:</b>                     |                  |                  |                  |
| Salaries and employee benefits      | 306,500          | 295,414          | 298,702          |
| Other operating expenditures        | 212,050          | 192,177          | 128,364          |
| Capital outlay                      | 48,000           | 41,172           | 313,382          |
| Total                               | <u>566,550</u>   | <u>528,763</u>   | <u>740,448</u>   |
| <b>Powell Bill:</b>                 |                  |                  |                  |
| Salaries and employee benefits      | 145,050          | 138,685          | 138,400          |
| Other operating expenditures        | 556,000          | 449,460          | 326,284          |
| Total                               | <u>701,050</u>   | <u>588,145</u>   | <u>464,684</u>   |
| Total transportation                | <u>1,267,600</u> | <u>1,116,908</u> | <u>1,205,132</u> |
| <b>Environmental Protection:</b>    |                  |                  |                  |
| <b>Sanitation:</b>                  |                  |                  |                  |
| Salaries and employee benefits      | 650,050          | 622,954          | 615,772          |
| Other operating expenditures        | 393,250          | 388,645          | 371,521          |
| Capital outlay                      | 256,150          | 53,456           | -                |
| Total environmental protection      | <u>1,299,450</u> | <u>1,065,055</u> | <u>987,293</u>   |
| <b>Public Safety:</b>               |                  |                  |                  |
| <b>Police Department:</b>           |                  |                  |                  |
| Salaries and employee benefits      | 2,613,000        | 2,495,942        | 2,547,083        |
| Other operating expenditures        | 511,450          | 432,192          | 439,141          |
| Capital outlay                      | 196,850          | 161,760          | 463,160          |
| Interdepartmental charges           | (2,400)          | (2,400)          | (2,550)          |
| Total                               | <u>3,318,900</u> | <u>3,087,494</u> | <u>3,446,834</u> |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 1  
Page 4 of 5

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015**

|   | 2016            |            | 2015<br>Actual |
|---|-----------------|------------|----------------|
|   | Final<br>Budget | Actual     |                |
| <b>Fire Department:</b>                               |                 |            |                |
| Salaries and employee benefits                        | 1,997,450       | 1,945,472  | 1,770,772      |
| Other operating expenditures                          | 414,150         | 370,505    | 445,704        |
| Capital outlay  | 475,450         | 469,796    | 384,938        |
| Interdepartmental charges                             | (107,400)       | (107,400)  | (113,450)      |
| Total   | 2,779,650       | 2,678,373  | 2,487,964      |
| Total public safety                                   | 6,098,550       | 5,765,867  | 5,934,798      |
| <b>Cultural and Recreational:<br/>Administration:</b> |                 |            |                |
| Salaries and employee benefits                        | 594,400         | 579,537    | 586,528        |
| Other operating expenditures                          | 203,900         | 172,316    | 158,756        |
| Capital outlay  | 82,100          | 78,601     | 44,580         |
| Total   | 880,400         | 830,454    | 789,864        |
| <b>Central Recreation Center:</b>                     |                 |            |                |
| Salaries and employee benefits                        | 26,950          | 20,376     | 21,633         |
| Other operating expenditures                          | 39,650          | 32,746     | 35,489         |
| Total   | 66,600          | 53,122     | 57,122         |
| <b>Swimming Pool:</b>                                 |                 |            |                |
| Salaries and employee benefits                        | 37,250          | 37,653     | 29,829         |
| Other operating expenditures                          | 34,550          | 29,264     | 30,920         |
| Total   | 71,800          | 66,917     | 60,749         |
| <b>Parks:</b>   |                 |            |                |
| Salaries and employee benefits                        | 58,500          | 44,325     | 48,072         |
| Other operating expenditures                          | 81,400          | 73,220     | 77,460         |
| Capital outlay  | 23,050          | 22,134     | 59,997         |
| Total   | 162,950         | 139,679    | 185,529        |
| <b>Cemeteries:</b>                                    |                 |            |                |
| Salaries and employee benefits                        | 171,950         | 166,371    | 164,541        |
| Other operating expenditures                          | 25,000          | 22,088     | 21,019         |
| Capital outlay  | -               | -          | 8,249          |
| Total   | 196,950         | 188,459    | 193,809        |
| <b>Special Appropriations:</b>                        |                 |            |                |
| Other operating expenditures                          | 261,450         | 252,961    | 318,603        |
| Total cultural and recreational                       | 1,640,150       | 1,531,592  | 1,605,676      |
| <b>Debt Service:</b>                                  |                 |            |                |
| Principal paid on installment purchase                | 1,064,700       | 1,064,396  | 1,086,464      |
| Interest and fees                                     | 192,850         | 192,638    | 193,809        |
| Total debt service                                    | 1,257,550       | 1,257,034  | 1,280,273      |
| Total expenditures                                    | 13,307,200      | 12,177,643 | 12,437,498     |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 1  
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**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015**

|  | <u>2016</u>             |                     |                                |                        |
|--|-------------------------|---------------------|--------------------------------|------------------------|
|  | <u>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Over/Under</u> | <u>2015<br/>Actual</u> |
| Revenues over (under) expenditures           | (1,279,950)             | 409,560             | 1,689,510                      | 226,012                |
| <b>Other Financing Sources (Uses):</b>       |                         |                     |                                |                        |
| Issuance of debt                             | 255,650                 | 255,100             | (550)                          | 1,284,392              |
| Transfers from General Capital Projects Fund | 26,650                  | 26,628              | (22)                           | -                      |
| Transfers to General Capital Projects Fund   | (2,800)                 | (2,785)             | 15                             | -                      |
| Appropriated fund balance                    | 1,000,450               | -                   | (1,000,450)                    | -                      |
| Total other financing sources (uses)         | <u>1,279,950</u>        | <u>278,943</u>      | <u>(1,001,007)</u>             | <u>1,284,392</u>       |
| Net change in fund balance                   | <u>\$ -</u>             | 688,503             | <u>\$ 688,503</u>              | <u>\$ 1,510,404</u>    |
| <b>Fund Balance:</b>                         |                         |                     |                                |                        |
| Beginning of year - July 1                   |                         | <u>7,932,593</u>    |                                |                        |
| End of year - June 30                        |                         | <u>\$ 8,621,096</u> |                                |                        |



# GOVERNMENTAL ACTIVITIES NONMAJOR FUNDS

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## 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.

*Emergency Telephone System Fund* - Established in accordance with North Carolina law to account for the revenues received by the Communication Center for the 911 charges and the expenditure of those funds for the emergency telephone systems.

## 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.

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**CITY OF NEWTON, NORTH CAROLINA**

Schedule 2

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016**

|  | Special<br>Revenue<br>Funds             |  | Capital<br>Project<br>Fund             |  |
|--|---|--|--|--|
|  | Special<br>Revenue<br>Fund -<br>General | Emergency<br>Telephone<br>System<br>Fund | General<br>Capital<br>Projects<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
| <b>Assets:</b>                                 |   |  |  |  |
| Current assets:                                |   |  |  |  |
| Cash and investments                           | \$ 6,763                                | \$ 2,277                                 | \$ -                                   | \$ 9,040                                   |
| Due from other governments                     | -                                       | 1,412                                    | 8,204                                  | 9,616                                      |
| Prepays  | -                                       | 10,693                                   | -                                      | 10,693                                     |
| Total assets                                   | \$ 6,763                                | \$ 14,382                                | \$ 8,204                               | \$ 29,349                                  |
| <b>Liabilities and Fund Balances:</b>          |   |  |  |  |
| <b>Liabilities:</b>                            |   |  |  |  |
| Due to other funds                             | \$ -                                    | \$ -                                     | \$ 7,962                               | \$ 7,962                                   |
| <b>Fund Balances:</b>                          |   |  |  |  |
| Non-spendable - prepaids                       | -                                       | 10,693                                   | -                                      | 10,693                                     |
| Restricted - stabilization<br>by State statute | -                                       | 1,412                                    | 8,204                                  | 9,616                                      |
| Restricted                                     | 6,763                                   | 2,277                                    | -                                      | 9,040                                      |
| Unassigned                                     | -                                       | -  | (7,962)                                | (7,962)                                    |
| Total fund balances                            | 6,763                                   | 14,382                                   | 242                                    | 21,387                                     |
| Total liabilities and fund balances            | \$ 6,763                                | \$ 14,382                                | \$ 8,204                               | \$ 29,349                                  |

**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, 2016**

|  | Special Revenue Funds          |                                 | Capital Project Fund          | Total Nonmajor Governmental Funds |
|--|--------------------------------|---------------------------------|-------------------------------|-----------------------------------|
|  | Special Revenue Fund - General | Emergency Telephone System Fund | General Capital Projects Fund |                                   |
| <b>Revenues:</b>                       |                                |                                 |                               |                                   |
| Restricted intergovernmental           | \$ -                           | \$ 10,544                       | \$ -                          | \$ 10,544                         |
| Interest earned                        | -                              | 34                              | 3                             | 37                                |
| Total revenues                         | -                              | 10,578                          | 3                             | 10,581                            |
| <b>Expenditures:</b>                   |                                |                                 |                               |                                   |
| Current:                               |                                |                                 |                               |                                   |
| Public safety                          | -                              | 8,014                           | -                             | 8,014                             |
| Capital outlay                         | -                              | -                               | 387,731                       | 387,731                           |
| Total expenditures                     | -                              | 8,014                           | 387,731                       | 395,745                           |
| Revenues over (under) expenditures     | -                              | 2,564                           | (387,728)                     | (385,164)                         |
| <b>Other Financing Sources (Uses):</b> |                                |                                 |                               |                                   |
| Issuance of long-term debt             | -                              | -                               | 400,000                       | 400,000                           |
| Transfers from other funds             | -                              | -                               | 2,785                         | 2,785                             |
| Transfers to other funds               | -                              | -                               | (26,628)                      | (26,628)                          |
| Total other financing sources (uses)   | -                              | -                               | 376,157                       | 376,157                           |
| Net change in fund balances            | -                              | 2,564                           | (11,571)                      | (9,007)                           |
| <b>Fund Balances:</b>                  |                                |                                 |                               |                                   |
| Beginning of year - July 1             | 6,763                          | 11,818                          | 11,813                        | 30,394                            |
| End of year - June 30                  | \$ 6,763                       | \$ 14,382                       | \$ 242                        | \$ 21,387                         |

**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, 2016**

|                                      | <u>Project<br/>Authorization</u> | <u>Prior<br/>Years</u> | <u>Actual<br/>Current<br/>Year</u> | <u>Total<br/>to Date</u> |
|--------------------------------------|----------------------------------|------------------------|------------------------------------|--------------------------|
| <b>Revenues:</b>                     |                                  |                        |                                    |                          |
| Restricted intergovernmental revenue | \$ 80,830                        | \$ 50,000              | \$ -                               | \$ 50,000                |
| Miscellaneous                        | <u>2,750</u>                     | <u>7,763</u>           | -                                  | <u>7,763</u>             |
| Total revenues                       | <u>83,580</u>                    | <u>57,763</u>          | -                                  | <u>57,763</u>            |
| <b>Expenditures:</b>                 |                                  |                        |                                    |                          |
| Economic and physical development    |                                  |                        |                                    |                          |
| Main Street Solutions Fund Grant     | 80,830                           | 50,000                 | -                                  | 50,000                   |
| CDBG Rehabilitation                  | <u>2,750</u>                     | <u>1,000</u>           | -                                  | <u>1,000</u>             |
| Total expenditures                   | <u>83,580</u>                    | <u>51,000</u>          | -                                  | <u>51,000</u>            |
| Net change in fund balance           | <u>\$ -</u>                      | <u>\$ 6,763</u>        | <u>\$ -</u>                        | <u>\$ 6,763</u>          |

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CITY OF NEWTON, NORTH CAROLINA

Schedule 5

EMERGENCY TELEPHONE SYSTEM FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016

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|                                      | <u>Final<br/>Budget</u> | <u>Actual</u>    | <u>Variance<br/>Over/Under</u> |
|--------------------------------------|-------------------------|------------------|--------------------------------|
| <b>Revenues:</b>                     |                         |                  |                                |
| Restricted intergovernmental revenue | \$ 12,850               | \$ 10,544        | \$ (2,306)                     |
| Interest earned                      | -                       | 34               | 34                             |
| Total revenues                       | <u>12,850</u>           | <u>10,578</u>    | <u>(2,272)</u>                 |
| <b>Expenditures:</b>                 |                         |                  |                                |
| <b>Public Safety:</b>                |                         |                  |                                |
| Other operating expenditures         | <u>12,850</u>           | <u>8,014</u>     | <u>4,836</u>                   |
| Change in net position               | <u>\$ -</u>             | <u>2,564</u>     | <u>\$ 2,564</u>                |
| <b>Fund Balance:</b>                 |                         |                  |                                |
| Beginning of year - July 1           |                         | <u>11,818</u>    |                                |
| End of year - June 30                |                         | <u>\$ 14,382</u> |                                |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 6

**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, 2016**

|  | Project<br>Authorization | Actual         |                 |                    | Total<br>to Date |
|--|--------------------------|----------------|-----------------|--------------------|------------------|
|  |                          | Prior<br>Years | Current<br>Year | Closed<br>Projects |                  |
| <b>Revenues:</b>                       |                          |                |                 |                    |                  |
| Interest earned                        | \$ -                     | \$ 239         | \$ 3            | \$ -               | \$ 242           |
| <b>Expenditures:</b>                   |                          |                |                 |                    |                  |
| <b>Capital Outlay:</b>                 |                          |                |                 |                    |                  |
| S. Caldwell Court Culvert              | 424,250                  | 15,440         | 387,345         | (402,785)          | -                |
| New fire headquarters                  | 3,564,350                | 3,563,986      | 386             | (3,564,372)        | -                |
| Total expenditures                     | 3,988,600                | 3,579,426      | 387,731         | (3,967,157)        | -                |
| Revenues over (under) expenditures     | (3,988,600)              | (3,579,187)    | (387,728)       | 3,967,157          | 242              |
| <b>Other Financing Sources (Uses):</b> |                          |                |                 |                    |                  |
| Issuance of long-term debt             | 3,881,450                | 3,460,000      | 400,000         | (3,860,000)        | -                |
| Transfers from General Fund            | 133,800                  | 131,000        | 2,785           | (133,785)          | -                |
| Transfers to General Fund              | (26,650)                 | -              | (26,628)        | 26,628             | -                |
| Total other financing sources (uses)   | 3,988,600                | 3,591,000      | 376,157         | (3,967,157)        | -                |
| Net change in fund balance             | \$ -                     | \$ 11,813      | \$ (11,571)     | \$ -               | \$ 242           |



# BUSINESS-TYPE ACTIVITIES

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## 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.

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**CITY OF NEWTON, NORTH CAROLINA**

Schedule 7

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**WATER AND WASTEWATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016**

|  | <u>Budget</u>    | <u>Actual</u>     | <u>Variance<br/>Over/Under</u> |
|--|------------------|-------------------|--------------------------------|
| <b>Revenues:</b>   |                  |                   |                                |
| Operating revenues:  |                  |                   |                                |
| Charges for services   | \$ 6,036,350     | \$ 6,198,209      | \$ 161,859                     |
| Other  | <u>388,650</u>   | <u>390,424</u>    | <u>1,774</u>                   |
| Total operating revenues   | <u>6,425,000</u> | <u>6,588,633</u>  | <u>163,633</u>                 |
| Non-operating revenues:  |                  |                   |                                |
| Other non-operating revenue  | 97,500           | 92,654            | (4,846)                        |
| Interest earned  | <u>1,250</u>     | <u>7,012</u>      | <u>5,762</u>                   |
| Total non-operating revenues   | <u>98,750</u>    | <u>99,666</u>     | <u>916</u>                     |
| Total revenues   | <u>6,523,750</u> | <u>6,688,299</u>  | <u>164,549</u>                 |
| <b>Expenditures:</b>   |                  |                   |                                |
| Operations   | 2,567,750        | 2,492,415         | 75,335                         |
| Maintenance  | 1,183,050        | 1,052,666         | 130,384                        |
| Administration   | 956,750          | 958,516           | (1,766)                        |
| Capital outlay   | 150,700          | 120,434           | 30,266                         |
| Debt principal   | 1,420,700        | 1,420,592         | 108                            |
| Interest and fees  | <u>315,600</u>   | <u>313,804</u>    | <u>1,796</u>                   |
| Total expenditures   | <u>6,594,550</u> | <u>6,358,427</u>  | <u>236,123</u>                 |
| Revenues over (under) expenditures   | <u>(70,800)</u>  | <u>329,872</u>    | <u>400,672</u>                 |
| <b>Other Financing Sources (Uses):</b>   |                  |                   |                                |
| Proceeds from sale of capital assets   | 2,000            | 916               | (1,084)                        |
| Intrafund transfers from - Water and<br>Wastewater Capital Project Fund                    | 66,300           | 66,258            | (42)                           |
| Appropriated fund balance  | <u>2,500</u>     | <u>-</u>          | <u>(2,500)</u>                 |
| Total other financing sources (uses)   | <u>70,800</u>    | <u>67,174</u>     | <u>(3,626)</u>                 |
| Revenues and other financing sources over (under)<br>expenditures and other financing uses | <u>\$ -</u>      | <u>\$ 397,046</u> | <u>\$ 397,046</u>              |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 7  
Page 2 of 2

**WATER AND WASTEWATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016**

|  | <u>Budget</u> | <u>Actual</u>      | <u>Variance<br/>Over/Under</u> |
|--|---------------|--------------------|--------------------------------|
| <b>Reconciliation from Budgetary Basis</b>   |               |                    |                                |
| <b>(Modified Accrual to Full Accrual):</b>   |               |                    |                                |
| Revenues and other financing sources over<br>(under) expenditures and other financing uses |               | \$ 397,046         |                                |
| Reconciling items:   |               |                    |                                |
| Capital project expenditures   |               | 75,916             |                                |
| Capital project expenditures capitalized to CIP  |               | (75,916)           |                                |
| Transfers to (from) - capital project funds  |               | (66,258)           |                                |
| Depreciation   |               | (1,990,026)        |                                |
| Capital outlay capitalized   |               | 120,434            |                                |
| Payment of debt principal  |               | 1,420,592          |                                |
| Increase (decrease) in net pension asset   |               | (131,282)          |                                |
| Increase (decrease) in deferred outflows of<br>resources - pensions                        |               | (5,567)            |                                |
| (Increase) decrease in net pension liability   |               | (97,105)           |                                |
| (Increase) decrease in deferred inflows of<br>resources - pensions                         |               | 260,620            |                                |
| (Increase) decrease in accrued interest payable  |               | 24,629             |                                |
| (Increase) decrease in other post-employment benefit accrual                               |               | 7,570              |                                |
| (Increase) decrease in compensated absences  |               | <u>(8,118)</u>     |                                |
| Change in net position   |               | <u>\$ (67,465)</u> |                                |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 8

**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, 2016**

|   | <u>Project<br/>Authorization</u> | <u>Actual</u>          |                         |                            | <u>Total<br/>to Date</u> |
|---|----------------------------------|------------------------|-------------------------|----------------------------|--------------------------|
|   |                                  | <u>Prior<br/>Years</u> | <u>Current<br/>Year</u> | <u>Closed<br/>Projects</u> |                          |
| <b>Revenues:</b>  |                                  |                        |                         |                            |                          |
| Capital contribution  | \$ 661,500                       | \$ -                   | \$ -                    | \$ -                       | \$ -                     |
| Interest earned   | -                                | 27                     | -                       | -                          | 27                       |
| Total revenues  | <u>661,500</u>                   | <u>27</u>              | <u>-</u>                | <u>-</u>                   | <u>27</u>                |
| <b>Expenditures:</b>  |                                  |                        |                         |                            |                          |
| Capital outlay:   |                                  |                        |                         |                            |                          |
| Water extension projects:   |                                  |                        |                         |                            |                          |
| S Hwy 16 - Buffalo Shoals   | 2,646,000                        | -                      | -                       | -                          | -                        |
| Sewer rehabilitation projects:  |                                  |                        |                         |                            |                          |
| Highway 10 Pump Station   | 468,350                          | 456,786                | 11,572                  | (468,358)                  | -                        |
| Ashe Avenue and 1st Street  | <u>72,500</u>                    | <u>8,190</u>           | <u>64,344</u>           | <u>(72,534)</u>            | <u>-</u>                 |
| Total expenditures  | <u>3,186,850</u>                 | <u>464,976</u>         | <u>75,916</u>           | <u>(540,892)</u>           | <u>-</u>                 |
| Revenues over (under) expenditures  | <u>(2,525,350)</u>               | <u>(464,949)</u>       | <u>(75,916)</u>         | <u>540,892</u>             | <u>27</u>                |
| <b>Other Financing Sources (Uses):</b>  |                                  |                        |                         |                            |                          |
| Issuance of long-term debt  | 2,504,050                        | 519,550                | -                       | (519,550)                  | -                        |
| Transfers from - Water and Wastewater Fund  | 87,600                           | 87,600                 | -                       | (87,600)                   | -                        |
| Transfers to - Water and Wastewater Fund  | <u>(66,300)</u>                  | <u>-</u>               | <u>(66,258)</u>         | <u>66,258</u>              | <u>-</u>                 |
| Total other financing sources (uses)  | <u>2,525,350</u>                 | <u>607,150</u>         | <u>(66,258)</u>         | <u>(540,892)</u>           | <u>-</u>                 |
| Revenues and other financing sources<br>over (under) expenditures and other<br>financing uses | <u>\$ -</u>                      | <u>\$ 142,201</u>      | <u>\$ (142,174)</u>     | <u>\$ -</u>                | <u>\$ 27</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, 2016**

|  | <u>Budget</u>     | <u>Actual</u>     | <u>Variance<br/>Over/Under</u> |
|--|-------------------|-------------------|--------------------------------|
| <b>Revenues:</b>   |                   |                   |                                |
| Operating revenues   |                   |                   |                                |
| Charges for services   | \$ 14,980,000     | \$ 14,460,734     | \$ (519,266)                   |
| Other  | 322,400           | 346,042           | 23,642                         |
| Total operating revenues   | <u>15,302,400</u> | <u>14,806,776</u> | <u>(495,624)</u>               |
| Non-operating revenues:  |                   |                   |                                |
| Contributions  | -                 | 5,584             | 5,584                          |
| Other non-operating revenue  | 73,500            | 74,625            | 1,125                          |
| Interest earned  | 4,200             | 13,897            | 9,697                          |
| Sales tax  | <u>765,000</u>    | <u>737,150</u>    | <u>(27,850)</u>                |
| Total non-operating revenues   | <u>842,700</u>    | <u>831,256</u>    | <u>(11,444)</u>                |
| Total revenues   | <u>16,145,100</u> | <u>15,638,032</u> | <u>(507,068)</u>               |
| <b>Expenditures:</b>   |                   |                   |                                |
| Power for resale   | 10,808,150        | 10,769,041        | 39,109                         |
| Renewable energy   | 61,500            | 63,677            | (2,177)                        |
| Operations   | 3,652,300         | 2,510,903         | 1,141,397                      |
| Administration   | 775,700           | 778,575           | (2,875)                        |
| Capital outlay   | 330,650           | 133,769           | 196,881                        |
| Debt principal   | 726,800           | 726,768           | 32                             |
| Interest and fees  | <u>184,550</u>    | <u>183,495</u>    | <u>1,055</u>                   |
| Total expenditures   | <u>16,539,650</u> | <u>15,166,228</u> | <u>1,373,422</u>               |
| Revenues over (under) expenditures   | <u>(394,550)</u>  | <u>471,804</u>    | <u>866,354</u>                 |
| <b>Other Financing Sources (Uses):</b>   |                   |                   |                                |
| Issuance of long-term debt   | 252,000           | 245,200           | (6,800)                        |
| Proceeds from sale of capital assets   | 1,000             | 816               | (184)                          |
| Appropriated fund balance  | <u>141,550</u>    | -                 | <u>(141,550)</u>               |
| Total other financing sources (uses)   | <u>394,550</u>    | <u>246,016</u>    | <u>(148,534)</u>               |
| Revenues and other financing sources over<br>(under) expenditures and other financing uses | <u>\$ -</u>       | <u>\$ 717,820</u> | <u>\$ 717,820</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, 2016**

|  | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Over/Under</u> |
|--|---------------|---------------|--------------------------------|
| <b>Reconciliation from Budgetary Basis (Modified Accrual)<br/>to Full Accrual:</b>         |               |               |                                |
| Revenues and other financing sources over<br>(under) expenditures and other financing uses |               | \$ 717,820    |                                |
| Reconciling items:   |               |               |                                |
| Capital project income   |               | 31,666        |                                |
| Capital project expenditures   |               | (3,548,510)   |                                |
| Capital project expenditures capitalized to CIP  |               | 3,548,510     |                                |
| Capital outlay capitalized   |               | 133,769       |                                |
| Payment of debt principal  |               | 726,768       |                                |
| Depreciation   |               | (690,244)     |                                |
| Increase (decrease) in net pension asset   |               | (65,641)      |                                |
| Increase (decrease) in deferred outflows of<br>resources - pensions                        |               | (3,532)       |                                |
| (Increase) decrease in net pension liability   |               | (48,552)      |                                |
| (Increase) decrease in deferred inflows of<br>resources - pensions                         |               | 130,310       |                                |
| (Increase) decrease in accrued interest payable  |               | 8,627         |                                |
| (Increase) decrease in other post-employment benefit accrual                               |               | 2,837         |                                |
| (Increase) decrease in compensated absences  |               | (6,084)       |                                |
| Issuance of long-term debt   |               | (245,200)     |                                |
| Change in net position   |               | \$ 692,544    |                                |

**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, 2016**

|   | <u>Project<br/>Authorization</u> | <u>Prior<br/>Years</u> | <u>Actual<br/>Current<br/>Year</u> | <u>Total<br/>to Date</u> |
|---|----------------------------------|------------------------|------------------------------------|--------------------------|
| <b>Revenues:</b>  |                                  |                        |                                    |                          |
| Restricted intergovernmental  | \$ 468,550                       | \$ 19,865              | \$ 31,653                          | \$ 51,518                |
| Interest earned   | -                                | -                      | 13                                 | 13                       |
| Total revenues  | <u>468,550</u>                   | <u>19,865</u>          | <u>31,666</u>                      | <u>51,531</u>            |
| <b>Expenditures:</b>  |                                  |                        |                                    |                          |
| Smart Grid Implementation   | \$ 3,700,000                     | \$ 306,086             | \$ 3,314,486                       | \$ 3,620,572             |
| Catawba County Justice Center   | 557,400                          | 28,622                 | 44,585                             | 73,207                   |
| Voltage Regulators  | <u>262,500</u>                   | -                      | <u>189,439</u>                     | <u>189,439</u>           |
| Total expenditures  | <u>4,519,900</u>                 | <u>334,708</u>         | <u>3,548,510</u>                   | <u>3,883,218</u>         |
| Revenues over (under) expenditures  | <u>(4,051,350)</u>               | <u>(314,843)</u>       | <u>(3,516,844)</u>                 | <u>(3,831,687)</u>       |
| <b>Other Financing Sources (Uses):</b>  |                                  |                        |                                    |                          |
| Issuance of long-term debt  | 1,762,500                        | 1,500,000              | 234,000                            | 1,734,000                |
| Transfers from - Electric Fund  | 188,850                          | 188,850                | -                                  | 188,850                  |
| Transfers from - Water and Wastewater Fund  | <u>2,100,000</u>                 | <u>2,100,000</u>       | -                                  | <u>2,100,000</u>         |
| Total other financing sources (uses)  | <u>4,051,350</u>                 | <u>3,788,850</u>       | <u>234,000</u>                     | <u>4,022,850</u>         |
| Revenues and other financing sources<br>over (under) expenditures and other<br>financing uses | <u>\$ -</u>                      | <u>\$ 3,474,007</u>    | <u>\$ (3,282,844)</u>              | <u>\$ 191,163</u>        |

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**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, 2016**

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|  | <u>Plan</u>      | <u>Actual</u>    | <u>Variance<br/>Over/Under</u> |
|--|------------------|------------------|--------------------------------|
| <b>Operating Revenues:</b>                       |                  |                  |                                |
| Charges for services                             | \$ 1,654,550     | \$ 1,541,289     | \$ (113,261)                   |
| Total operating revenues                         | <u>1,654,550</u> | <u>1,541,289</u> | <u>(113,261)</u>               |
| <b>Operating Expenditures - Group Insurance:</b> |                  |                  |                                |
| Claims paid                                      | 1,342,900        | 1,182,213        | 160,687                        |
| Claims incurred but not reported                 | -                | (601)            | 601                            |
| Stop-loss insurance fees                         | 285,550          | 282,195          | 3,355                          |
| Administrative charges                           | <u>28,100</u>    | <u>11,204</u>    | <u>16,896</u>                  |
| Total operating expenditures                     | <u>1,656,550</u> | <u>1,475,011</u> | <u>181,539</u>                 |
| Operating income (loss)                          | <u>(2,000)</u>   | <u>66,278</u>    | <u>68,278</u>                  |
| <b>Non-Operating Revenues:</b>                   |                  |                  |                                |
| Investment earnings                              | <u>2,000</u>     | <u>4,854</u>     | <u>2,854</u>                   |
| Revenues over expenditures                       | <u>\$ -</u>      | <u>\$ 71,132</u> | <u>\$ 71,132</u>               |



## OTHER SCHEDULES

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

- Schedule of Ad Valorem Taxes Receivable
  - Analysis of Current Tax Levy
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**CITY OF NEWTON, NORTH CAROLINA**

Schedule 12

**SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2016**

| <u>Fiscal Year</u>   | <u>Uncollected<br/>Balance<br/>July 1, 2015</u> | <u>Additions</u>           | <u>Collections<br/>and Credits</u> | <u>Uncollected<br/>Balance<br/>June 30, 2016</u> |
|--|---|----------------------------|------------------------------------|--|
| 2015-2016  | \$ -  | \$ 5,595,433               | \$ 5,467,059                       | \$ 128,374                                       |
| 2014-2015  | 136,702   | -                          | 51,947                             | 84,755   |
| 2013-2014  | 116,900   | -                          | 44,895                             | 72,005   |
| 2012-2013  | 94,617  | -                          | 20,852                             | 73,765   |
| 2011-2012  | 58,581  | -                          | 13,207                             | 45,374   |
| 2010-2011  | 41,748  | -                          | 3,681                              | 38,067   |
| 2009-2010  | 34,632  | -                          | 2,810                              | 31,822   |
| 2008-2009  | 33,779  | -                          | 3,880                              | 29,899   |
| 2007-2008  | 30,015  | -                          | 1,689                              | 28,326   |
| 2006-2007  | 34,588  | -                          | 1,022                              | 33,566   |
| 2005-2006  | <u>19,088</u>                                   | <u>-</u>                   | <u>19,088</u>                      | <u>-</u>   |
| <b>Total</b>   | <b><u>\$ 600,650</u></b>                        | <b><u>\$ 5,595,433</u></b> | <b><u>\$ 5,630,130</u></b>         | <b>565,953</b>                                   |
| Less allowance for uncollectible ad valorem taxes receivable |   |                            |                                    | <u>34,000</u>                                    |
| <b>Ad Valorem Taxes Receivable, Net</b>                      |   |                            |                                    | <b><u>\$ 531,953</u></b>                         |
| General Fund   |   |                            |                                    | <u>531,953</u>                                   |
| <b>Reconciliation with Revenues:</b>                         |   |                            |                                    |  |
| Ad valorem taxes - General Fund                              |   |                            |                                    | \$ 5,661,736                                     |
| Amounts written off per Statute of Limitations               |   |                            |                                    | 18,538   |
| Miscellaneous  |   |                            |                                    | (365)  |
| Interest and penalties collected                             |   |                            |                                    | <u>(49,779)</u>                                  |
| Total collections and credits                                |   |                            |                                    | <b><u>\$ 5,630,130</u></b>                       |

**CITY OF NEWTON, NORTH CAROLINA**

Schedule 13

**ANALYSIS OF CURRENT TAX LEVY  
FOR THE YEAR ENDED JUNE 30, 2016**

|  | City-Wide               |         | Total Levy          |  |                                 |
|--|-------------------------|---------|---------------------|--|---------------------------------|
|  | Property<br>Valuation   | Rate    | Total<br>Levy       | Property<br>Excluding<br>Registered<br>Motor<br>Vehicles | Registered<br>Motor<br>Vehicles |
|  |                         |         |                     |  |                                 |
| <b>Original Levy:</b>                                      |                         |         |                     |  |                                 |
| Total property taxed at current year's rate                | \$ 910,243,878          | \$ 0.54 | \$ 4,915,317        | \$ 4,915,317   | \$ -                            |
| Registered motor vehicles taxed at current year's tax rate | 124,987,515             | 0.54    | 674,933             | -  | 674,933                         |
| Penalties  | -                       |         | 2,188               | 2,188  | -                               |
| <b>Total</b>   | <u>1,035,231,393</u>    |         | <u>5,592,438</u>    | <u>4,917,505</u>   | <u>674,933</u>                  |
| <b>Discoveries:</b>  |                         |         |                     |  |                                 |
| Current year taxes   | 12,491,539              |         | 67,454              | 67,454   | -                               |
| Prior year taxes   | 33,651                  |         | 169                 | 169  | -                               |
| Penalties  | -                       |         | 12,324              | 12,324   | -                               |
| <b>Total</b>   | <u>12,525,190</u>       |         | <u>79,947</u>       | <u>79,947</u>  | <u>-</u>                        |
| <b>Releases:</b>   |                         |         |                     |  |                                 |
| <b>Property:</b>   |                         |         |                     |  |                                 |
| Current year taxes   | (5,240,328)             |         | (28,298)            | (28,298)   | -                               |
| Prior year taxes   | (18,098)                |         | (92)                | (92)   | -                               |
| <b>Motor Vehicles:</b>                                     |                         |         |                     |  |                                 |
| Current year taxes   | (8,363,167)             |         | (45,161)            | -  | (45,161)                        |
| Prior year taxes   | (202,721)               |         | (958)               | -  | (958)                           |
| Penalties  | -                       |         | (2,443)             | (2,443)  | -                               |
| <b>Total</b>   | <u>(13,824,314)</u>     |         | <u>(76,952)</u>     | <u>(30,833)</u>  | <u>(46,119)</u>                 |
| <b>Total property valuation</b>                            | <u>\$ 1,033,932,269</u> |         |                     |  |                                 |
| <b>Net Levy</b>  |                         |         | 5,595,433           | 4,966,619  | 628,814                         |
| Less uncollected taxes at June 30, 2016                    |                         |         | <u>(128,374)</u>    | <u>(128,260)</u>   | <u>(114)</u>                    |
| <b>Current Year's Taxes Collected</b>                      |                         |         | <u>\$ 5,467,059</u> | <u>\$ 4,838,359</u>                                      | <u>\$ 628,700</u>               |
| <b>Current Levy Collection Percentage</b>                  |                         |         | <u>97.71%</u>       | <u>97.42%</u>  | <u>99.98%</u>                   |

# STATISTICAL SECTION

## (Unaudited)

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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.

|  |         |
|--|---------|
| Net Position by Component                      | Table 1 |
| Change in Net Position                         | Table 2 |
| Governmental Activities Tax Revenues by Source | Table 3 |
| Fund Balances, Governmental Funds              | Table 4 |
| Changes in Fund Balance, Governmental Funds    | Table 5 |

#### **Revenue Capacity**

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

|   |          |
|---|----------|
| Assessed Valuation of Property                        | Table 6  |
| Property Tax Rates-Direct and Overlapping Governments | Table 7  |
| Principal Property Taxpayers                          | Table 8  |
| Property Tax Levies and Collections                   | Table 9  |
| Electricity Sold by Type of Customer                  | Table 10 |
| Electricity Rates                                     | Table 11 |

#### **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.

|   |          |
|---|----------|
| Ratio of Outstanding Debt by Type                 | Table 12 |
| Ratio of General Bonded Debt Outstanding          | Table 13 |
| Direct and Overlapping Government Activities Debt | Table 14 |
| Legal Debt Margin Information                     | Table 15 |

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# **STATISTICAL SECTION (continued)**

## **(Unaudited)**

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### **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.

|                                     |          |
|-------------------------------------|----------|
| Demographic and Economic Statistics | Table 16 |
| Principal Employers                 | Table 17 |

### **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.

|  |          |
|--|----------|
| Full-Time Equivalent City Government Employees |          |
| By Function                                    | Table 18 |
| Operating Indicators by Function               | Table 19 |
| Capital Asset Statistics by Function           | Table 20 |

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

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CITY OF NEWTON, NORTH CAROLINA

Table 1

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

|   | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Governmental Activities:</b>             |               |               |               |               |               |               |               |               |               |               |
| Net investment in capital assets            | \$ 5,716,932  | \$ 6,427,305  | \$ 6,559,160  | \$ 7,025,672  | \$ 7,130,316  | \$ 7,704,679  | \$ 7,819,537  | \$ 8,097,287  | \$ 7,984,441  | \$ 8,406,848  |
| Restricted                                  | 131,234       | 250,152       | 159,090       | 393,488       | 1,127,790     | 2,141,848     | 2,365,037     | 2,814,243     | 3,125,095     | 2,663,217     |
| Unrestricted                                | 4,675,329     | 4,200,628     | 4,136,962     | 3,381,059     | 2,640,730     | 2,783,144     | 3,163,055     | 3,517,744     | 4,373,511     | 5,910,938     |
| Total governmental activities net position  | \$ 10,523,495 | \$ 10,878,085 | \$ 10,855,212 | \$ 10,800,219 | \$ 10,898,836 | \$ 12,629,671 | \$ 13,347,629 | \$ 14,429,274 | \$ 15,483,047 | \$ 16,981,003 |
| <b>Business-Type Activities:</b>            |               |               |               |               |               |               |               |               |               |               |
| Net investment in capital assets            | \$ 25,436,728 | \$ 28,311,430 | \$ 28,914,131 | \$ 29,030,185 | \$ 29,078,708 | \$ 30,854,510 | \$ 30,063,136 | \$ 29,665,815 | \$ 29,007,878 | \$ 28,842,217 |
| Restricted                                  | -             | -             | -             | -             | -             | -             | -             | -             | -             | -             |
| Unrestricted                                | 2,636,122     | 1,012,074     | 1,620,541     | 3,128,651     | 4,403,843     | 4,137,292     | 5,702,567     | 6,650,083     | 7,281,257     | 8,089,777     |
| Total business-type activities net position | \$ 28,072,850 | \$ 29,323,504 | \$ 30,534,672 | \$ 32,158,836 | \$ 33,482,551 | \$ 34,991,802 | \$ 35,765,703 | \$ 36,315,898 | \$ 36,289,135 | \$ 36,931,994 |
| <b>Primary Government:</b>                  |               |               |               |               |               |               |               |               |               |               |
| Net investment in capital assets            | \$ 31,153,660 | \$ 34,738,735 | \$ 35,473,291 | \$ 36,055,857 | \$ 36,209,024 | \$ 38,559,189 | \$ 37,882,673 | \$ 37,763,102 | \$ 36,992,319 | \$ 37,249,065 |
| Restricted                                  | 131,234       | 250,152       | 159,090       | 393,488       | 1,127,790     | 2,141,848     | 2,365,037     | 2,814,243     | 3,125,095     | 2,663,217     |
| Unrestricted                                | 7,311,451     | 5,212,702     | 5,757,503     | 6,509,710     | 7,044,573     | 6,920,436     | 8,865,622     | 10,167,827    | 11,654,768    | 14,000,715    |
| Total primary government net position       | \$ 38,596,345 | \$ 40,201,589 | \$ 41,389,884 | \$ 42,959,055 | \$ 44,381,387 | \$ 47,621,473 | \$ 49,113,332 | \$ 50,745,172 | \$ 51,772,182 | \$ 53,912,997 |

CITY OF NEWTON, NORTH CAROLINA

Table 2, page 1 of 3

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

|  | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Expenses:</b>                               |               |               |               |               |               |               |               |               |               |               |
| Governmental activities:                       |               |               |               |               |               |               |               |               |               |               |
| General government                             | \$ 1,385,640  | \$ 1,661,543  | \$ 1,678,411  | \$ 1,591,739  | \$ 1,946,752  | \$ 1,313,202  | \$ 1,016,494  | \$ 1,280,351  | \$ 1,389,614  | \$ 1,352,512  |
| Transportation                                 | 857,363       | 976,990       | 1,004,258     | 839,025       | 975,976       | 954,979       | 1,047,081     | 1,162,093     | 1,162,092     | 1,347,083     |
| Environmental protection                       | 874,193       | 901,985       | 935,190       | 927,344       | 917,124       | 938,935       | 1,006,970     | 1,051,744     | 1,043,820     | 1,086,149     |
| Public safety                                  | 4,626,004     | 4,714,227     | 4,982,326     | 4,770,652     | 4,776,714     | 4,917,591     | 5,124,114     | 5,245,701     | 5,316,433     | 5,586,817     |
| Cultural and recreational                      | 1,312,900     | 1,451,556     | 1,526,225     | 2,108,551     | 2,076,673     | 2,089,168     | 2,076,132     | 1,906,260     | 1,551,277     | 1,510,818     |
| Economic and physical development              | -             | 3,000         | 271,659       | 105,699       | 42,698        | -             | 1,000         | 50,000        | -             | -             |
| Interest on long-term debt                     | 97,610        | 170,515       | 173,087       | 150,324       | 98,794        | 151,154       | 102,178       | 140,224       | 190,377       | 186,606       |
| Total governmental activities expenses         | 9,153,710     | 9,879,816     | 10,571,156    | 10,493,334    | 10,834,731    | 10,365,029    | 10,373,969    | 10,836,373    | 10,653,613    | 11,069,985    |
| Business-type activities:                      |               |               |               |               |               |               |               |               |               |               |
| Water and Wastewater                           | 5,200,144     | 5,748,155     | 5,695,133     | 5,696,945     | 5,751,998     | 6,165,378     | 6,279,211     | 6,762,583     | 6,590,574     | 6,747,790     |
| Electric                                       | 11,514,375    | 11,701,113    | 12,039,436    | 12,055,754    | 13,080,453    | 13,419,024    | 13,804,985    | 14,673,951    | 15,599,254    | 14,969,080    |
| Total business-type activities expenses        | 16,714,519    | 17,449,268    | 17,734,569    | 17,752,699    | 18,832,451    | 19,584,402    | 20,084,196    | 21,436,534    | 22,189,828    | 21,716,870    |
| Total primary government expenses              | \$ 25,868,229 | \$ 27,329,084 | \$ 28,305,725 | \$ 28,246,033 | \$ 29,667,182 | \$ 29,949,431 | \$ 30,458,165 | \$ 32,272,907 | \$ 32,843,441 | \$ 32,786,855 |
| <b>Program Revenues:</b>                       |               |               |               |               |               |               |               |               |               |               |
| Governmental activities:                       |               |               |               |               |               |               |               |               |               |               |
| Charges for services                           | \$ 488,684    | \$ 520,456    | \$ 499,368    | \$ 505,982    | \$ 219,066    | \$ 208,600    | \$ 273,757    | \$ 169,502    | \$ 179,212    | \$ 199,335    |
| General government                             | 19,437        | 13,494        | 4,514         | 488           | -             | -             | 2,104         | -             | 24,975        | 4,767         |
| Transportation                                 | 487,772       | 476,222       | 587,051       | 578,162       | 574,846       | 575,067       | 757,023       | 881,425       | 886,194       | 880,225       |
| Environmental protection                       | 117,418       | 120,337       | 205,268       | 178,450       | 86,706        | 119,909       | 102,231       | 75,350        | 79,765        | 73,717        |
| Public safety                                  | 92,469        | 87,959        | 119,893       | 110,732       | 83,628        | 68,561        | 68,544        | 175,478       | 81,399        | 78,971        |
| Cultural and recreational                      | 17,355        | 20,883        | 14,889        | 14,273        | -             | -             | -             | -             | -             | -             |
| Economic and physical development              | 425,414       | 477,979       | 479,868       | 447,973       | 30,879        | 482,714       | 486,590       | 624,303       | 524,449       | 486,903       |
| Operating grants and contributions             | 722,633       | 13,938        | 31,508        | 105,522       | 448,357       | 1,364,849     | 36,089        | 125,805       | 294,285       | 119,417       |
| Capital grants and contributions               |               |               |               |               |               |               |               |               |               |               |
| Total governmental activities program revenues | 2,371,182     | 1,731,268     | 1,942,359     | 1,941,582     | 1,443,482     | 2,819,700     | 1,726,338     | 2,051,863     | 2,070,279     | 1,843,335     |

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)

|  | 2007           | 2008           | 2009           | 2010           | 2011           | 2012           | 2013           | 2014           | 2015           | 2016           |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Business-type activities:</b>                           |                |                |                |                |                |                |                |                |                |                |
| Charges for services-Water and Wastewater                  | 4,352,866      | 4,433,887      | 5,094,620      | 5,699,745      | 6,094,148      | 5,970,545      | 6,010,519      | 6,143,604      | 6,342,485      | 6,681,287      |
| Charges for services - Electric                            | 10,819,757     | 11,323,152     | 11,796,063     | 12,536,124     | 13,721,107     | 13,801,529     | 14,529,294     | 15,265,571     | 15,087,077     | 14,881,401     |
| Operating grants and contributions                         | -              | -              | -              | -              | -              | -              | 161            | 1,441          | 240,491        | 5,584          |
| Capital grants and contributions                           | 277,115        | 2,050,276      | 1,179,515      | (3,868)        | 52,815         | 1,039,758      | 23,667         | 195,592        | 19,865         | 31,653         |
| Total business-type activities                             | 15,449,738     | 17,807,315     | 18,070,198     | 18,232,001     | 19,868,070     | 20,811,832     | 20,563,641     | 21,606,208     | 21,689,918     | 21,599,925     |
| program revenues   | \$ 17,820,920  | \$ 19,538,583  | \$ 20,012,557  | \$ 20,173,583  | \$ 21,311,552  | \$ 23,631,532  | \$ 22,289,979  | \$ 23,658,071  | \$ 23,760,197  | \$ 23,443,260  |
| Total primary government program revenues                  |                |                |                |                |                |                |                |                |                |                |
| Net revenue (expense)                                      | \$ (6,782,528) | \$ (8,148,550) | \$ (8,628,797) | \$ (8,551,752) | \$ (9,391,248) | \$ (7,545,329) | \$ (8,647,631) | \$ (8,784,510) | \$ (8,583,334) | \$ (9,226,650) |
| Governmental activities                                    | (1,264,781)    | 358,046        | 335,628        | 479,303        | 1,035,619      | 1,227,430      | 479,445        | 169,674        | (499,910)      | (116,945)      |
| Business-type activities                                   | \$ (8,047,309) | \$ (7,790,504) | \$ (8,293,169) | \$ (8,072,449) | \$ (8,355,629) | \$ (6,317,899) | \$ (8,168,186) | \$ (8,614,836) | \$ (9,083,244) | \$ (9,343,595) |
| Total primary government net expense                       |                |                |                |                |                |                |                |                |                |                |
| <b>General Revenues and Other Changes in Net Position:</b> |                |                |                |                |                |                |                |                |                |                |
| Governmental activities:                                   |                |                |                |                |                |                |                |                |                |                |
| Ad valorem taxes   | \$ 4,113,459   | \$ 4,472,139   | \$ 4,768,707   | \$ 5,080,456   | \$ 5,175,540   | \$ 5,091,914   | \$ 5,201,384   | \$ 5,535,417   | \$ 5,723,810   | \$ 5,627,039   |
| Local option sales tax                                     | 2,906,030      | 2,979,005      | 2,717,347      | 2,457,645      | 2,566,400      | 2,580,288      | 2,595,442      | 2,694,664      | 2,917,919      | 3,111,139      |
| Utilities sales tax  | 707,527        | 735,324        | 768,977        | 776,181        | 785,773        | 781,701        | 759,087        | 810,418        | 935,345        | 971,859        |
| Other taxes and licenses                                   | 295,132        | 332,767        | 354,549        | 390,137        | 948,139        | 811,413        | 788,672        | 813,734        | 917,719        | 978,029        |
| Unrestricted investment earnings                           | 211,644        | 144,014        | 37,402         | 6,913          | 9,013          | 7,498          | 11,004         | 7,922          | 16,443         | 36,540         |
| Miscellaneous  | 98,748         | (16,610)       | 173,943        | 252,347        | -              | -              | -              | -              | -              | -              |
| Transfers  | (279,900)      | (143,500)      | (215,000)      | (466,921)      | 5,000          | 3,350          | 10,000         | 4,000          | -              | -              |
| Total governmental activities                              | 8,052,640      | 8,503,139      | 8,605,925      | 8,496,758      | 9,489,865      | 9,276,164      | 9,365,589      | 9,866,155      | 10,511,236     | 10,724,606     |

continued

CITY OF NEWTON, NORTH CAROLINA

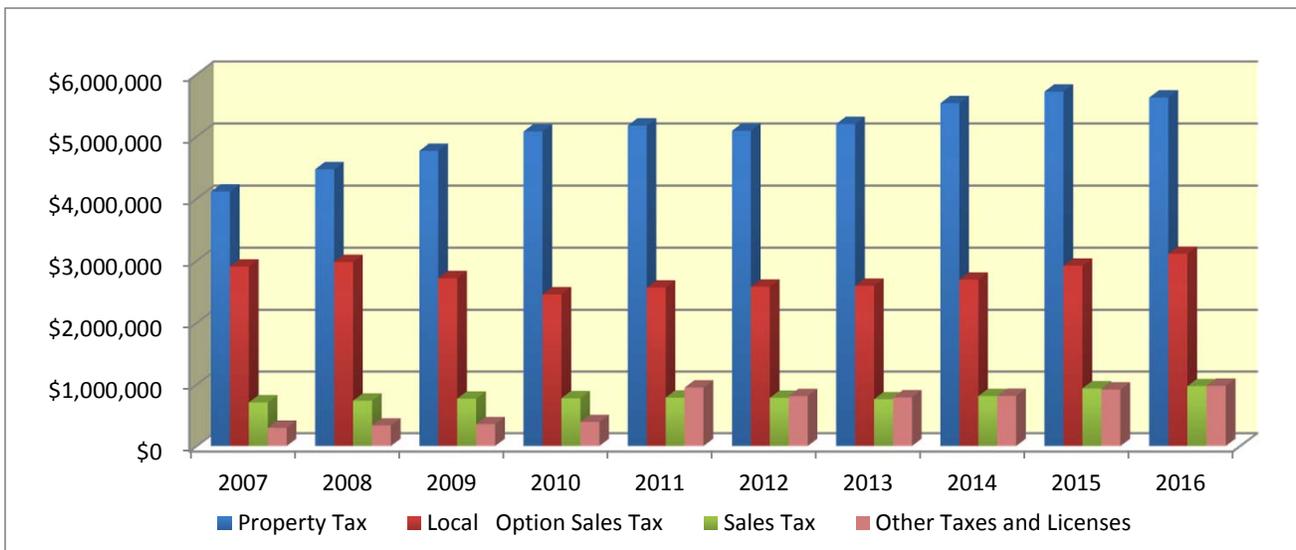
Table 2, page 3 of 3

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

|                                  | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 2014          | 2015          | 2016          |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| <b>Business-type activities:</b> |              |              |              |              |              |              |              |               |               |               |
| Other taxes and licenses         | 302,426      | 293,824      | 285,311      | 293,352      | 286,181      | 277,993      | 297,967      | 319,537       | 735,702       | 737,150       |
| Unrestricted investment earnings | 156,135      | 91,899       | 20,600       | 8,464        | 6,915        | 7,177        | 6,490        | 5,081         | 8,758         | 20,922        |
| Miscellaneous                    | 602,615      | 363,383      | 354,628      | 376,124      | -            | -            | -            | 31,870        | 4,728         | 1,732         |
| Capital contributions            | -            | -            | -            | -            | -            | -            | -            | 28,033        | -             | -             |
| Transfers                        | 279,900      | 143,500      | 215,000      | 466,921      | (5,000)      | (3,350)      | (10,000)     | (4,000)       | -             | -             |
| Total business-type activities   | 1,341,076    | 892,606      | 875,539      | 1,144,861    | 288,096      | 281,820      | 294,457      | 380,521       | 749,188       | 759,804       |
| Total primary government         | \$ 9,393,716 | \$ 9,395,745 | \$ 9,481,464 | \$ 9,641,619 | \$ 9,777,961 | \$ 9,557,984 | \$ 9,660,046 | \$ 10,246,676 | \$ 11,260,424 | \$ 11,484,410 |
| <b>Change in Net Position:</b>   |              |              |              |              |              |              |              |               |               |               |
| Governmental activities          | \$ 1,270,110 | \$ 354,589   | \$ (22,873)  | \$ (54,993)  | \$ 98,617    | \$ 1,730,835 | \$ 717,958   | \$ 1,081,645  | \$ 1,927,902  | \$ 1,497,956  |
| Business-type activities         | 76,296       | 1,250,654    | 1,211,168    | 1,624,165    | 1,323,715    | 1,509,250    | 773,902      | 550,195       | 249,278       | 642,859       |
| Total primary government         | \$ 1,346,406 | \$ 1,605,243 | \$ 1,188,295 | \$ 1,569,172 | \$ 1,422,332 | \$ 3,240,085 | \$ 1,491,860 | \$ 1,631,840  | \$ 2,177,180  | \$ 2,140,815  |

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

| <b>Fiscal Year</b> | <b>Property Tax</b> | <b>Local Option Sales Tax</b> | <b>Utilities Sales Tax</b> | <b>Other Taxes and Licenses</b> | <b>Total</b> |
|--------------------|---------------------|-------------------------------|----------------------------|---------------------------------|--------------|
| 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    |
| 2015               | 5,723,810           | 2,917,919                     | 935,345                    | 917,719                         | 10,494,793   |
| 2016               | 5,627,039           | 3,111,139                     | 971,859                    | 978,029                         | 10,688,066   |



CITY OF NEWTON, NORTH CAROLINA

Table 4

|   | 2007                | 2008                | 2009                | 2010                | 2011                | 2012                | 2013                | 2014                | 2015                | 2016                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>General Fund:</b>                        |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Reserved                                    | \$ 1,070,027        | \$ 1,482,789        | \$ 804,056          | \$ 1,388,536        |                     |                     |                     |                     |                     |                     |
| Unreserved                                  |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Designated                                  | 23,300              | 275,500             | 323,250             | 415,000             |                     |                     |                     |                     |                     |                     |
| Undesignated                                | 2,842,104           | 2,353,432           | 2,694,337           | 1,872,934           |                     |                     |                     |                     |                     |                     |
| Non-Spendable - inventory                   | -                   | -                   | -                   | -                   | \$ 47,797           | \$ 46,555           | \$ 62,836           | \$ 56,653           | \$ 41,363           | \$ 41,442           |
| Non-Spendable - prepaids                    | -                   | -                   | -                   | -                   | -                   | -                   | -                   | -                   | 194,572             | 214,392             |
| Restricted - Stabilization by State Statute | -                   | -                   | -                   | -                   | 633,240             | 672,248             | 735,016             | 1,114,520           | 1,145,967           | 944,907             |
| Restricted                                  | -                   | -                   | -                   | -                   | 413,353             | 2,368,989           | 1,763,479           | 2,017,530           | 2,374,069           | 1,985,557           |
| Assigned                                    | -                   | -                   | -                   | -                   | -                   | -                   | 47,490              | 42,750              | 45,690              | 474,790             |
| Unassigned                                  | -                   | -                   | -                   | -                   | 2,871,206           | 2,636,336           | 2,615,140           | 3,190,736           | 4,130,932           | 4,960,008           |
| <b>Total General Fund</b>                   | <b>\$ 3,935,431</b> | <b>\$ 4,111,721</b> | <b>\$ 3,821,643</b> | <b>\$ 3,676,470</b> | <b>\$ 3,965,596</b> | <b>\$ 5,724,128</b> | <b>\$ 5,223,961</b> | <b>\$ 6,422,189</b> | <b>\$ 7,932,593</b> | <b>\$ 8,621,096</b> |

**All other Governmental Funds:**

|                           |                   |                     |                   |                  |                  |                  |                   |                     |                  |                   |
|---------------------------|-------------------|---------------------|-------------------|------------------|------------------|------------------|-------------------|---------------------|------------------|-------------------|
| Unreserved, reported in   |                   |                     |                   |                  |                  |                  |                   |                     |                  |                   |
| Special revenue funds     | \$ 60             | \$ 115,667          | \$ (4,758)        | \$ 10,587        |                  |                  |                   |                     |                  |                   |
| Capital projects funds    | 947,145           | 1,132,305           | 562,662           | 3,696            |                  |                  |                   |                     |                  |                   |
| Non-Spendable - prepaids  | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| Special revenue funds     | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| Capital projects funds    | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| Restricted                | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| Special revenue funds     | -                 | -                   | -                 | -                | 2,871,206        | 2,636,336        | 2,615,140         | 3,190,736           | 4,130,932        | 4,960,008         |
| Capital projects funds    | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| Committed                 | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| Special revenue funds     | -                 | -                   | -                 | -                | 14,919           | 2,595            | -                 | -                   | -                | -                 |
| Capital projects funds    | -                 | -                   | -                 | -                | 35,724           | 87,538           | 97,930            | -                   | -                | -                 |
| Unassigned                | -                 | -                   | -                 | -                | (6,748)          | (893)            | -                 | (251,783)           | -                | -                 |
| Special revenue funds     | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| Capital projects funds    | -                 | -                   | -                 | -                |                  |                  |                   |                     |                  |                   |
| <b>Total expenditures</b> | <b>\$ 947,205</b> | <b>\$ 1,247,972</b> | <b>\$ 557,904</b> | <b>\$ 14,283</b> | <b>\$ 54,062</b> | <b>\$ 91,782</b> | <b>\$ 227,028</b> | <b>\$ 2,084,251</b> | <b>\$ 30,394</b> | <b>\$ (7,962)</b> |

Note: The City implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

CITY OF NEWTON, NORTH CAROLINA

Table 5

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

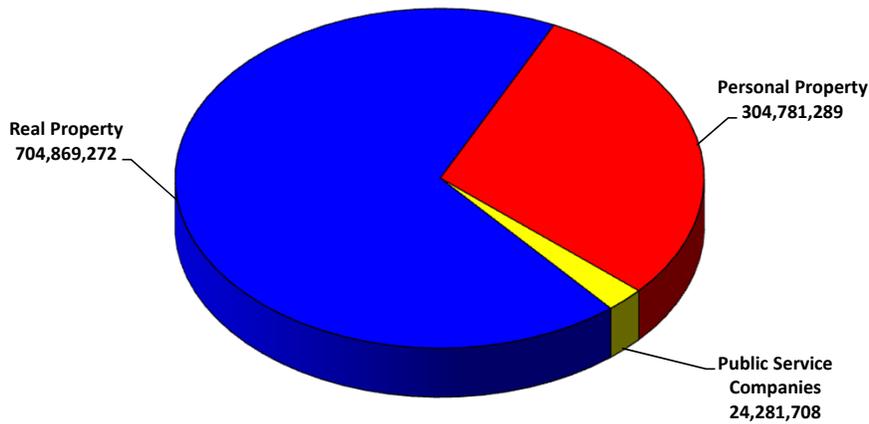
|  | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenues:</b>   |              |              |              |              |              |              |              |              |              |              |
| Ad valorem taxes   | \$ 4,050,291 | \$ 4,438,510 | \$ 4,778,068 | \$ 5,055,130 | \$ 5,122,713 | \$ 5,045,726 | \$ 5,136,073 | \$ 5,522,391 | \$ 5,820,879 | \$ 5,661,736 |
| Other taxes and licenses                                 | 3,201,162    | 3,311,772    | 3,078,204    | 2,857,098    | 2,930,535    | 2,969,847    | 2,961,194    | 3,062,603    | 3,374,238    | 3,593,002    |
| Unrestricted intergovernmental                           | 1,164,637    | 1,118,050    | 1,191,910    | 1,204,608    | 1,369,777    | 1,203,555    | 1,182,007    | 1,256,213    | 1,396,745    | 1,468,025    |
| Restricted intergovernmental                             | 679,678      | 529,144      | 513,078      | 597,264      | 474,851      | 667,112      | 495,228      | 734,785      | 505,854      | 576,029      |
| Permits and fees   | 99,347       | 96,389       | 93,689       | 93,514       | 89,953       | 85,022       | 120,130      | 77,535       | 77,621       | 74,062       |
| Sales and services                                       | 590,302      | 585,753      | 695,115      | 678,966      | 688,134      | 668,236      | 869,564      | 1,068,745    | 987,234      | 974,145      |
| Investment earnings                                      | 211,644      | 144,014      | 37,581       | 6,934        | 7,244        | 6,751        | 10,271       | 6,955        | 14,278       | 31,686       |
| Miscellaneous  | 462,232      | 165,048      | 219,541      | 134,051      | 190,544      | 1,399,330    | 241,416      | 170,798      | 499,570      | 219,099      |
| Total revenues   | 10,459,293   | 10,388,680   | 10,607,186   | 10,627,565   | 10,873,751   | 12,045,579   | 11,015,883   | 11,900,025   | 12,676,419   | 12,597,784   |
| <b>Expenditures:</b>                                     |              |              |              |              |              |              |              |              |              |              |
| Current:   |              |              |              |              |              |              |              |              |              |              |
| General government                                       | 1,340,147    | 1,653,311    | 1,509,016    | 1,473,652    | 1,421,950    | 1,226,079    | 1,190,651    | 1,297,639    | 1,424,326    | 1,441,187    |
| Transportation   | 759,744      | 872,692      | 893,155      | 705,417      | 860,236      | 990,918      | 1,106,278    | 932,167      | 1,205,132    | 1,116,908    |
| Environmental protection                                 | 790,997      | 819,716      | 848,560      | 853,462      | 853,954      | 899,515      | 1,276,480    | 994,820      | 987,293      | 1,065,055    |
| Public safety  | 4,251,032    | 4,317,743    | 4,613,889    | 4,512,692    | 4,607,757    | 5,377,827    | 4,942,898    | 5,422,069    | 5,934,798    | 5,773,881    |
| Cultural and recreational                                | 1,272,118    | 1,411,037    | 1,480,708    | 2,072,172    | 2,009,886    | 2,008,898    | 2,080,553    | 1,699,457    | 1,605,676    | 1,531,592    |
| Economic and physical development                        | 1,007,041    | 908,077      | 920,126      | 170,216      | 391,090      | 133,577      | 1,000        | 50,000       | -            | -            |
| Capital Outlay   | 561,323      | 673,591      | 1,002,279    | 712,186      | -            | -            | 251,314      | 1,605,278    | 2,066,766    | 387,731      |
| Debt service:  |              |              |              |              |              |              |              |              |              |              |
| Principal  | 486,407      | 566,692      | 792,708      | 748,659      | 772,042      | 777,353      | 878,663      | 768,247      | 1,086,464    | 1,064,396    |
| Interest   | 106,265      | 125,270      | 161,982      | 178,738      | 133,930      | 136,849      | 122,930      | 101,897      | 193,809      | 192,638      |
| Total expenditures                                       | 10,575,074   | 11,348,129   | 12,222,423   | 11,427,194   | 11,050,845   | 11,551,016   | 11,850,767   | 12,871,574   | 14,504,264   | 12,573,388   |
| Revenues over (under) expenditures                       | (115,781)    | (959,449)    | (1,615,237)  | (799,629)    | (177,094)    | 494,563      | (834,884)    | (971,549)    | (1,827,845)  | 24,396       |
| <b>Other Financing Sources (Uses):</b>                   |              |              |              |              |              |              |              |              |              |              |
| Issuance of debt   | 247,600      | 1,554,750    | 823,000      | 509,150      | 501,000      | 1,298,339    | 443,682      | 4,023,000    | 1,284,392    | 655,100      |
| Other miscellaneous receipts                             | 100,000      | -            | 57,626       | 45,631       | -            | -            | -            | -            | -            | -            |
| Transfers from other funds                               | 404,900      | 1,208,843    | 215,650      | 418,136      | 375,330      | 177,685      | 445,417      | 267,676      | -            | 29,413       |
| Transfers to other funds                                 | (684,800)    | (1,352,343)  | (430,650)    | (885,057)    | (370,330)    | (174,335)    | (435,417)    | (263,676)    | -            | (29,413)     |
| Capital contributions                                    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Total other financing sources (uses)                     | 67,700       | 1,411,250    | 665,626      | 87,860       | 506,000      | 1,301,689    | 453,682      | 4,027,000    | 1,284,392    | 655,100      |
| Net change in fund balances                              | \$ (48,081)  | \$ 451,801   | \$ (949,611) | \$ (711,769) | \$ 328,906   | \$ 1,796,252 | \$ (381,202) | \$ 3,055,451 | \$ (543,453) | \$ 679,496   |
| Debt service as a percentage of non-capital expenditures | 6.6%         | 7.1%         | 9.0%         | 8.7%         | 8.7%         | 8.9%         | 9.5%         | 8.3%         | 11.6%        | 11.2%        |

Assessed Valuation of Property  
Last Ten Fiscal Years  
(Unaudited)

| Fiscal Year | Assessed Value <sup>(1)</sup> |                                  |                          |                | Property Tax Rate (Per \$100 Assessed Value) | Percent Increase in Value <sup>(2)</sup> |
|-------------|-------------------------------|----------------------------------|--------------------------|----------------|--|--|
|             | Real Property                 | Personal Property <sup>(3)</sup> | Public Service Companies | Total          |  |  |
| 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        | 773,519,907                   | 279,668,240                      | 21,178,162               | 1,074,366,309  | 0.48   | 0.5%                                     |
| 2012 (2)    | 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%                                     |
| 2015        | 771,410,548                   | 318,829,225                      | 20,837,982               | 1,111,077,755  | 0.51   | -2.7%                                    |
| 2016 (2)    | 704,869,272                   | 304,781,289                      | 24,281,708               | 1,033,932,269  | 0.54   | -6.9%                                    |

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)**

| Fiscal<br>Year | City of<br>Newton | Catawba<br>County | Total<br>City and<br>County Rate |
|----------------|-------------------|-------------------|----------------------------------|
| 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                            |
| 2015           | 0.51              | 0.530             | 1.040                            |
| 2016           | 0.54              | 0.575             | 1.115                            |

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          | 2016                     |      |  | 2007                     |      |  |
|------------------------------|-----------------------------|--------------------------|------|--|--------------------------|------|--|
|                              |                             | Total Assessed Valuation | Rank | Percentage of Total Assessed Valuation | Total Assessed Valuation | Rank | Percentage of Total Assessed Valuation |
| Target Corp.                 | Distribution Center         | \$ 83,772,749            | 1    | 8.10%                                  |                          |      |  |
| ZF Lemforder Corp.           | Automotive Product Mfg.     | 38,025,381               | 2    | 3.68%                                  | \$ 12,104,362            | 3    | 1.37%                                  |
| Sarstedt, Inc.               | Pharmaceutical Plastics     | 22,668,122               | 3    | 2.19%                                  | 9,425,235                | 6    | 1.09%                                  |
| Flowers Baking Co.           | Bread and Pastries          | 16,415,981               | 4    | 1.59%                                  | 9,111,362                | 7    | 1.02%                                  |
| Technibilt, Ltd.             | Shopping Cart Manufacturing | 14,347,297               | 5    | 1.39%                                  | 9,102,504                | 8    | 1.02%                                  |
| International Paper          | Paper Products              | 9,471,154                | 6    | 0.92%                                  |                          |      |  |
| Renwood Mills                | Flour Mill                  | 9,003,623                | 7    | 0.87%                                  |                          |      |  |
| Peoples Bank                 | Banking                     | 8,603,638                | 8    | 0.83%                                  | 8,696,328                | 9    | 0.98%                                  |
| Duke Energy Corporation      | Electric Power              | 8,157,563                | 9    | 0.79%                                  |                          |      |  |
| Bassett Furniture Industries | Furniture Manufacturing     | 7,417,873                | 10   | 0.72%                                  | 10,664,103               | 4    | 1.20%                                  |
| Comm Scope, Inc.             | Fiber Optic Cable           |                          |      |  | 14,700,143               | 1    | 1.65%                                  |
| Bell South Telephone Co.     | Utility                     |                          |      |  | 8,095,551                | 10   | 0.91%                                  |
| Willamette Industries        | Paper Products              |                          |      |  | 10,054,629               | 5    | 1.13%                                  |
| Midstate Mills, Inc.         | Flour Mill                  |                          |      |  | 14,391,901               | 2    | 1.62%                                  |
| <b>Totals</b>                |                             | <b>\$ 217,883,381</b>    |      | <b>21.08%</b>                          | <b>\$ 106,346,118</b>    |      | <b>11.99%</b>                          |

Source: Catawba County Tax Office

**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 <sup>(1)</sup> |
|-------------|--------------------------------|---------------------------|----|------------------------------|---------------------------------|-------------------------------|---|--|
|             |                                | Taxes Collected/ Credited | \$ |                              |                                 |                               |   |  |
| 2007        | \$ 4,090,445                   | \$ 3,909,686              | \$ | 95.6%                        | \$ 147,193                      | \$ 4,056,879                  | 99.2%   | \$ 33,566  |
| 2008        | 4,445,586                      | 4,263,276                 |    | 95.9%                        | 153,984                         | 4,417,260                     | 99.4%   | 28,326   |
| 2009        | 4,727,721                      | 4,543,983                 |    | 96.1%                        | 153,839                         | 4,697,822                     | 99.4%   | 29,899   |
| 2010        | 5,160,638                      | 4,983,452                 |    | 96.6%                        | 145,363                         | 5,128,815                     | 99.4%   | 31,823   |
| 2011        | 5,162,400                      | 4,945,369                 |    | 95.8%                        | 178,964                         | 5,124,333                     | 99.3%   | 38,067   |
| 2012        | 5,095,309                      | 4,853,555                 |    | 95.3%                        | 196,380                         | 5,049,935                     | 99.1%   | 45,374   |
| 2013        | 5,225,531                      | 4,951,737                 |    | 94.8%                        | 200,029                         | 5,151,766                     | 98.6%   | 73,765   |
| 2014        | 5,495,149                      | 5,267,703                 |    | 95.9%                        | 155,441                         | 5,423,144                     | 98.7%   | 72,005   |
| 2015        | 5,674,945                      | 5,538,243                 |    | 97.6%                        | 51,947                          | 5,590,190                     | 98.5%   | 84,755   |
| 2016        | 5,595,433                      | 5,467,059                 |    | 97.7%                        | -                               | 5,467,059                     | 97.7%   | 128,374  |

**NOTES:**

<sup>(1)</sup> Includes current portion only of taxes receivable.

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**CITY OF NEWTON, NORTH CAROLINA**

Table 10

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

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| <b>Fiscal<br/>Year</b> | <b>Type of Customer</b> |                   |                   | <b>Total</b> |
|------------------------|-------------------------|-------------------|-------------------|--------------|
|                        | <b>Residential</b>      | <b>Industrial</b> | <b>Commercial</b> |              |
| 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        |
| 2015                   | 47.6                    | 51.5              | 47.0              | 146.1        |
| 2016                   | 46.9                    | 50.2              | 47.6              | 144.7        |

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 |
| 2007        | \$ 9.08          | \$ 0.076660          | \$ 0.086160           | \$ 0.077556            | \$ 18.77         | \$ 6.0900                  | \$ 0.106980           | \$ 0.058496            | \$ 0.051261             |
| 2008        | 9.35             | 0.078960             | 0.088745              | 0.079883               | 19.15            | 6.1800                     | 0.109120              | 0.059666               | 0.052286                |
| 2009        | 9.63             | 0.081329             | 0.091407              | 0.082279               | 19.53            | 6.3000                     | 0.111302              | 0.060859               | 0.053332                |
| 2010        | 10.02            | 0.084582             | 0.095063              | 0.085570               | 20.12            | 6.4900                     | 0.114641              | 0.062685               | 0.054932                |
| 2011        | 10.52            | 0.088811             | 0.099816              | 0.089849               | 21.13            | 6.8100                     | 0.120373              | 0.065819               | 0.057679                |
| 2012        | 11.10            | 0.093696             | 0.105306              | 0.094791               | 22.29            | 7.1800                     | 0.126994              | 0.069439               | 0.060851                |
| 2013        | 11.79            | 0.099505             | 0.111835              | 0.100668               | 23.67            | 7.6300                     | 0.134868              | 0.073744               | 0.064624                |
| 2014        | 12.45            | 0.105077             | 0.118098              | 0.106305               | 25.00            | 8.0573                     | 0.142421              | 0.077874               | 0.068243                |
| 2015        | 12.45            | 0.105077             | 0.118098              | 0.106305               | 25.00            | 8.0573                     | 0.142421              | 0.077874               | 0.068243                |
| 2016        | 12.57            | 0.106128             | 0.119279              | 0.107368               | 25.25            | 8.1379                     | 0.143845              | 0.078653               | 0.068925                |

| Fiscal Year | Commercial       |                   |                       |                        |                         |
|-------------|------------------|-------------------|-----------------------|------------------------|-------------------------|
|             | Basic Facilities | Demand over 30 KW | Rate per kWh 1st 3000 | Rate per kWh next 9000 | Rate per kWh over 12000 |
| 2007        | \$ 12.18         | \$ 6.6500         | \$ 0.107705           | \$ 0.056565            | \$ 0.051016             |
| 2008        | 12.55            | 6.8500            | 0.110936              | 0.058262               | 0.052546                |
| 2009        | 12.93            | 7.0524            | 0.114264              | 0.060010               | 0.054122                |
| 2010        | 13.45            | 7.3345            | 0.118835              | 0.062410               | 0.056287                |
| 2011        | 14.12            | 7.7012            | 0.124777              | 0.065531               | 0.059101                |
| 2012        | 14.90            | 8.1248            | 0.131640              | 0.069135               | 0.062352                |
| 2013        | 15.82            | 8.6285            | 0.139802              | 0.073421               | 0.066218                |
| 2014        | 16.71            | 9.1117            | 0.147631              | 0.077533               | 0.069926                |
| 2015        | 16.71            | 9.1117            | 0.147631              | 0.077533               | 0.069926                |
| 2016        | 16.88            | 9.2028            | 0.149107              | 0.078308               | 0.070625                |

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 <sup>(1)</sup> | Per Capita <sup>(1)</sup> |
|-------------|--------------------------|---------------|--------------------------|---------------|------------------|--|---------------------------|
|             | General Obligation Bonds | Loans Payable | General Obligation Bonds | Loans Payable |                  |  |                           |
| 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       | 4.48%  | 1,579                     |
| 2014        | -                        | 7,148,803     | -                        | 16,068,940    | 23,217,743       | 4.85%  | 1,782                     |
| 2015        | -                        | 7,346,731     | -                        | 18,160,439    | 25,507,170       | N/A  | 1,959                     |
| 2016        | -                        | 6,937,435     | -                        | 16,492,279    | 23,429,714       | N/A  | 1,805                     |

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 <sup>(1)</sup> | Total Assessed Value | Gross Bonded Debt | Percentage of                              |                               | Per Capita |
|-------------|---------------------------|----------------------|-------------------|--|-------------------------------|------------|
|             |                           |                      |                   | Estimated Actual Taxable Value of Property | Percentage of Personal Income |            |
| 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%                                      | 0.00%                         | -          |
| 2014        | 13,031                    | 1,141,968,350        | -                 | 0.00%                                      | 0.00%                         | -          |
| 2015        | 13,018                    | 1,111,077,755        | -                 | 0.00%                                      | N/A                           | -          |
| 2016        | 12,982                    | 1,033,932,269        | -                 | 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, 2016  
(Unaudited)**

|                                  | <u>Debt<br/>Outstanding</u> | <u>Estimated<br/>Percentage<br/>Applicable</u> | <u>Estimated<br/>Share of<br/>Overlapping<br/>Debt</u> |
|----------------------------------|-----------------------------|--|--|
| Debt repaid with property taxes: |                             |  |  |
| County of Catawba                | \$ 148,502,990              | 6.42%  | \$ 9,533,892   |
| Subtotal, overlapping debt       |                             |  | <u>9,533,892</u>                                       |
| City of Newton direct debt       |                             |  | <u>6,937,435</u>                                       |
| Total                            |                             |  | <u><u>\$ 16,471,327</u></u>                            |

Note: The percentage of overlapping debt is based on the June 30, 2016 assessed valuation of the County of Catawba of \$16,094,340,156 as compared to the June 30, 2016 assessed valuation for the City of Newton of \$1,033,932,269.

CITY OF NEWTON, NORTH CAROLINA

Table 15

Legal Debt Margin Information  
Last Ten Fiscal Years  
(Unaudited)

|   | 2007           | 2008           | 2009           | 2010             | 2011             | 2012             | 2013             | 2014             | 2015             | 2016             |
|---|----------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Assessed value of taxable property  | \$ 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 | \$ 1,111,077,755 | \$ 1,033,932,269 |
| Debt limit, 8% of assessed value<br>(statutory limitation)                                  | \$ 71,550,977  | \$ 76,440,910  | \$ 78,020,862  | \$ 85,514,459    | \$ 85,949,305    | \$ 84,860,037    | \$ 86,684,391    | \$ 91,357,468    | \$ 88,886,220    | \$ 82,714,582    |
| Debt applicable to limit:   |                |                |                |                  |                  |                  |                  |                  |                  |                  |
| General obligation bonds  | 1,920,000      | 1,450,000      | 985,000        | 530,000          | 85,000           | -                | -                | -                | -                | -                |
| Loans payable   | 19,630,285     | 19,071,048     | 22,017,823     | 19,991,608       | 17,727,429       | 20,797,648       | 20,465,530       | 23,217,743       | 25,507,170       | 23,429,714       |
| Total net debt applicable to limit  | 21,550,285     | 20,521,048     | 23,002,823     | 20,521,608       | 17,812,429       | 20,797,648       | 20,465,530       | 23,217,743       | 25,507,170       | 23,429,714       |
| Legal debt margin   | \$ 50,000,692  | \$ 55,919,862  | \$ 55,018,039  | \$ 64,992,851    | \$ 68,136,876    | \$ 64,062,389    | \$ 66,218,861    | \$ 68,139,725    | \$ 63,379,050    | \$ 59,284,868    |
| Total net debt applicable to the<br>limit as a percentage of assessed<br>property tax value | 2.41%          | 2.15%          | 2.36%          | 1.92%            | 1.66%            | 1.96%            | 1.89%            | 2.03%            | 2.30%            | 2.27%            |

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 <sup>(1)</sup> | Personal Income (amounts expressed in thousands) <sup>(5)</sup> | Per Capita Personal Income <sup>(2)(5)</sup> | Median Age <sup>(1)</sup> | School Enrollment <sup>(3)</sup> | Unemployment Rate <sup>(4)</sup> |
|-------------|---------------------------|---|--|---------------------------|----------------------------------|----------------------------------|
| 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                    | 456,875   | 35,250                                       | 40.3                      | 2,977                            | 10.8%                            |
| 2014        | 13,031                    | 478,785   | 36,742                                       | 40.5                      | 3,073                            | 7.1%                             |
| 2015        | 13,018                    | N/A   | N/A  | 40.7                      | 3,094                            | 6.1%                             |
| 2016        | 12,982                    | N/A   | N/A  | 40.9                      | 3,078                            | 4.9%                             |

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 is 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   | 2016          |      |                                       |               | 2007 |                                       |           |      |                                       |
|--|---------------|------|---------------------------------------|---------------|------|---------------------------------------|-----------|------|---------------------------------------|
|  | Employees     | Rank | Percentage of Total County Employment | Employees     | Rank | Percentage of Total County Employment | Employees | Rank | Percentage of Total County Employment |
| Catawba County Schools                             | 2,043         | 1    | 2.73%                                 | 2,051         | 1    | 2.68%                                 |           |      |                                       |
| Catawba County Government                          | 1,033         | 2    | 1.38%                                 | 1,147         | 2    | 1.50%                                 |           |      |                                       |
| Lee Industries                                     | 738           | 3    | 0.99%                                 | 365           | 7    | 0.48%                                 |           |      |                                       |
| Bassett Furniture                                  | 529           | 4    | 0.71%                                 |               |      |                                       |           |      |                                       |
| Newton-Conover City Schools                        | 434           | 5    | 0.58%                                 | 445           | 4    | 0.58%                                 |           |      |                                       |
| Target Distribution Center                         | 400           | 6    | 0.53%                                 |               |      |                                       |           |      |                                       |
| Technibilt   | 391           | 7    | 0.52%                                 | 296           | 8    | 0.39%                                 |           |      |                                       |
| McCreary Modern                                    | 375           | 8    | 0.50%                                 | 760           | 3    | 0.99%                                 |           |      |                                       |
| United Church Homes & Services (Abernethy Laurels) | 365           | 9    | 0.49%                                 | 260           | 9    | 0.34%                                 |           |      |                                       |
| City of Newton                                     | 276           | 10   | 0.37%                                 |               |      |                                       |           |      |                                       |
| Goldtoe-Moretz                                     |               |      |                                       | 425           | 5    | 0.56%                                 |           |      |                                       |
| Getrag Gears                                       |               |      |                                       | 370           | 6    | 0.48%                                 |           |      |                                       |
| Sarstedt   |               |      |                                       | 214           | 10   | 0.28%                                 |           |      |                                       |
| <b>Total</b>                                       | <b>6,584</b>  |      | <b>8.80%</b>                          | <b>6,333</b>  |      | <b>8.28%</b>                          |           |      |                                       |
| <b>Total Civilian Labor Force</b>                  | <b>74,912</b> |      |                                       | <b>76,496</b> |      |                                       |           |      |                                       |

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                          | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| General Government Administration | 3          | 3          | 3          | 3          | 3          | 3          | 4          | 4          | 4          | 4          |
| Finance                           | 8          | 8          | 9          | 9          | 9          | 9          | 9          | 9          | 9          | 9          |
| Finance-Purchasing/Warehouse      | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          |
| Technology/MIS                    | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          |
| Human Resources                   | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          |
| Planning                          | 4          | 4          | 5          | 5          | 4          | 4          | 3          | 3          | 3          | 3          |
| Public Works Administration       | 3          | 2          | 3          | 3          | 2          | 2          | 2          | 2          | 2          | 2          |
| Garage                            | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          |
| Transportation                    |            |            |            |            |            |            |            |            |            |            |
| Street                            | 9          | 10         | 7          | 7          | 6          | 6          | 6          | 6          | 6          | 6          |
| Powell Bill                       |            |            | 3          | 3          | 3          | 3          | 3          | 3          | 3          | 3          |
| Environmental Protection          |            |            |            |            |            |            |            |            |            |            |
| Sanitation                        | 12         | 13         | 13         | 13         | 13         | 13         | 13         | 14         | 14         | 14         |
| Public Safety                     |            |            |            |            |            |            |            |            |            |            |
| Police                            |            |            |            |            |            |            |            |            |            |            |
| Officers                          | 35         | 35         | 35         | 34         | 35         | 35         | 35         | 36         | 36         | 36         |
| Civilians                         | 8          | 8          | 8          | 9          | 8          | 8          | 9          | 8          | 8          | 8          |
| Fire                              | 25         | 25         | 26         | 25         | 26         | 26         | 26         | 26         | 26         | 28         |
| Cultural and Recreational         |            |            |            |            |            |            |            |            |            |            |
| Administration                    | 11         | 11         | 11         | 11         | 10         | 10         | 10         | 10         | 10         | 10         |
| Cemeteries                        | 4          | 4          | 4          | 4          | 4          | 4          | 4          | 4          | 4          | 4          |
| Water and Sewer                   |            |            |            |            |            |            |            |            |            |            |
| Distribution and Collection       | 12         | 11         | 10         | 10         | 10         | 11         | 11         | 11         | 11         | 11         |
| Water Treatment Plant             | 8          | 8          | 8          | 8          | 8          | 9          | 9          | 8          | 8          | 8          |
| Waste Water Treatment Plant       | 13         | 13         | 13         | 13         | 12         | 12         | 12         | 12         | 12         | 12         |
| Electric                          | 15         | 15         | 15         | 15         | 15         | 15         | 15         | 14         | 14         | 13         |
| <b>Total</b>                      | <b>178</b> | <b>178</b> | <b>181</b> | <b>180</b> | <b>176</b> | <b>178</b> | <b>179</b> | <b>178</b> | <b>178</b> | <b>179</b> |

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                       | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Police**</b>                |        |        |        |        |        |        |        |        |        |        |
| Calls for Service              | 19,587 | 17,812 | 22,720 | 25,078 | 26,517 | 23,609 | 22,265 | 20,352 | 21,951 | 18,171 |
| Arrests                        | 680    | 712    | 739    | 599    | 601    | 742    | 659    | 644    | 578    | 668    |
| Traffic Stops                  | 2,518  | 1,801  | 2,169  | 1,580  | 2,903  | 2,779  | 2,596  | 2,242  | 2,181  | 2,122  |
| Citations                      | 2,491  | 1,677  | 1,945  | 1,435  | 2,665  | 2,561  | 1,797  | 1,597  | 1,400  | 1,229  |
| Property Checks*               | 235    | 347    | 5,554  | 8,611  | 8,669  | 6,148  | 4,656  | 5,255  | 5,719  | 3,239  |
| Incidents                      | 2,275  | 2,097  | 2,145  | 1,944  | 2,003  | 1,823  | 1,817  | 2,408  | 2,445  | 2,655  |
| <b>Fire</b>                    |        |        |        |        |        |        |        |        |        |        |
| Emergency Incidents(Calls)     | 689    | 828    | 806    | 826    | 883    | 911    | 1,110  | 1,098  | 1,634  | 1,829  |
| Fire Inspections Completed     | 529    | 546    | 601    | 543    | 492    | 575    | 535    | 578    | 604    | 602    |
| Fire Prevention Programs       | 442    | 265    | 237    | 257    | 176    | 244    | 131    | 76     | 51     | 77     |
| Permits Issued                 | 40     | 51     | 39     | 28     | 40     | 42     | 42     | 24     | 89     | 127    |
| Training Hours Completed       | 8,218  | 10,181 | 7,829  | 8,721  | 9,282  | 10,453 | 8,638  | 8,795  | 5,735  | 9,269  |
| <b>Highways &amp; Streets</b>  |        |        |        |        |        |        |        |        |        |        |
| Paved/Resurfaced (miles)       | -      | 1.39   | 3.00   | 2.00   | 2.00   | 1.27   | 1.04   | -      | 3.44   | 0.25   |
| Potholes Repaired              | 53     | 65     | 11     | 69     | 72     | 28     | 35     | 54     | 20     | 65     |
| <b>Sanitation</b>              |        |        |        |        |        |        |        |        |        |        |
| Residential collections (tons) | 4,711  | 4,495  | 4,114  | 4,263  | 4,343  | 4,281  | 4,260  | 4,360  | 4,269  | 4,505  |
| Recyclables (tons)             | 422    | 418    | 472    | 464    | 418    | 439    | 418    | 387    | 383    | 409    |
| Yardwaste collected (tons)     | 717    | 279    | 440    | 733    | 1,940  | 994    | 2,115  | 1,191  | 975    | 919    |
| Households served**            | 5,077  | 5,368  | 5,368  | 5,368  | 5,440  | 5,440  | 4,632  | 4,642  | 4,645  | 4,652  |

CITY OF NEWTON, NORTH CAROLINA

Table 19, page 2 of 2

Operating Indicators By Function  
Last Ten Fiscal Years  
(Unaudited)

| Function                                 | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    | 2013    | 2014    | 2015    | 2016    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Cultural and Recreational (participants) |         |         |         |         |         |         |         |         |         |         |
| Center activities                        | 17,691  | 18,011  | 19,252  | 21,126  | 23,351  | 24,123  | 24,150  | 26,149  | 27,800  | 23,542  |
| Athletics                                | 34,086  | 36,250  | 56,205  | 58,093  | 60,874  | 70,326  | 65,987  | 60,175  | 61,152  | 58,388  |
| Fitness Room                             | 1,901   | 2,565   | 3,575   | 3,721   | 3,250   | 3,200   | 1,200   | 1,204   | 1,351   | 2,015   |
| Swimming Pool                            | 5,300   | 5,611   | 6,571   | -       | 983     | 3,106   | 3,227   | 3,424   | 3,972   | 4,250   |
| Shelters                                 | 750     | 842     | 1,085   | 1,750   | 2,345   | 2,514   | 3,255   | 4,215   | 5,497   | 8,000   |
| Cemetery burials                         | 61      | 60      | 50      | 59      | 48      | 46      | 57      | 90      | 65      | 45      |
| Water                                    |         |         |         |         |         |         |         |         |         |         |
| New connection                           | 59      | 83      | 38      | 28      | 21      | 15      | 20      | 11      | 17      | 22      |
| Water main breaks                        | 22      | 44      | 46      | 32      | 33      | 23      | 12      | 12      | 12      | 17      |
| Avg Daily Consumption (MGD)              | 3.29    | 3.40    | 3.4     | 3.6     | 3.8     | 3.6     | 3.7     | 3.7     | 3.5     | 3.7     |
| Number of customers                      | 5,950   | 6,007   | 6,010   | 5,989   | 5,956   | 5,977   | 5,965   | 5,974   | 6,032   | 6,063   |
| Wastewater                               |         |         |         |         |         |         |         |         |         |         |
| Average daily usage (MGD)                | 2.03    | 1.64    | 1.64    | 1.90    | 1.80    | 1.70    | 1.80    | 1.95    | 1.80    | 1.85    |
| Number of customers                      | 4,653   | 4,682   | 4,681   | 4,663   | 4,679   | 4,653   | 4,656   | 4,670   | 4,687   | 4,688   |
| Electric                                 |         |         |         |         |         |         |         |         |         |         |
| Average daily usage (Kwh)                | 394,807 | 386,553 | 387,314 | 411,850 | 434,421 | 436,351 | 431,198 | 426,462 | 422,703 | 414,894 |
| Peak demand                              | 29,748  | 31,033  | 28,969  | 33,758  | 35,394  | 32,221  | 31,076  | 34,514  | 35,316  | 30,137  |
| Number of customers                      | 4,465   | 4,571   | 4,560   | 4,526   | 4,428   | 4,428   | 4,425   | 4,435   | 4,456   | 4,485   |

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                      | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Police</b>                 |       |       |       |       |       |       |       |       |       |       |
| Police stations               | 4     | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     |
| Police patrol vehicles        | 28    | 29    | 30    | 35    | 30    | 31    | 30    | 35    | 33    | 31    |
| Other police vehicles         | 19    | 19    | 18    | 18    | 18    | 22    | 16    | 16    | 16    | 16    |
| <b>Fire</b>                   |       |       |       |       |       |       |       |       |       |       |
| Fire Stations                 | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     |
| Fire Suppression Vehicles     | 9     | 9     | 9     | 9     | 9     | 9     | 10    | 10    | 10    | 8     |
| Other Fire Vehicles           | 6     | 7     | 7     | 7     | 7     | 7     | 7     | 7     | 6     | 6     |
| <b>Highways &amp; Streets</b> |       |       |       |       |       |       |       |       |       |       |
| Streets maintained (miles)    | 77.22 | 77.39 | 77.39 | 76.34 | 76.58 | 77.39 | 77.39 | 77.39 | 77.39 | 77.39 |
| Storm Sewer (miles)           | 26.46 | 26.52 | 26.52 | 56.48 | 56.53 | 65.36 | 65.4  | 65.4  | 65.4  | 65.4  |
| Sidewalk (miles)              | 27.84 | 27.84 | 27.84 | 27.84 | 27.84 | 27.84 | 27.84 | 27.84 | 27.84 | 27.84 |
| Catch Basin inlets            | 1,377 | 1,380 | 1,380 | 1,380 | 1,380 | 1,380 | 1,380 | 1,380 | 1,380 | 1,380 |
| Powell Bill equipment         | 15    | 15    | 15    | 15    | 15    | 15    | 9     | 9     | 8     | 8     |
| Street equipment              | 18    | 18    | 18    | 18    | 18    | 18    | 28    | 30    | 26    | 26    |
| <b>Sanitation</b>             |       |       |       |       |       |       |       |       |       |       |
| Residential trucks            | 4     | 4     | 4     | 4     | 4     | 4     | 4     | 4     | 4     | 4     |
| Dumpster Trucks               | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2     |
| Other Equipment               | 11    | 11    | 11    | 11    | 11    | 11    | 10    | 10    | 10    | 10    |

CITY OF NEWTON, NORTH CAROLINA

Table 20, page 2 of 2

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

| Function                         | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Cultural and Recreational</b> |       |       |       |       |       |       |       |       |       |       |
| Recreation centers               | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2     |
| Parks                            | 5     | 5     | 5     | 5     | 5     | 5     | 5     | 5     | 5     | 5     |
| Park acreage                     | 63.5  | 63.5  | 63.5  | 153.5 | 153.5 | 153.5 | 153.5 | 153.5 | 153.5 | 153.5 |
| Swimming pool                    | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 1     |
| Tennis courts                    | 8     | 8     | 8     | 8     | 8     | 8     | 8     | 8     | 8     | 8     |
| Cemeteries                       | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     | 3     |
| <b>Water</b>                     |       |       |       |       |       |       |       |       |       |       |
| Water lines (miles)              | 175.7 | 182.9 | 182.9 | 182.9 | 182.9 | 182.5 | 182.5 | 182.5 | 182.5 | 182.5 |
| Fire hydrants                    | 1,070 | 1,075 | 1,075 | 1,077 | 1,077 | 1,077 | 1,022 | 1,022 | 1,024 | 1,024 |
| Max. daily capacity (MGD)        | 8.0   | 8.0   | 8.0   | 8.0   | 8.0   | 8.0   | 8.0   | 8.0   | 8.0   | 8.0   |
| <b>Wastewater</b>                |       |       |       |       |       |       |       |       |       |       |
| Max. daily capacity (MGD)        | 5.0   | 5.0   | 5.0   | 5.0   | 5.0   | 5.0   | 5.0   | 5.0   | 5.0   | 5.0   |
| Sanitary sewer lines (miles)     | 119   | 130.5 | 132.5 | 132.5 | 132.5 | 134.7 | 132   | 132   | 132   | 132   |
| <b>Electric</b>                  |       |       |       |       |       |       |       |       |       |       |
| Substations                      | 5     | 5     | 5     | 5     | 5     | 3     | 2     | 2     | 2     | 2     |
| Service lines (miles)            | 125   | 125   | 125   | 125   | 125   | 125   | 125   | 125   | 125   | 125   |

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

# COMPLIANCE SECTION

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

Report On Compliance For Each Major State Program;  
Report On Internal Control Over Compliance; In  
Accordance With OMB Uniform Guidance; And The State  
Single Audit Implementation Act

Schedule of Findings and Questioned Costs

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards

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# 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 26, 2016.

### 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 26, 2016

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

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

## **Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance With OMB Uniform Guidance; And The State Single Audit Implementation Act**

### **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 State Program**

We have audited the City of Newton, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Newton's major State programs for the year ended June 30, 2016. The City of Newton's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Newton's major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the

State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City of 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 State program. However, our audit does not provide a legal determination of the City of Newton's compliance.

### ***Opinion on Each Major State 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 State programs for the year ended June 30, 2016.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. 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 26, 2016

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**CITY OF NEWTON, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**1. Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiency identified? None reported

Non-compliance material to financial statements noted? No

*State Awards*

Internal control over major State programs:

- Material weakness identified? No
- Significant deficiency identified? None reported

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

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

Identification of major State programs:

Program Name

Powell Bill

Auditee qualified as low risk auditee? No

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**CITY OF NEWTON, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**2. Financial Statements Findings**

None reported.

**3. State Award Findings**

None reported.

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**CITY OF NEWTON, NORTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**CITY OF NEWTON, NORTH CAROLINA**

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

| <u>Grantor/Pass-through<br/>Grantor/Program Title</u>  | <u>Federal<br/>CFDA<br/>Number</u> | <u>State/<br/>Pass-through<br/>Grantor's<br/>Number</u> | <u>Federal<br/>(Direct and<br/>Pass-through)<br/>Expenditures</u> | <u>State<br/>Expenditures</u> | <u>Passed-<br/>Through to<br/>Subrecipients</u> |
|--|------------------------------------|---|---|-------------------------------|---|
| <b>Federal Grants:</b>                                 |                                    |   |   |                               |   |
| <b>Cash Programs:</b>                                  |                                    |   |   |                               |   |
| <u>U.S. Department of Justice</u>                      |                                    |   |   |                               |   |
| Direct Program:  |                                    |   |   |                               |   |
| Equitable Sharing Program                              | 16.922                             | N/A   | \$ 6,092  | \$ -                          | \$ -  |
| Passed-through the N.C. Department of Public Safety:   |                                    |   |   |                               |   |
| Governor's Crime Commission                            |                                    |   |   |                               |   |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738                             | PROJ009696  | 62,183  | -                             | -   |
| Total U.S. Department of Justice                       |                                    |   | <u>68,275</u>   | <u>-</u>                      | <u>-</u>  |
| <u>U.S. Department of Homeland Security</u>            |                                    |   |   |                               |   |
| Passed-through Federal Emergency Management Agency:    |                                    |   |   |                               |   |
| Assistance to Firefighters Grant                       | 97.044                             | EMW-2012-FO-00422                                       | 38,700  | -                             | -   |
| 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   | 51,911  | -                             | -   |
| Total U.S. Department of Homeland Security             |                                    |   | <u>90,611</u>   | <u>-</u>                      | <u>-</u>  |
| Total assistance - federal programs                    |                                    |   | <u>158,886</u>  | <u>-</u>                      | <u>-</u>  |
| <b>State Grants:</b>                                   |                                    |   |   |                               |   |
| <b>Cash Assistance:</b>                                |                                    |   |   |                               |   |
| <u>N.C. Department of Transportation:</u>              |                                    |   |   |                               |   |
| Powell Bill  |                                    | 32570   | -   | 588,146                       | -   |
| Total assistance - State programs                      |                                    |   | <u>-</u>  | <u>588,146</u>                | <u>-</u>  |
| Total assistance                                       |                                    |   | <u>\$ 158,886</u>   | <u>\$ 588,146</u>             | <u>\$ -</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 (SEFSA) includes the federal and State grant activity of the City of Newton under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Newton, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Newton.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Newton has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

