

**Ratings:**  
**Moody's: Aaa**  
**S&P: AAA**  
**Fitch: AAA**  
**(See "Ratings" herein)**

**NEW ISSUE—Book-Entry Only**

*This Official Statement has been prepared by the Local Government Commission of North Carolina and the City of Durham, North Carolina to provide information in connection with the sale and issuance of the Bonds described herein. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in this Official Statement.*



**\$50,775,000**  
**CITY OF DURHAM, NORTH CAROLINA**  
**General Obligation Refunding Bonds**  
**Series 2015**

**Dated: Date of Delivery**

**Due: As shown on inside cover page**

*Tax Treatment*

In the opinion of each of Parker Poe Adams & Bernstein LLP and The Banks Law Firm, P.A., Co-Bond Counsel, under existing law (1) assuming compliance by the City with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (2) interest on the Bonds is exempt from State of North Carolina income taxation. See **"TAX TREATMENT"** herein.

*Redemption*

The Bonds are not subject to redemption prior to maturity.

*Security*

The Bonds constitute general obligations of the City, secured by a pledge of the faith and credit and taxing power of the City.

*Interest Payment Dates*

March 1 and September 1, commencing September 1, 2015.

*Denominations*

\$5,000 or any integral multiple thereof.

*Expected Closing/Settlement*

March 4, 2015.

*Co-Bond Counsel*

Parker Poe Adams & Bernstein LLP and The Banks Law Firm, P.A.

*Underwriters' Counsel*

Moore & Van Allen PLLC.

*Financial Advisor*

DEC Associates, Inc.

**Stephens Inc.**

**PNC Capital Markets LLC**

**Blaylock Beal Van, LLC**

*The date of this Official Statement is January 30, 2015*

## MATURITY SCHEDULE

<u>Due September 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>(1)</sup> 266778</u>	<u>Due September 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>(1)</sup> 266778</u>
2015	\$1,135,000	2.00%	0.20%	HB8	2021	\$6,470,000	5.00%	1.30%	HH5
2016	380,000	2.00	0.36	HC6	2022	6,515,000	5.00	1.49	HJ1
2017	840,000	3.00	0.60	HD4	2023	6,565,000	5.00	1.63	HK8
2018	5,300,000	4.00	0.79	HE2	2024	6,585,000	4.00	1.75	HL6
2019	6,420,000	5.00	0.96	HF9	2025	4,120,000	4.00	1.84	HM4
2020	6,445,000	5.00	1.12	HG7					

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<sup>(1)</sup> Copyright, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not service in any way as a substitute for CUSIP Global Services. CUSIP numbers are provided for convenience of reference only for the purchasers of the Bonds. Neither the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as represented above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Bonds.

**CITY OF DURHAM, NORTH CAROLINA**



**CITY COUNCIL**

William V. "Bill" Bell .....Mayor

Cora Cole-McFadden..... Mayor Pro-Tempore

Eugene A. Brown

Diane N. Catotti

Eddie Davis

Don Moffitt

Steve Schewel



**CITY STAFF**

Thomas J. Bonfield ..... City Manager

David Boyd ..... Director of Finance

Patrick W. Baker ..... City Attorney



**FINANCIAL ADVISOR**

DEC Associates, Inc.  
Charlotte, North Carolina



**CO-BOND COUNSEL**

Parker Poe Adams & Bernstein LLP  
Raleigh, North Carolina

The Banks Law Firm, P.A.  
Research Triangle Park, North Carolina

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**State of North Carolina**  
**Department of State Treasurer**

*State and Local Government Finance Division  
and the Local Government Commission*

**INTRODUCTION**

This Official Statement, including the cover page and the appendices hereto, is intended to furnish information in connection with the purchase of \$50,775,000 General Obligation Refunding Bonds, Series 2015 (the “*Bonds*”), of the City of Durham, North Carolina (the “*City*”).

The information furnished herein includes a brief description of the City and its debt management, tax structure, financial operations, budget, economic condition, pension plans and contingent liabilities.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any date subsequent to the date hereof. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

This Official Statement is deemed to be a final official statement with respect to the Bonds within the meaning of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “*Rule*”). In accordance with the requirements of such Rule, the City has agreed in a resolution adopted by the City Council of the City prior to the sale of the Bonds to certain continuing disclosure obligations. See the caption “**CONTINUING DISCLOSURE**” herein.

**THE LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA**

The Local Government Commission of North Carolina (the “*Commission*”), a division of the Department of State Treasurer, State of North Carolina (the “*State*”), is a State agency that supervises the issuance of the bonded indebtedness of all units of local government and assists these units in the area of fiscal management. **Appendix A** to this Official Statement contains additional information concerning the Commission and its functions.

## THE BONDS

### DESCRIPTION

The Bonds will be dated as of their date of delivery and will bear interest from their date. Interest on the Bonds will be payable semiannually on each March 1 and September 1, commencing September 1, 2015. The Bonds will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. Interest will be paid on the interest payment date to the person appearing on the record books of the City as the registered owner of the Bonds as of the close of business on the 15<sup>th</sup> day of the month preceding the interest payment date.

The Bonds will be issuable as fully registered bonds in a book-entry system maintained by The Depository Trust Company (“DTC”). DTC will act as securities depository for the Bonds. Purchases and transfers of the Bonds may be made only in denominations of \$5,000 and any integral multiple thereof and in accordance with the practices and procedures of DTC. See **Appendix G** hereto for a description of the book-entry system and DTC.

### REDEMPTION PROVISIONS

The Bonds are not subject to redemption prior to maturity.

### AUTHORIZATIONS AND PURPOSES

The Bonds are being issued pursuant to the provisions of The Local Government Bond Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina. The Bonds are to be issued pursuant to a bond order adopted by the City Council of the City (the “*City Council*”) on December 18, 2014 and effective on its adoption. Terms of the Bonds were established in a resolution duly adopted by the City Council on December 18, 2014 (the “*Bond Resolution*”).

The Bonds are being issued for the purpose of providing funds to refund (1) the City’s General Obligation Bonds, Series 2005D maturing on and after April 1, 2016 (the “*Refunded 2005D Bonds*”), (2) the City’s General Obligation Bonds, Series 2006B maturing on or after November 1, 2017 (the “*Refunded 2006B Bonds*”), (3) the City’s General Obligation Bonds, Series 2008A maturing on or after February 1, 2019 (the “*Refunded 2008A Bonds*”) and (4) the City’s General Obligation Bonds, Series 2008B maturing on or after February 1, 2019 (the “*Refunded 2008B Bonds*” and together with the Refunded 2005D Bonds, the Refunded 2006B Bonds and the Refunded 2008A Bonds, the “*Refunded Bonds*”) as described under “**THE PLAN OF REFUNDING**” herein.

### SECURITY

The City is authorized and required by law to levy on all property taxable by the City such ad valorem taxes, without limitation as to rate or amount, as may be necessary to pay the Bonds and the interest thereon.

## THE PLAN OF REFUNDING

A portion of the proceeds of the 2015 Bonds will be deposited with the State Treasurer to be applied to pay (1) interest on the Refunded 2005D Bonds to April 1, 2015 and (2) the redemption price of the Refunded 2005D Bonds equal to 100% of the principal amount of the Refunded 2005D Bonds on April 1, 2015. A portion of the proceeds from the sale of the Bonds will be applied to the purchase of certain Federal Securities to be held in trust by U.S. Bank National Association, as escrow agent (the “Escrow Agent”) pursuant to an Escrow Agreement dated as of March 1, 2015 (the “Escrow Agreement”) between the City and the Escrow Agent. The Federal Securities will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts, so that sufficient moneys will be available to pay when due (1) interest on the Refunded 2006B Bonds to November 1, 2016, (2) the redemption price of the Refunded 2006B Bonds equal to 100% of the principal amount of the Refunded 2006B Bonds on November 1, 2016, (3) interest on the Refunded 2008A Bonds and the Refunded 2008B Bonds to February 1, 2018 and (4) the redemption price of the Refunded 2008A Bonds and the Refunded 2008B Bonds, respectively, equal to 100% of the principal amount of the Refunded 2008A Bonds and Refunded 2008B Bonds, respectively, on February 1, 2018.

The Refunded 2005D Bonds are:

<u>Maturity</u> <u>April 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(266777)</u>
2016	\$1,575,000	4.00%	7V7
2017	885,000	4.25	7W5
2018	875,000	4.25	7X3
2019	300,000	4.00	7Y1

The Refunded 2006B Bonds are:

<u>Maturity</u> <u>November 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(266778)</u>
2017	\$500,000	4.00%	AW9
2018	1,400,000	5.00	AX7
2019	1,400,000	4.00	AY5
2020	1,400,000	4.00	AZ2
2021	1,400,000	4.00	BA6
2022	1,400,000	4.125	BB4
2023	1,400,000	4.125	BC2
2024	1,400,000	4.25	BD0
2025	1,690,000	4.25	BE8

The Refunded 2008A Bonds are:

<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(266778)</u>
2019	\$860,000	5.00%	CJ6
2020	1,150,000	4.00	CK3
2021	1,150,000	4.00	CL1
2022	1,150,000	4.00	CM9
2023	1,150,000	4.00	CN7
2024	1,150,000	4.00	CP2
2025	1,150,000	4.00	CQ0
2026	620,000	4.125	CR8

The Refunded 2008B Bonds are:

<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(266778)</u>
2019	\$3,240,000	4.00%	DB2
2020	4,350,000	4.50	DC0
2021	4,350,000	4.50	DD8
2022	4,350,000	4.00	DE6
2023	4,350,000	4.00	DF3
2024	4,350,000	4.00	DG1
2025	4,350,000	4.00	DH9
2026	2,200,000	4.00	DJ5

The CUSIP numbers provided above are for the convenience of the reader only. Neither the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Refunded Bonds or as represented above.

The Escrow Agent will apply the maturing principal of and the interest on the Federal Securities to the payment of the principal of and interest on the Refunded Bonds. The Escrow Agent has been irrevocably instructed to redeem (1) the Refunded 2005D Bonds on April 1, 2015, at a redemption price equal to the principal amount of the Refunded 2005D Bonds without premium, plus accrued interest to the redemption date, (2) the Refunded 2006B Bonds on November 1, 2016, at a redemption price equal to the principal amount of the Refunded 2006B Bonds without premium, plus accrued interest to the redemption date and (3) the Refunded 2008A Bonds and the Refunded 2008B Bonds on February 1, 2018, at redemption prices equal to the principal amount of the Refunded 2008A Bonds and the Refunded 2008B Bonds, respectively, without premium, plus accrued interest to the redemption date.

Amounts on deposit under the Escrow Agreement will not secure the Bonds.

The Verification Agent will verify, from the information provided to it by the Underwriters, the mathematical accuracy, as of the date of issuance of the Bonds, of the mathematical computations contained in the schedules provided by the Underwriters to determine that the deposit to the Escrow Fund, together with other funds available therefor listed in such schedules to be held by the Escrow Agent, will be sufficient to pay interest payments on the Refunded Bonds, when due, and the principal of the Refunded Bonds on their respective redemption dates.

## THE CITY

### GENERAL

The City of Durham (the “City”) is the fourth largest city in the State of North Carolina (the “State”) and serves as the county seat of Durham County (the “County”). It is located in the north central part of the State in an area known as "The Triangle" anchored by Duke University (Durham), North Carolina State University (Raleigh), and The University of North Carolina at Chapel Hill, and the cities of Raleigh and Durham and the towns of Cary and Chapel Hill.

### GOVERNMENT STRUCTURE

The City was incorporated in 1869 and has a council-manager form of government. The City Council, the governing body of the City, is comprised of the Mayor and six council members. The Mayor and three council members are elected at large. Three council members must fulfill ward residency requirements. The terms for City Council seats are staggered and elections are held every two years. Council members serve four-year terms, and the Mayor serves two-year terms. All municipal elections are non-partisan. The City Council appoints the members of various boards and commissions, the City Manager, the City Attorney, the City Clerk and the Collector of Revenue.

The Mayor presides over City Council meetings and has full voting privileges. The City’s current Mayor, William V. “Bill” Bell, was elected to his seventh two-year term in 2013. He was first elected to the Durham County Board of Commissioners in 1972, where he served until 1994, and again from 1996 to 2000. He was the chairman of the Durham County Commissioners from 1982 to 1994.

The City Manager is the chief administrative officer of the City. The individual is a professional administrator who serves at the pleasure of the City Council. Thomas J. Bonfield became City Manager in September 2008. Prior to taking the position with the City, he served as the city manager of Pensacola, Florida for 10 years and the city manager of Temple Terrace, Florida for 13 years before that. Mr. Bonfield has over 35 years of experience with local governments.

### EMPLOYEES

The City’s 2014-2015 budget includes 2,378 full-time regular employees and a varying number of temporary, seasonal and part-time employees. No City employees are represented by a union or collective bargaining group. The City participates in the North Carolina Local Governmental Employees’ Retirement System and two other pension plans. For information concerning the City’s participation in the North Carolina Local Government Employees Retirement System and the two other pension plans, see Note IV G. to the City’s Audited Financial Statements in **Appendix C** hereto. For information regarding other post-retirement employee benefits (OPEB) provided to retirees of the City, see “**OTHER POST RETIREMENT BENEFITS**” below.

### DEBT INFORMATION

**Legal Debt Limit.** In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, the City had the statutory capacity to incur additional net debt in the approximate amount of \$1,570,726,430 as of June 30, 2014. For a summary of certain constitutional, statutory and administrative provisions governing or relating to the incurrence of debt by units of local government of the State, see **Appendix B** hereto. The City does not have any authorized and unissued general obligation bonds.

### City General Obligation Debt Ratios

<u>At June 30</u>	<u>Total GO Debt<sup>1</sup></u>	<u>Assessed Valuation</u>	<u>Total GO Debt To Assessed Valuation</u>	<u>Population</u>	<u>Total GO Debt Per Capita</u>	<u>Total Assessed Valuation Per Capita</u>
2010	\$207,675,000	\$22,396,393,035	.927%	228,329 <sup>2</sup>	\$910	\$98,088
2011	232,020,000	22,722,445,181	1.021	233,953 <sup>2</sup>	992	97,124
2012	209,750,000	23,039,756,969	0.910	239,358 <sup>2</sup>	876	96,256
2013	243,095,000	23,547,362,252	1.032	241,752 <sup>2</sup>	1,006	97,403
2014	216,445,000	23,683,861,515	0.914	242,810 <sup>3</sup>	891	97,541

<sup>1</sup> These amounts exclude bonds that have been refunded.

<sup>2</sup> Estimate of United States Department of Commerce, Bureau of Census.

<sup>3</sup> Estimate of City/County Planning Department.

### County General Obligation Debt Ratios

<u>At June 30</u>	<u>Total GO Debt<sup>1</sup></u>	<u>Assessed Valuation</u>	<u>Total GO Debt To Assessed Valuation</u>	<u>Population</u>	<u>Total GO Debt Per Capita</u>	<u>Total Assessed Valuation Per Capita</u>
2010	\$233,930,000	\$29,032,891,346	0.82%	268,412 <sup>1</sup>	\$872	\$108,165
2011	272,680,000	29,460,598,354	0.93	272,314 <sup>2</sup>	1,002	108,186
2012	298,585,000	29,842,363,341	1.00	280,921 <sup>2</sup>	1,063	106,230
2013	273,900,000	30,446,750,204	0.90	280,321 <sup>2</sup>	975	108,614
2014	323,228,226	32,025,003,772	0.99	284,437 <sup>3</sup>	1,136	112,591

<sup>1</sup> Estimate of United States Department of Commerce, Bureau of Census.

<sup>2</sup> Estimate of the State Office of Budget and Management.

<sup>3</sup> Estimate of City/County Planning Department.

**General Obligation Debt Service Requirements and Maturity Schedule**

<b>Fiscal Year</b>	<b>UTILITY</b>		<b>NON-UTILITY</b>		<b>TOTAL<sup>1</sup></b>	
	Existing Debt		Existing Debt		Existing Debt	
	<b>Principal</b>	<b>Principal &amp; Interest</b>	<b>Principal</b>	<b>Principal &amp; Interest</b>	<b>Principal</b>	<b>Principal &amp; Interest</b>
2014-2015	\$5,098,798	\$7,073,521	\$14,881,202	\$22,493,805	\$19,980,000	\$29,567,326
2015-2016	4,406,194	6,142,010	14,263,806	21,160,941	18,670,000	27,302,951
2016-2017	4,425,617	5,950,530	13,824,383	20,013,606	18,250,000	25,964,136
2017-2018	4,087,516	5,409,492	13,737,484	19,229,864	17,825,000	24,639,356
2018-2019	3,856,112	4,994,100	13,068,888	17,859,751	16,925,000	22,853,851
2019-2020	3,437,002	4,399,161	13,322,999	17,542,416	16,760,001	21,941,577
2020-2021	3,528,172	4,332,957	13,246,828	16,885,465	16,775,000	21,218,422
2021-2022	3,129,094	3,770,932	12,795,906	15,854,852	15,925,000	19,625,784
2022-2023	1,872,827	2,377,208	11,387,173	13,923,277	13,260,000	16,300,485
2023-2024	1,870,465	2,304,920	11,384,535	13,481,783	13,255,000	15,786,703
2024-2025	1,865,743	2,229,307	11,384,258	13,036,121	13,250,001	15,265,428
2025-2026	1,536,812	1,825,500	8,308,188	9,515,355	9,845,000	11,340,855
2026-2027	994,405	1,225,723	3,880,595	4,788,055	4,875,000	6,013,778
2027-2028	994,405	1,183,078	3,880,595	4,629,410	4,875,000	5,812,488
2028-2029	994,405	1,139,419	3,880,595	4,467,946	4,875,000	5,607,365
2029-2030	993,475	1,094,124	3,876,525	4,300,196	4,870,000	5,394,320
2030-2031	993,475	1,049,199	3,876,525	4,134,418	4,870,000	5,183,617
2031-2032	413,955	438,792	2,266,045	2,396,889	2,680,000	2,835,681
2032-2033	413,955	422,234	2,266,045	2,309,660	2,680,000	2,731,894

Note 1: Debt service on the outstanding general obligation water bonds and sanitary sewer bonds has been paid by the City from the net revenues of its water and sanitary sewer systems. The City expects that debt service on its outstanding general obligation water bonds and sanitary sewer bonds, as well as debt service on all Water and Sewer Utility System Revenue Bonds and certain other indebtedness of the City related to the water and sanitary sewer system, will continue to be paid from the net revenues of such system. The table above includes the general obligation bonds to be refunded with the Bonds.

**Other Long-Term Commitments.** The City has entered into certain short and long-term leases and installment purchase agreements for equipment, facilities and real property. The following sets forth the aggregate annual payments due from the City under such agreements:

<b>Fiscal Year Ending June 30</b>	<b>Computer Leases and Leases and Installment Purchase Contracts under G.S. &amp; 160A-19 or 20</b>
2015	\$15,870,281
2016	17,615,325
2017	9,995,005
2018	9,238,175
2019-23	36,573,658
2024-29	25,643,459
2030-34	18,445,758

The table above includes obligations to be prepaid by the Taxable Refunding Limited Obligation Bonds, Series 2015 (the “2015 LOBs”) expected to be delivered on or about March 3, 2015.

The City is also obligated, pursuant to certain agreements with the County, to pay the County one-half of the receipts collected by the City with respect to certain lines constituting a part of the water and sewer system up to the cost of constructing such lines in exchange for the transfer of such lines to the City by the County. The City’s obligations pursuant to such agreements bear interest at the rate of 5.54% per annum until their maturity dates in 2012 to 2020, inclusive. Pursuant to the bond order authorizing the City’s Water and Sewer Utility System Revenue Bonds, the City is to make such payments from the net receipts of the water and sewer system on a parity with paying debt service on its general obligation bonds related to the water and sewer system.

**Debt Outlook.** The City expects the 2015 LOBs, which evidence proportionate undivided interests in the rights to receive certain revenues, including installment payments to be made by the City under an installment financing contract, on March 3, 2015. The proceeds of the 2015 LOBs will be used to refinance existing certificates of participation. The City’s Capital Improvement Plan includes approximately \$77 million in general government supported projects expected to be financed over the next three years. Future debt will also include an estimated \$320 million in water and sanitary sewer system revenue bonds over the next five years.

**OTHER POST-RETIREMENT BENEFITS**

The City provides other post-retirement employee benefits (OPEB) to retirees of the City who elect to continue group health insurance until age 65. The City provides a subsidy of 70% to 100% of the premium for retiree and eligible dependent health insurance. For disabled retirees, the City pays 100% of the premium for individual coverage for the first 12 months after retirement, and supplements dependent coverage at retiree group rates. The disabled retiree has the option after the 12-month period to continue group health insurance until age 65 under the then current group coverage.

As required by GASB 45, “Accounting and Financial Reporting by Employers for Post Employment Plans Other Than Pension Plans” the City began reporting the unfunded liability for OPEB and the required annual contribution (ARC) in fiscal year 2007-2008. As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded as it was on a pay as you go basis. The actuarial accrued liability for benefits was \$129,961,486, and there was no actuarial value of assets resulting in an unfunded actuarial accrued liability (UAAL) of \$129,961,486. The ARC for all funds for the fiscal year

ended June 30, 2014 was \$12,309,554. See Note IV E. to the City's Audited Financial Statements in **Appendix C** hereto.

The City has moved to replace existing benefits for new employees with a defined contribution post-employment health benefit. On May 19, 2008, City Council approved the implementation of a Retirement Health Savings (RHS) plan. The RHS plan moves new employees (those hired after June 30, 2008) to a defined contribution type plan. Participants make tax-free contributions of a portion of their salary to an individual account held in trust. The City makes a flat rate contribution each pay period for participating employees. The employee's contribution is portable and the employer's contribution vests after separation with 20 years of service. The specific contribution level of the City is \$35 per pay period and the required employee contribution equals 2% of earnings per pay period up to \$1,000 per plan year. The vesting schedule is: after 10 years of service complete, 50% vested; after 15 years, 75% vested; and, after 20 years, 100%.

**TAX INFORMATION**

The City is empowered by statute to levy an annual ad valorem tax on the appraised value of all taxable real and tangible personal property within its corporate limits. The County is the only other unit levying such taxes within the corporate limits of the City. In addition, the Special Airport District of Durham and Wake Counties is empowered to levy such taxes within the City, although it has not yet done so.

**General Information**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Assessed Valuation				
Assessment Ratio	100%	100%	100%	100%
Real Property <sup>1</sup>	\$19,512,984,666	\$19,709,610,537	\$19,998,647,160	\$20,262,612,123
Personal Property	2,886,870,486	3,030,215,835	3,234,674,942	3,111,687,066
Public Service Companies <sup>2</sup>	322,590,029	299,930,597	314,040,150	309,662,326
Total Assessed Valuation	\$22,722,445,181	\$23,039,756,969	\$23,547,362,252	\$23,683,961,515
Rate per \$100	.5519	.5575	.5675	.5675
Levy	\$ 127,688,355	\$ 129,656,385	\$ 135,058,514	\$138,388,629

<sup>1</sup> Percentage of appraised value has been established by statute. Property values are typically reassessed every seven years. The next reevaluation will be effective January 1, 2016.

<sup>2</sup> Valuation of railroads, telephone companies and other utilities as determined by the North Carolina Property Tax Commission.

### Tax Collections

Fiscal Year Ended <u>June 30</u>	Prior Years' <u>Levies Collected</u>	Current Year's <u>Levy Collected</u>	Percentage of Current Year's <u>Levy Collected</u>
2010	\$1,666,863	\$120,471,073	96.90%
2011	1,317,370	126,034,143	98.70
2012	1,430,508	128,038,167	98.75
2013	1,354,586	133,481,375	98.83
2014	1,164,417	137,433,122	99.31

### Ten Largest Taxpayers For the Fiscal Year Ended June 30, 2014

<u>Company</u>	<u>Type</u>	<u>Taxable Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation<sup>1</sup></u>
Cree Inc.	Light and Semiconductor Products Manufacturing	\$294,966,354	1.25%
International Business Systems	Computer Hardware and Software	197,718,449	0.83
Southpoint Mall LLC	Retail	171,333,444	0.72
EMC Corporation	Data Storage	147,359,341	0.62
Duke Energy Corp.	Electric and Gas	130,322,036	0.55
Corium LLC	Biopharmaceutical Development and Manufacturing	93,983,472	0.40
Quintiles Transnational Inc.	Pharmaceutical Development	92,704,849	0.39
LCFRE Durham Keystone	Real Estate Development	85,671,940	0.36
Northwood RTC LLC	Real Estate Development	81,385,311	0.34
AJ Fletcher Foundation	Charitable Foundation	<u>78,288,232</u>	<u>0.33</u>
		\$1,373,733,428	5.80%

Source: Durham County Tax Assessor.

### BUDGET

**Recent Changes to Privilege Tax.** Until recently, cities in the North Carolina were authorized to levy privilege license taxes on all trades, occupations, professions, businesses and franchises carried on within a city. Recently enacted legislation withdraws the authority of cities to levy the privilege license tax effective with the fiscal year beginning July 1, 2015. Legislative leaders and the Governor have pledged to work with North Carolina cities to help make up the lost revenue before the current legislation sunsets. For the fiscal year ending June 30, 2015, the City's budgeted revenues from the privilege license tax were approximately \$2,796,000 or approximately 1.60% of the City's general fund revenue budget.

**Budget Process.** The General Statutes of North Carolina require the City to adopt an annual balanced budget. The General Statutes also provide for balanced project ordinances for the life of projects, including both capital and grant activities, which are expected to extend beyond the end of the fiscal year. The City Council adopts the annual budget ordinance prior to July 1 of each year and adopts project ordinances as necessary. The Council has the authority to amend such ordinances.

**2014-15 Budget Outlook.** The approved fiscal year 2014-15 budget includes a 2.37 cent property tax increase for voter-approved debt, public safety and parks maintenance, and solid waste fleet capital needs, thus creating a new tax rate of 59.12 cents per \$100 of assessed value. The total budget of \$389.9 million represents a 3.4% increase from the previous year’s budget, and includes a \$175 million budget for services covered by the general fund. For the first five months of the current fiscal year, general governmental financial results reflect operating revenue and expense results very similar, in terms of percentages of budget, with the prior fiscal year.

**DEMOGRAPHIC CHARACTERISTICS**

The United States Department of Commerce, Bureau of the Census, has recorded the population of the City to be as follows:

<u>1990</u>	<u>2000</u>	<u>2010</u>
136,612	187,035	228,330

The population of the City is estimated to be as follows:

<u>2012</u>	<u>2013</u>	<u>2014</u>
239,358 <sup>1</sup>	241,752 <sup>1</sup>	242,810 <sup>2</sup>

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<sup>1</sup> United States Department of Commerce; Census Bureau.

<sup>2</sup> City/County Planning Department.

Per capita income data for the Durham MSA and the State are presented in the following table:

<u>Year</u>	<u>Durham MSA</u>	<u>State</u>
2007	\$40,820	\$34,761
2008	42,071	35,741
2009	40,065	34,001
2010	40,561	34,604
2011	41,785	36,028

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Source: United States Department of Commerce; Bureau of Economic Analysis.

**ECONOMIC PROFILE**

**General.** The City’s economy is rooted in health care, biotechnology, medical research, education and manufacturing. Historically the base of the City’s economy was the sale and processing of tobacco and the manufacturing of tobacco products. In the past 20 years, however, the tobacco industry has been phased out and light manufacturing including electronics, data processing, communications and computer products have become the largest industrial activity. Spin-off biotech companies from Duke University, located in the City, and The University of North Carolina at Chapel Hill and North Carolina State University nearby, add to the economic base. The education and skill level of the labor force is a major factor in attracting employers to the City. Over 40% of adults in the County possess at least a bachelor’s degree, compared with 27% nationally.

**Employment.** The North Carolina Employment Security Commission has estimated the percentage of unemployment in the City to be as follows:

**Percentage of Unemployment**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>		<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
January	8.9%	8.3%	7.8%	6.9%	4.9%	July	8.6%	8.6%	8.2%	6.6%	5.6%
February	8.9	8.3	7.7	6.4	4.8	August	8.5	8.7	8.0	6.2	5.6
March	8.7	8.0	7.5	6.1	4.9	September	8.1	8.2	7.3	5.5	4.8
April	8.3	7.8	7.2	5.8	4.5	October	8.0	8.0	7.3	5.6	4.5
May	8.5	8.1	7.6	6.2	5.1	November	8.2	7.7	7.3	5.0	4.3
June	8.7	8.7	8.1	6.5	5.0	December	7.9	7.6	7.4	4.8	--

The table below lists, by corporate name, product or service and approximate number of employees the major employers in and within approximately one mile of the City.

**Ten Largest Employers  
As of July 2014**

Employer	Type	Approximate Number of Employees
Duke University and Health System	Education/Health Care	34,863
International Business Machines <sup>1</sup>	Computer Hardware and Software	10,000
Durham Public Schools	Education	4,600
GlaxoSmithKline <sup>1,2</sup>	Pharmaceuticals	3,700
Blue Cross & Blue Shield of North Carolina	Insurance	3,200
Durham City Government	City Government	2,800
Fidelity Investments <sup>3</sup>	Financial Services	2,400
Quintiles Transnational Inc.	Pharmaceutical Development	2,300
Research Triangle International <sup>3</sup>	Contract Research	2,300
Veteran Affairs Medical Center	Health Care	2,160

<sup>1</sup> Substantial portion employed in the RTP, outside of City limits.

<sup>2</sup> In a December 2014 report to the North Carolina Commerce Department, GlaxoSmithKline (“GSK”) stated that approximately 350 RTP jobs will be eliminated in the first quarter of 2015, and 450 will be cut in the second quarter. GSK has also stated that another 100 RTP positions will be cut by the end of 2015. GSK has said that the 900 figure does not include U.S. pharma commercial employee reductions, which will also occur at its RTP location. GSK has signed a letter of intent in which up to 450 workers could go to work at Parexel, another employer in the RTP, in a business unit focused on GSK.

<sup>3</sup> Employed in the RTP outside of City limits.

Source: Greater Durham Chamber of Commerce.

**Retail Sales.** Taxable sales in the County for the fiscal years ended June 30, 2010 through 2014 are shown in the following table:

**Taxable Sales**

<b>Fiscal Year Ended June 30</b>	<b>Total Taxable Sales</b>	<b>Increase Over Previous Year</b>
2010	\$3,778,439,315	4.08%
2011	4,163,245,973	10.18
2012	4,434,078,534	6.51
2013	4,902,628,024	10.57
2014	5,501,325,032	12.21

Source: North Carolina Department of Revenue, Sales and Use Tax Division.

**Construction Activity.** New construction activity in the City is indicated by the following table showing the value of new construction and the number of building permits as indicated by City building permit records:

**Value of Building Permits (New Construction Only)**

<b>Fiscal Year Ended June 30</b>	<b>Commercial</b>		<b>Residential</b>		<b>Total Value</b>
	<b>Number of Permits</b>	<b>Value</b>	<b>Number of Permits</b>	<b>Value</b>	
2010	57	\$227,450,182	887	\$197,167,697	\$424,617,879
2011	75	51,298,683	963	226,109,477	277,408,160
2012	90	75,247,822	808	239,887,278	315,135,100
2013	67	84,221,284	1,062	310,833,777	395,055,061
2014	115	86,498,168	1,206	388,120,350	474,618,518

Source: City Inspection Department.

**HEALTH CARE**

Known as the “City of Medicine,” the health care industry plays a major role in the City’s economy. Duke University Health System employs over 16,560 people in the City and surrounding areas while Duke University’s Schools of Medicine and Nursing together employ an additional approximately 11,090 people. Duke University Hospital is the flagship of the broader Duke University Health System, which also includes Durham Regional Hospital in the City and Duke Raleigh Hospital in Raleigh and more than 200 ambulatory care clinics. *US News and World Report* ranks Duke University Hospital as the top hospital in the State. It is a 957-bed full-service tertiary and quaternary care hospital that also functions as a research hospital and as a teaching hospital for students of medicine, nursing and the allied health sciences. *US News and World Report* ranked Duke University Hospital nationally in 13 adult specialties and Duke Children's Hospital and Health Center, which is part of the hospital, in nine pediatric specialties.

Duke Regional Hospital is a 369-bed acute care facility in the Duke University Health System that serves the health care needs of the City and the surrounding communities. The hospital offers a comprehensive range of medical, surgical, and diagnostic services, including orthopedics, weight-loss surgery, women's services, and heart and vascular services, and also offers care at the Duke Rehabilitation Institute and Davis Ambulatory Surgical Center.

Durham VA Medical Center is also located in the City. It is a 271-bed tertiary care referral, teaching and research facility affiliated with Campbell University College of Pharmacy and Health Sciences, the University of North Carolina Eshelman School of Pharmacy and the Duke University School of Medicine. The Durham VA Medical Center provides general and specialty medical, surgical, psychiatric inpatient and ambulatory services, and serves as a major referral center for North Carolina, southern Virginia, northern South Carolina, and eastern Tennessee.

## **BIOTECHNOLOGY AND MEDICAL RESEARCH**

The City surrounds the Research Triangle Park (the “RTP”), which is the nation’s largest research park. Although the RTP sits outside the city limits, it is a significant contributor to the City’s economy. Over 190 companies and over 40,000 employees with an estimated annual payroll of approximately \$2.9 billion are located in RTP. The park covers 7,000 acres with 22,500,000 square feet of developed space. Major companies located in the RTP include International Business Machines (IBM), Cisco, RTI International, Syngenta, Fidelity Investments and GlaxoSmithKline (GSK). Over 80% of the companies have a multi-national presence. In a December 2014 report to the North Carolina Commerce Department, GSK stated its expectation that 900 RTP positions will be eliminated during 2015. GSK has signed a letter of intent in which up to 450 workers could go to work at Parexel in the RTP in a business unit focused on GSK. GSK has signed a letter of intent in which up to 450 workers could go to work at Parexel in the RTP in a business unit focused on GSK.

In 2012 the RTP devised a master plan for the next 50 years. As part of the next stage of the RTP, the Research Triangle Park Foundation acquired 100 acres in 2014 to be developed as a mixed-used project bringing residential, retail and hotel space to the RTP.

Quintiles Transnational, Inc., the world’s largest provider of biopharmaceutical development services, is headquartered in the City. In June 2014 the company was named to the Fortune 500 list of the largest U.S. companies. With a worldwide network of more than 32,000 employees conducting business in approximately 100 countries, the company helped develop or commercialize all of 2013’s top-100 best-selling drugs on the market.

BioMerieux, a French medical diagnostics testing equipment company that manufactures nearly one half of the world’s blood culture reagents, has its North American headquarters in the City. In 2013 BioMerieux announced a \$48.3 million, 25,500 square-foot expansion to its Durham facility that is expected to create 44 new jobs.

## **EDUCATIONAL INSTITUTIONS**

The City is home to three institutions of higher education, including Duke University, a private university offering advanced degrees; North Carolina Central University, a constituent institution of The University of North Carolina System; and Durham Technical Community College, a part of the State system of community colleges and technical institutes.

Duke University was founded in 1924 when James B. Duke designated the City’s Trinity College as one of the principal beneficiaries of the Duke Endowment. Its campus spans over 8,600 acres on three campuses in the City known as the East campus, the West campus and Central campus. East campus is surrounded by established residential neighborhoods and is a short walking distance to the downtown district of the City. A majority of the University’s academic programs and classes take place on the 720-acre West campus, which is about 1.5 miles from the East campus. Central campus consists of nearly 200 acres and provides housing for over 1,000 upper-class students. In the fall of 2014, the university had a full-time enrollment of 14,850 students. It employs approximately 8,280 persons outside of the Duke University Health System.

North Carolina Central University (“NCCU”) had a 2013-2014 full-time enrollment of 8,090 students and ranks among the top 20 employers in the City with approximately 1,245 employees. Located adjacent to downtown Durham, NCCU is a comprehensive university offering programs at the baccalaureate, master’s, professional and selected doctoral levels. It is the nation’s first public liberal arts institution founded for African Americans.

Durham Technical Community College (“DTCC”) had a 2013-2014 headcount enrollment of over 7,765 curriculum students. As a community-based institution, DTCC provides educational opportunities for area residents and uses state and local resources for students’ learning activities. Over 12,365 persons participated in DTCC’s continuing education programs during the 2013-2014 school year. Community service is a continuing focus for the college’s programs and activities.

The North Carolina School of Science and Mathematics, a school for students gifted and talented in science and mathematics, is also located in the City. The school was the first public, residential, coeducational senior high school in the nation. Full-time enrollment at the school is approximately 680.

The University of North Carolina at Chapel Hill is located approximately 12 miles from the central business district of the City, and North Carolina State University is located in Raleigh approximately 23 miles from the central business district of the City. These neighboring universities and those within the City provide the community with employment opportunities as well as numerous cultural events and collegiate sports activities.

## **MANUFACTURING**

Historically the base of the City’s economy was the sale and processing of tobacco and the manufacturing of tobacco products. In the past 20 years, the tobacco industry has been phased out but manufacturing continues to be significant to the local economy with a number of manufacturers headquartered in the City including Cree, Inc., AW North Carolina Inc. and Burt’s Bees.

Cree, Inc. was formed in 1987 by researchers from North Carolina State University. The company manufactures LED fixtures, bulbs and chips and semiconductor products for power and radio-frequency applications. It employs approximately 2,125 in the City.

AW North Carolina, Inc., a Toyota automotive component assembler, employs approximately 2,000 people in the City. In 2013 AW North Carolina announced plans for a \$112 million expansion that is expected to add an additional 56 jobs.

Burt’s Bees, a subsidiary of The Clorox Company, makes products for personal care, health, beauty and personal hygiene. It manufactures almost 200 products in the City that are distributed in nearly 30,000 retail outlets in the United States, the United Kingdom, Ireland, Canada, Hong Kong and Taiwan.

## **DOWNTOWN DEVELOPMENT**

According to Downtown Durham, Inc., from 2001 to 2013, the City experienced over \$1 billion in public and private investments (nearly \$740 million private and \$310 million public) in the downtown area of the City. The County, the City and Capital Broadcasting Company entered into a development and revitalization agreement in 2003 to redevelop the former American Tobacco Complex facilities located downtown, including the construction of additional retail, office and residential facilities. The project resulted in approximately 900,000 square feet of retail and office space, including amenities such as seven restaurants, a YMCA fitness center and large meeting and event facilities. Burt’s Bees, Duke University and the Art Institute of Raleigh-Durham are among the 60 businesses that maintain office space in the area.

In 2008 the Durham Performing Arts Center (“*DPAC*”) opened downtown adjacent to the Durham Bull Athletic Park and the American Tobacco Complex. Owned by the City, it is the largest performing arts center in the Carolinas. DPAC can hold almost 3,000 people and hosts over 200 performances a year. For the first six months of 2014, it had the third highest attendance of any theater in the nation. Three out of four visitors come from outside the City. DPAC estimates that the visitors spent \$66.3 million during the 2013-2014 season with a total economic impact of \$48.4 million.

In September of 2013, the City Council approved the construction of a privately financed project that will also be adjacent to DPAC. The new building will include additional amenities for patrons of DPAC, including a 134-room Aloft Hotel, along with retail and restaurant space. Construction has begun on the hotel with the opening expected to occur in spring 2015.

As part of the public investment, the County developed a new Health and Human Services Complex and a new Justice Center in the downtown area. Phase I of the project opened in 2011. The Health and Human Services Complex is a 227,590 square-foot facility with 404 parking spaces. Phase II of the project, the new Justice Center, opened in February 2013 and replaced the existing Durham County Courthouse, which is scheduled to be renovated and once complete, will provide additional County office space. The new Justice Center includes a parking structure to support its operations and is located adjacent to the current Durham County Detention Facility.

Aspen-based Austin Lawrence Partners has begun a \$70 million project in the center of the City that will include a 26-story tower and the renovation and reconstruction of several buildings. Construction on the tower is expected to begin in early 2015 and take two years to complete. Duke University will occupy 55,000 square feet with the rest of the tower reserved for 101 apartments and 31 condominiums with floor to ceiling glass.

Boston-based Longfellow Real Estate Partners (“*Longfellow*”) recently completed the renovation and development of a 112,000 square-foot former tobacco warehouse known as the Carmichael Building in downtown Durham. It once housed Durham County Social Services but will now be home to Duke University’s diabetes and obesity research center as well as its center for human genetics.

Longfellow has partnered with Measurement Inc., an educational company headquartered in the City, to develop a 15-acre site in downtown into what it has named “Durham’s Innovation District.” The initial master plan for the district, which is just west of the area around the Durham Athletic Park, calls for over one million square feet of laboratory and office space for life sciences and technology companies, as well as 300,000 square feet of residential space. Longview has announced that the district is expected to be developed in four phases, with the first phase to include three office buildings, a parking deck and public park with construction of the first two office buildings expected to begin in 2015.

In addition to the Aloft Hotel being built adjacent to DPAC, three new hotels are expected to open in or near downtown in 2015. Two of the three are luxury hotels, including The Durham, a 54-room boutique hotel targeted to open by April 2015 and the 124-room 21c Museum Hotel, also targeted to open by April 2015, which will result from the renovation of two buildings and include a contemporary art museum. The third hotel will be an extended-stay 145-room Residence Inn by Marriott near Duke University’s East Campus.

## EDUCATION

The County has a consolidated school system which is governed by a school board consisting of seven members who are elected to four-year terms.

The City has no financial responsibility for any part of the school system. The budget for the school system is submitted to the Board of Commissioners for the County for approval, with the revenue coming from the federal, State and County governments.

The following table shows the number of schools in the school system by grade level and average daily membership:

School Year	Elementary Grades K – 5		Middle Grades 6 – 8		Secondary Grades 9 – 12	
	Number	ADM	Number	ADM <sup>1</sup>	Number	ADM
2010-11	29	16,003	10	6,062	14	10,501
2011-12	30	15,827	10	7,008	14	9,836
2012-13	30	15,590	10	6,663	14	10,235
2013-14	30	15,987	10	6,573	15	10,684
2014-15	30	16,003	10	7,428	14	10,286

<sup>1</sup> Average daily membership (“ADM”) (determined by actual records at the schools) is computed by the North Carolina Department of Public Instruction on a uniform basis for all public school units in the State. The ADM computations are used as a basis for teacher allotments and for distribution of local funds. Number of schools reflects three combined schools serving grades 6-12; and one combined school serving grades K-12.

Source: Durham Public Schools, Office of Public Affairs and North Carolina Department of Public Instruction.

## TRANSPORTATION

There are currently over 300 linear miles of State-system streets within the corporate limits of the City. The City has an agreement with NCDOT whereby the City will maintain these streets and is reimbursed for all costs by the State. At the present time, due to a shortage of State funds, the City is only doing winter weather work on State streets. Expansion and betterment of the State-system streets and of federal highways within the corporate limits of the City are largely the responsibility of the State. The City’s contribution to such projects is a portion of right-of-way acquisition costs and the occasional paving of State-system streets.

Major expansions, maintenance and betterment of the local street system are solely the responsibility of the City. Such projects are financed with long-term bonds and current revenues. There are over 700 linear miles of local streets maintained by the City.

The City is served by Interstate highways 40 and 85, U.S. highways 15, 70 and 501, and North Carolina highways 54, 55, 98 and 751. The City is also served by the Durham Freeway, which connects the City to the RTP to the south and connects with Interstate Highway 85 to the west.

Raleigh-Durham International Airport (“RDU”) serves central North Carolina, providing service to approximately nine million passengers annually. RDU is home to eight air carriers and their regional partners. Combined, they fly customers to nearly 40 destinations on 400 flights daily. RDU is governed by the eight-member Raleigh-Durham Airport Authority with two members each appointed by the City, the County, Wake County, and the City of Raleigh. An air cargo complex houses four cargo carriers. Two

passenger terminals provide a total of 29 aircraft gates. A \$68 million modernization project to improve Terminal 1 was completed in April 2014. The City is not financially responsible for any RDU indebtedness or operational expenses.

The Durham Area Transit Authority (“*DATA*”) operates 27 bus routes that link residential areas with downtown Durham, Duke University, North Carolina Central University, hospitals, shopping centers, and other major employment centers. Of these routes, 24 radial routes connect at Durham Station in downtown Durham. There are also two cross-town routes and one connector route, which is a fare free route that links Duke University, downtown Durham and Golden Belt. All buses are compliant with the Americans with Disabilities Act (ADA). Complementary ADA paratransit service is provided within the City limits through a special van service, called ACCESS.

In 2010, the City entered into an agreement with the Triangle Transit Authority (TTA) which transferred management of the City transit system to TTA; however, the City maintains financial responsibility for the system. This is anticipated to be the first step towards developing a regional transit system for the area. The City has no financial responsibility for the Triangle Transit Authority itself.

## **PUBLIC SERVICE ENTERPRISES**

The City operates a water and sewer utility system (the “*System*”). The service area of the System includes all of the City’s incorporated area and significant portions of the County and the RTP, and the System serves approximately 89,000 connections. The City has contractual agreements in effect with the Orange Water and Sewer Authority, the Town of Cary, Chatham County, the Orange-Alamance Water System, the Town of Morrisville and the Town of Hillsborough to enable the systems to share water resources as needed. An additional interconnection with the City of Raleigh was recently completed. The City’s water supply and distribution facilities currently supply approximately 28.0 million gallons per day (“*MGD*”) of water to its residential and non-residential customers.

Wastewater collected by the City’s sanitary sewer facilities is treated at two wastewater treatment plants, the North Durham Water Reclamation Facility and the South Durham Water Reclamation Facility. Both plants were upgraded and expanded in the mid-1990s and now have an aggregate permitted hydraulic capacity of 40 MGD. The collection system is served by 62 pump stations and approximately 1,100 miles of pipeline. Some areas in the southeastern part of the City receive service from the Durham County Wastewater Treatment Plant, which has a capacity of 12 MGD.

The North Carolina Environmental Management Commission has adopted new rules that are expected to increase the costs for storm water services and wastewater treatment services. Although the City is unable to quantify the costs at this time, it expects that any costs will impact water, sewer and storm water rates, and not general government revenues.

The City also provides solid waste collection and disposal services. On July 1, 2013, Waste Industries, LLC began operating the City’s transfer station. The refuse is hauled by a contractor from the City’s transfer station to a regional landfill facility located in Roseboro, North Carolina. Electric service is provided by Duke Energy, and natural gas service is provided by Public Service of North Carolina, Inc.

## **OTHER SERVICES**

The City also provides police and fire protection, parks and recreation facilities and programs, cemeteries, planning and community development.

Along with the County, the City owns the Durham Convention Center in the downtown area of the City. The convention center includes more than 40,000 square feet of meeting space among 13 rooms and a 14,080 square-foot grand ballroom.

The City also owns the 10,000-seat Durham Bulls Athletic Park in the downtown area of the City. The baseball stadium is leased to the Durham Bulls, a Class AAA affiliate of the Tampa Bay Rays, an American League baseball team.

The City also owns the Durham Performing Arts Center, the largest performing arts center in the Carolinas.

## **CONTINGENT LIABILITIES**

The City Attorney is unaware of any pending litigation or other contingent liabilities with respect to which there is a reasonable expectation of a loss which could have a substantial adverse impact on the City's financial position.

With respect those matters actually pending as lawsuits and claims, the City intends to defend each matter vigorously. In the opinion of the City's attorney and management, the disposition of these matters is not expected to have a material adverse effect on the City's financial position.

## **CONTINUING DISCLOSURE**

In the Bond Resolution, the City has undertaken, in accordance with Rule 15c2-12 (the "*Rule*") promulgated by the Securities and Exchange Commission (the "*SEC*") and for the benefit of the Registered Owners and beneficial owners of the Bonds, as follows:

- (1) by not later than seven months after the end of each Fiscal Year to the Municipal Securities Rulemaking Board (the "*MSRB*"), the audited financial statements of the City for the preceding Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or if such audited financial statements are not then available, unaudited financial statements of the City for such Fiscal Year to be replaced subsequently by audited financial statements of the City to be delivered within 15 days after such audited financial statements become available for distribution;
- (2) by not later than seven months after the end of each Fiscal Year to the MSRB, (a) the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included under the captions "**THE CITY-DEBT INFORMATION**" and "**-TAX INFORMATION**" (excluding information on overlapping units) in this Official Statement and (b) the combined budget of the City for the current Fiscal Year to the extent such items are not included in the audited financial statements referred to in clause (1) above;

- (3) in a timely manner not in excess of 10 business days after the occurrence of the event, to the MSRB, notice of any of the following events with respect to the Bonds:
- (a) principal and interest payment delinquencies;
  - (b) non-payment related defaults, if material;
  - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (e) substitution of credit or liquidity providers, or their failure to perform;
  - (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
  - (g) modification to rights of the beneficial owners of the Bonds, if material;
  - (h) call of any of the Bonds, if material, and tender offers;
  - (i) defeasance of any of the Bonds;
  - (j) release, substitution or sale of any property securing repayment of the Bonds, if material;
  - (k) rating changes;
  - (l) bankruptcy, insolvency, receivership or similar event of the City;
  - (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material; and
  - (n) appointment of a successor or additional trustee or the change of name of a trustee, if material; and
- (4) in a timely manner to the MSRB, notice of the failure by the City to provide the required annual financial information described in (1) and (2) above on or before the date specified.

At present, Section 159-34 of the General Statutes of North Carolina requires the City's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The Bond Resolution provides that if the City fails to comply with the undertaking described above, any beneficial owner of the Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking is not an event of default and will not

result in any acceleration of payment of the Bonds. All actions must be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds.

All documents provided to the MSRB as described above are to be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The City may discharge its undertaking described above by providing such information in a manner the SSEC subsequently authorizes in lieu of the manner described above.

The City may modify from time to time, consistent with the Rule, the information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City, but:

- (1) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the City;
- (2) the information to be provided, as modified, would have complied with the requirements of the Rule as of the date of this Official Statement, after taking into account any amendments or interpretations of the Rule as well as any changes in circumstances;
- (3) any such modification does not materially impair the interest of the registered owners or the beneficial owners, as determined by nationally recognized bond counsel or by the approving vote of the registered owners of a majority in principal amount of the Bonds.

Any annual financial information containing modified operating data or financial information will explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above terminates on payment, or provision having been made for payment in a manner consistent with the Rule, in full of the principal of and interest on the Bonds.

For the fiscal years ended June 30, 2005-2009, the City did not include certain information regarding its water and sewer system in its annual Rule 15c2-12 filings. In 2011, the City did not timely file notice that its utility system revenue bonds received a rating upgrade. In 2012, the City defeased a series of certificates of participation and prepaid a series of certificates of participation. The trustee for the defeased and prepaid certificates of participation failed to timely file notice of such events in accordance with its contractual obligations to the City. In each case, the City has since filed the required information with the MSRB, through its Electronic Municipal Market Access system. The City participated in the SEC's Municipal Continuing Disclosure Cooperation Initiative and filed a self-report with the SEC relating to certain of the foregoing. For each of the previous five years, the City has otherwise complied, in all material respects, with its existing continuing disclosure undertakings made pursuant to Rule 15c2-12.

### **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, and The Banks Law Firm, P. A., Research Triangle Park, North Carolina, Co-Bond Counsel, whose respective approving legal opinions will be available at the time of the delivery of the Bonds. The proposed forms of such opinions are attached hereto as **Appendix E**.

## RATINGS

Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings have given the Bonds ratings of Aaa, AAA and AAA, respectively. Those ratings reflect only the respective views of such organizations, and an explanation of the significance of each such rating may be obtained only from the respective organization providing such rating. Certain information and materials not included in the Official Statement were furnished to such organizations. There is no assurance that such ratings will remain in effect for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any downward revision or withdrawal of a rating may have an adverse effect on the market prices of the Bonds.

## TAX TREATMENT

### GENERAL

On the date of the issuance of the Bonds, Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina and The Bank Law Firm, P.A., Research Triangle Park, North Carolina ("*Co-Bond Counsel*"), will each render an opinion that, under existing law (1) assuming compliance by the City with certain provisions of the Internal Revenue Code of 1986, as amended (the "*Code*"), (a) interest on the Bonds is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (2) interest on the Bonds is exempt from State of North Carolina income taxation.

The interest on the Bonds will be taken into account in determining adjusted current earnings of certain corporations (as defined for federal income tax purposes), and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its federal alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The Code imposes various restrictions, conditions and requirements relating to the exclusion of interest on obligations, such as the Bonds, from gross income for federal income tax purposes, including, but not limited to, the requirement that the City rebate certain excess earnings on proceeds and amounts treated as proceeds of the Bonds to the United States Treasury, restrictions on the investment of such proceeds and other amounts, and restrictions on the ownership and use of the facilities financed or refinanced with proceeds of the Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the City subsequent to issuance of the Bonds to maintain the excludability of the interest on the Bonds from gross income for federal income tax purposes. The opinion of each of Co-Bond Counsel is given in reliance on certifications by representatives of the City as to certain facts material to the opinion and the requirements of the Code.

The City has covenanted to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest on the Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of each of Co-Bond Counsel assume compliance by the City such covenants, and Co-Bond Counsel have not been retained to monitor compliance by the City with such covenants subsequent to the date of issuance of the Bonds. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. No other opinion is expressed by Co-Bond Counsel regarding the federal tax consequences of the ownership of or the receipt or accrual of interest with respect to the Bonds.

If the interest on the Bonds subsequently becomes included in gross income for federal income tax purposes due to a failure by the City to comply with any requirements described above, the City is not required to redeem the Bonds or to pay any additional interest or penalty.

The Internal Revenue Service has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includible in gross income for federal income tax purposes. Co-Bond Counsel cannot predict whether the Internal Revenue Service will commence an audit of the Bonds. Prospective purchasers of the Bonds are advised that, if the Internal Revenue Service does audit the Bonds, under current Internal Revenue Service procedures, at least during the early stages of an audit, the Internal Revenue Service will treat the City as the taxpayer, and the owners of the Bonds may have limited rights, if any, to participate in such audit. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds and the accrual or receipt of interest on the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property or casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S Corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Co-Bond Counsel do not express any opinion as to any such collateral tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors as to the collateral tax consequences.

Proposed legislation is considered from time to time by the United States Congress that, if enacted, would affect the tax consequences of owning the Bonds. No assurance can be given that any future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could cause the interest on the Bonds to be subject directly or indirectly to federal or State of North Carolina income taxation, adversely affect the market price or marketability of the Bonds or otherwise prevent the owners of the Bonds from realizing the full current benefit of the status of the interest on the Bonds.

The opinion of each of Co-Bond Counsel is based on existing law, which is subject to change. Such opinions are further based on factual representations made to Co-Bond Counsel as of the date thereof. Co-Bond Counsel assume no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, the opinion of each of Co-Bond Counsel is not a guarantee of a particular result and is not binding on the Internal Revenue Service or the courts; rather, such opinion represents each of Co-Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that Co-Bond Counsel deem relevant to such opinion. . The opinion of each of Co-Bond Counsel expresses the professional judgment of the attorneys rendering the opinion regarding the legal issues expressly addressed therein. By rendering its opinion, each of Co-Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered, or of the future performance of the City, nor does the rendering of such opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **ORIGINAL ISSUE PREMIUM**

As indicated on the inside cover page, the Bonds are being sold at initial offering prices which are in excess of the principal amount payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Bonds is sold and (b) the principal amount payable at maturity of such Bonds constitutes original issue premium, which original issue premium is not deductible for federal income tax purposes. The amount of the original issue premium which is treated as having accrued over the term of a Bond is reduced from the owner's cost basis of such Bond in determining, for federal income tax purposes, the taxable gain or loss upon the sale, redemption or other disposition of such Bond (whether upon its sale, redemption or payment at maturity). Owners should consult their tax advisors with respect to the determination, for federal income tax purposes, of the "adjusted basis" of the Bonds upon any sale or disposition and with respect to any state or local tax consequences of owning a Bond.

## **FINANCIAL ADVISOR**

DEC Associates, Inc., Charlotte, North Carolina, has acted as financial advisor to the City in connection with the issuance of the Bonds.

## **VERIFICATION**

The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest on the Federal Securities to pay interest on the Refunded Bonds through their respective redemption dates and the principal amount of the Refunded Bonds on their respective redemption dates, will be verified by Grant Thornton LLP. Such verification will be based, among other things, on mathematical computations supplied by the Underwriters.

## **UNDERWRITING**

Stephens Inc., Charlotte, North Carolina, PNC Capital Markets LLC, Charlotte, North Carolina, and Blaylock Beal Van, LLC, Atlanta, Georgia (together the "*Underwriters*") have agreed under the terms of a Bond Purchase Agreement to purchase all of the Bonds, if any of the Bonds are to be purchased, at a purchase price equal to the par amount of the Bonds, plus original issue premium of \$10,104,217.70 and less an Underwriters' discount of \$240,470.28. The Underwriters' obligation to purchase the Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long

and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Parker Poe Adams & Bernstein LLP serves as Co-Bond Counsel for the City and, from time to time, it and Moore & Van Allen PLLC, counsel to the Underwriters, have represented the Underwriters as counsel in other financing transactions. Neither the City nor the Underwriters have conditioned the future employment of either of these firms in connection with any proposed financing issues for the City or for the Underwriters on the successful execution and delivery of the Bonds.

The Underwriters retained Underwriters' counsel based, in part, on the recommendation of the City.

#### **MISCELLANEOUS**

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact.

Reference herein to the State Constitution and legislative enactments are only brief outlines of certain provisions thereof and do not purport to summarize or describe all provisions thereof.

**APPENDIX A**

**THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION**

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## THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

The Local Government Commission (the "*Commission*") is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue and five others by appointment (three by the Governor, one by the General Assembly upon recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

A major function of the Commission is the approval, sale and delivery of substantially all North Carolina local government bonds and notes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the Commission furnishes, upon request, on-site assistance to units of local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

Before any unit of local government can incur bonded indebtedness, the proposed bond issue must be approved by the Commission. In determining whether to give such approval the Commission may consider, among other things, the unit's debt management procedures and policies, its compliance with The Local Government Budget and Fiscal Control Act and its ability to service the proposed debt. All general obligation issues are customarily sold on the basis of formal sealed bids submitted at the Commission's offices in Raleigh and are subsequently delivered to the successful bidder by the Commission. The Commission maintains records for all units of local government of principal and interest payments coming due on bonded indebtedness in the current and future years and monitors the payment by the units of local government of debt service through a system of monthly reports.

As a part of its role in assisting and monitoring the fiscal programs of units of local government, the Commission attempts to ensure that the units of local government follow generally accepted accounting principles, systems and practices. The Commission's staff also counsels the units of local government in treasury and cash management, budget preparation and investment policies and procedures. Educational programs, in the form of seminars or classes, are also provided by the Commission in order to accomplish these tasks. The monitoring of the financial systems of units of local government is accomplished through the examination and analysis of the annual audited financial statements and other required reports. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts. A written contract must be submitted to the Secretary of the Commission for his approval prior to the commencement of the audit.

The Commission has the statutory authority to impound the books and records of any unit of local government and assume full control of all its financial affairs (a) when the unit defaults on any debt service payment or, in the opinion of the Commission, will default on a future debt service payment if the financial policies and practices of the unit are not improved or (b) when the unit persists, after notice and warning from the Commission, in willfully or negligently failing or refusing to comply with the provisions of The Local Government Finance Act. When the Commission takes action under this authority, the Commission is vested with all of the powers of the governing board of the unit of local government as to the levy of taxes, expenditure of money, adoption of budgets and all other financial powers conferred upon such governing board by law.

In addition, if a unit of local government fails to pay any installment of principal or interest on its outstanding debt on or before its due date and remains in default for 90 days, the Commission may take such action as it deems advisable to investigate the unit's fiscal affairs, consult with its governing board and negotiate with its creditors in order to assist the unit in working out a plan for refinancing, adjusting or compromising such debt. When a plan is developed that the Commission finds to be fair and equitable and reasonably within the ability of the unit of local government to meet, the Commission will enter an order finding that the plan is fair, equitable and within the ability of the unit to meet and will advise the unit to take the necessary steps to implement such plan. If the governing board of the unit declines or refuses to do so within 90 days after receiving the Commission's advice, the Commission may enter an order directing the unit to implement such plan and may apply for a court order to enforce such order. When a refinancing plan has been put into effect, the Commission has the authority (a) to require any periodic financial reports on the unit's financial affairs that the Secretary deems necessary and (b) to approve or reject the unit's annual budget ordinance. The governing board of the unit of local government must also obtain the approval of the Secretary of the Commission before adopting any annual budget ordinance. The power and authority granted to the Commission as described in this paragraph will continue with respect to a defaulting unit of local government until the Commission is satisfied that the unit has performed or will perform the duties required of it in the refinancing plan and until agreements made with the unit's creditors have been performed in accordance with such plan.

**APPENDIX B**

**CERTAIN CONSTITUTIONAL, STATUTORY, AND ADMINISTRATIVE  
PROVISIONS GOVERNING OR RELEVANT TO THE INCURRENCE OF  
GENERAL OBLIGATION BONDED INDEBTEDNESS BY UNITS OF  
LOCAL GOVERNMENT OF THE STATE OF NORTH CAROLINA**

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**CERTAIN CONSTITUTIONAL, STATUTORY, AND ADMINISTRATIVE PROVISIONS GOVERNING OR RELEVANT TO THE INCURRENCE OF GENERAL OBLIGATION BONDED INDEBTEDNESS BY UNITS OF LOCAL GOVERNMENT OF THE STATE OF NORTH CAROLINA**

**Constitutional Provisions**

The North Carolina Constitution (the "*Constitution*") requires the General Assembly to enact general laws relating to the borrowing of money secured by a pledge of the faith and credit and the contracting of other debts by counties, cities and towns, special districts and other units, authorities and agencies of local government and prohibits enactment of special or local acts on this subject. These general laws may be enacted for classes defined by population or other criteria.

The General Assembly has no power under the Constitution to authorize any unit of local government to contract debts secured by a pledge of its faith and credit unless approved by a majority of the qualified voters of the unit who vote thereon, except for the following purposes:

- (a) to fund or refund a valid existing debt;
- (b) to supply an unforeseen deficiency in the revenue;
- (c) to borrow in anticipation of the collection of taxes due and payable within the current fiscal year to an amount not exceeding 50% of such taxes;
- (d) to suppress riots or insurrections;
- (e) to meet emergencies immediately threatening the public health or safety, as conclusively determined in writing by the Governor; and
- (f) for purposes authorized by general laws uniformly applicable throughout the State, to the extent of two-thirds of the amount by which the issuing unit's outstanding indebtedness was reduced during the next preceding fiscal year.

The Constitution requires that the power of taxation be exercised in a just and equitable manner, for public purposes only, and never be surrendered, suspended or contracted away. Since general obligation bonded indebtedness pledges the taxing power, it may therefore be incurred only for "public purposes." The North Carolina Supreme Court determines what is and is not a public purpose within the meaning of the Constitution.

The Constitution requires voter approval for any unit of local government to give or lend its credit in aid of any person, association or corporation, and such lending of credit must be for public purposes as authorized by general law. A loan of credit is defined by the Constitution as occurring when a unit of local government exchanges its obligations with or in any way guarantees the debts of an individual, association or private corporation.

The Constitution does not impose a limit on the total indebtedness of a unit of local government.

Of the sources of revenue available to units of local government, only the property tax is subject to special Constitutional regulation. The Constitution does not mandate a general property tax; rather, it authorizes the General Assembly to classify property for taxation under two conditions: (1) each class of

property selected for taxation must be taxed by uniform rule and (2) every classification must be made by general law uniformly applicable to every unit of local government. No class of property is accorded exemption from ad valorem taxation by the Constitution except property belonging to the State, counties and municipal corporations. The General Assembly may exempt cemeteries and property held for educational, scientific, literary, cultural, charitable or religious purposes and, to a value not exceeding \$300, any personal property. The General Assembly may also exempt from taxation not exceeding \$1,000 in value of property used as the place of residence of the owner. Property of the United States is exempt by virtue of the supremacy clause of the United States Constitution.

The Constitution requires that any property tax must be levied for purposes authorized by general law uniformly applicable throughout the State, unless approved by a majority of the qualified voters of the unit of local government who vote thereon.

Under the Constitution, property taxes levied for unit-wide purposes must be levied uniformly throughout the territorial jurisdiction of the taxing unit, but the General Assembly may enact general laws authorizing the governing body of any county, city or town to define territorial areas and to levy taxes within those areas in order to finance, provide or maintain services, facilities and functions in addition to or to a greater extent than those financed, provided or maintained for the entire county, city or town.

### **The Local Government Bond Act**

No unit of local government has authority to incur general obligation bonded indebtedness otherwise than in accordance with the limitations and procedures prescribed in The Local Government Bond Act, G.S. Ch. 159, Art. 4 (the "*Act*") and G.S. Ch. 159, Art. 7 or to issue short-term general obligation notes otherwise than in accordance with G.S. Ch. 159, Art. 9.

By statute, the faith and credit of the issuing unit are pledged for the payment of the principal of and interest on all bonds issued under the Act according to their terms, and the power and obligation of the issuing unit to levy taxes and raise other revenues for the prompt payment of installments of principal and interest or for the maintenance of sinking funds is unrestricted as to rate or amount.

The revenues of each utility or public service enterprise owned or leased by a unit of local government are required by statute to be applied in accordance with the following priorities: (1) to pay the operating, maintenance and capital outlay expenses of the utility or enterprise; (2) to pay when due the interest on and principal of outstanding bonds issued for capital projects that are or were a part of the utility or enterprise; and (3) for any other lawful purpose. In its discretion, an issuing unit may pledge the revenues (or any portion thereof) of a utility or enterprise for the payment of the interest on and principal of bonds issued under the Act to finance capital projects that are to become a part of the utility or enterprise.

Bonds may be issued only for purposes specifically authorized by the Act.

No bonds may be issued under the Act without the approval of the Local Government Commission. The criteria for approval have been summarized in the description of the powers of the Commission in **Appendix A** to this Official Statement.

The Act provides that, subject to certain exceptions, no bond order may be adopted by the governing body of a unit of local government unless it appears from a sworn statement of debt filed in connection therewith that the net debt of the unit does not exceed 8% of the assessed value of property subject to taxation by the issuing unit. Under current law, the mandated assessment ratio is 100% of appraised value. This limitation does not apply to funding and refunding bonds, bonds issued for water, gas

or electric power purposes, or two or more of such purposes, certain sanitary sewer, sewage disposal or sewage purification plant bonds, bonds or notes issued for erosion control purposes or bonds or notes issued for the purposes of erecting jetties or other protective works to prevent encroachment by certain bodies of water.

"Net debt" is defined as gross debt less certain statutory exclusions and deductions. Gross debt, excluding therefrom debt incurred or to be incurred in anticipation of tax or other revenue collections or in anticipation of the sale of bonds other than funding or refunding bonds, is the sum of (i) outstanding debt evidenced by bonds, (ii) bonds authorized by orders introduced but not yet adopted, (iii) unissued bonds authorized by adopted orders and (iv) outstanding debt not evidenced by bonds. From gross debt are deducted (a) funding and refunding bonds (both those authorized by orders introduced but not yet adopted and those authorized but not yet issued), (b) the amount of money held in sinking funds or otherwise for the payment of any part of the principal of gross debt other than debt incurred for the purposes set forth in clause (e) below, (c) the amount of bonded debt included in gross debt and incurred, or to be incurred, for water, gas or electric light or power purposes, or two or more of such purposes, and certain bonded debt for sanitary sewer purposes, and (d) the amount of uncollected special assessments theretofore levied or estimated to be levied for local improvements for which any part of the gross debt (that is not otherwise deducted) was or is to be incurred, to the extent that the special assessments, when collected, will be applied to the payment of any part of the gross debt. Revenue bond indebtedness is not included in, nor deducted from, gross debt.

Bonds may be issued under an approved bond order at any time within seven years after the bond order takes effect. The effective date of the bond order is the date of formal passage of the bond order in the case of bonds that do not require voter approval and the date of voter approval in all other cases. If the issuance of bonds is prevented or prohibited by any order of any court or certain litigation, the period of time is extended by the length of time elapsing between the date of institution of the action or litigation and the date of its final disposition. The General Assembly may, prior to the expiration of the maximum period, also extend such period. In addition, such period may be extended from seven to ten years by the governing body of a unit of local government under certain circumstances with approval by the Commission. In any such case, no further voter approval is required.

The Commission has by regulation established the maximum useful lives of capital projects that may be financed by bonds. The maturity dates of any bonds issued for any project may not exceed the maximum useful life of the project, measured from the date of the bonds.

All bonds must mature in annual installments, the first of which must be payable not more than three years after the date of the bonds and the last of which must be payable within the maximum useful life of the project. Payment of an installment of principal may be provided for by the maturity of a bond, mandatory redemption of principal prior to maturity, a sinking fund, a credit facility or any other means satisfactory to the Commission. In addition, the Act prohibits "balloon installments" in that it requires that no installment of any issue may be greater than four times as large in amount as the smallest prior installment of the same issue. Bonds authorized by two or more bond orders may be consolidated into a single issue, and bonds of each issue may be issued from time to time in series with different provisions for each series. Each series is deemed a separate issue for the purposes of the limitations discussed in this paragraph. Bonds may be made payable from time to time on demand or tender for purchase as provided in the Act, and bonds may be made subject to redemption prior to maturity, with or without premium. The requirement that the bonds must mature in annual installments and the prohibition against balloon installments as described above does not apply to (a) refunding bonds, (b) bonds purchased by a State or federal agency or (c) bonds the interest on which is or may be includable in gross income for purposes of federal income tax, provided that the dates on which such bonds are stated to mature are approved by the

Commission and the Commission may require that payment of all or any part of the principal of and interest and any premium on such bond be provided for by mandatory sinking fund redemption.

### **Short-Term Obligations**

*Bond Anticipation Notes* - Units of local government are authorized to issue short-term notes in anticipation of the sale of bonds validly authorized for issuance within the maximum authorized amount of the bonds. General obligation bond anticipation notes must be payable not later than seven years after the effective date of the bond order and shall not be renewed or extended beyond that time unless the period of time within which the bonds may be issued has been extended as mentioned above. The faith and credit of the issuing unit are pledged for the payment of general obligation bond anticipation notes, and the power and obligation of the issuing unit to levy taxes and raise other revenues for the prompt payment of such notes is unrestricted as to rate or amount. The proceeds of each general obligation bond issue are also pledged for the payment of any notes issued in anticipation of the sale thereof, and any such notes shall be retired from the proceeds of the bonds as a first priority.

*Tax Anticipation Notes* - Units of local government having the power to levy taxes are authorized to borrow money for the purpose of paying appropriations made for the current fiscal year in anticipation of the collection of taxes due and payable within the current fiscal year, and to issue negotiable notes in evidence thereof. Any tax anticipation note must mature not later than 30 days after the close of the fiscal year in which it is issued and may not be renewed beyond that time. No tax anticipation note shall be issued by the unit of local government if the amount thereof, together with the amount of all authorized or outstanding tax anticipation notes on the date the note is authorized, would exceed 50% of the amount of taxes uncollected as of the date of the proposed note authorization. The faith and credit of the issuing unit are pledged for the payment of tax anticipation notes, and the power and obligation of the issuing unit to levy taxes and raise other revenues for the prompt payment of such notes is unrestricted as to rate or amount.

*Revenue Anticipation Notes* - Units of local government are authorized to borrow money for the purpose of paying appropriations made for the current fiscal year in anticipation of the receipt of the revenues, other than taxes, estimated in their budgets to be realized in cash during such fiscal year, and to issue negotiable notes in evidence thereof. Any revenue anticipation note must mature not later than 30 days after the close of the fiscal year in which it is issued and may not be renewed beyond that time. No revenue anticipation note shall be issued if the amount thereof, together with the amount of all revenue anticipation notes authorized or outstanding on the date the note is authorized, would exceed 80% of the revenues of the issuing unit, other than taxes, estimated in its budget to be realized in cash during such fiscal year. Revenue anticipation notes are special obligations of the issuing unit, and neither the credit nor the taxing power of the issuing unit may be pledged for the payment of revenue anticipation notes.

*Grant Anticipation Notes* - Units of local government are authorized to borrow money for the purpose of paying appropriations made for capital projects in anticipation of the receipt of moneys from grant commitments for such capital projects from the State or the United States or any agencies of either, and to issue negotiable notes in evidence thereof. Grant anticipation notes must mature not later than 12 months after the estimated completion date of such capital project and may be renewed from time to time, but no such renewal shall mature later than 12 months after the estimated completion date of such capital project. No grant anticipation note may be issued if the amount thereof, together with the amount of all other notes authorized or issued in anticipation of the same grant commitment, exceeds 90% of the unpaid amount of said grant commitment. Grant anticipation notes are special obligations of the issuing unit, and neither the credit nor the taxing power of the issuing unit may be pledged for the payment of grant anticipation notes.

## **The Local Government Budget and Fiscal Control Act**

The Local Government Budget and Fiscal Control Act, G.S. Ch. 159, Art. 3 (the "*Fiscal Control Act*"), sets forth procedures for the adoption and administration of budgets of units of local government. The Fiscal Control Act also prescribes certain accounting and auditing requirements. The Fiscal Control Act attempts to achieve close conformity with the accounting principles contained in the American Institute of Certified Public Accountants' Industry Audit Guide, Audits of State and Local Government Units.

*Budget* - The Fiscal Control Act requires the adoption of an annual balanced budget, which includes all appropriations required for debt service and for eliminating any deficit. Any deficit is required to be eliminated by the imposition of a property tax at a rate which will produce the revenue necessary to balance revenues and appropriations in the budget. The Secretary of the Commission is required to notify each local government unit by May 1 of each year of its debt service obligations for the coming fiscal year, including sums to be paid into sinking funds. At least 30 days prior to the due date of each installment of principal or interest on outstanding debt, the Secretary must notify each unit of the payment due, the due date, the place which the payments should be sent, and a summary of the legal penalties for failing to meet debt service obligations.

The Fiscal Control Act directs that the budget ordinance be adopted by the governing board of the unit of local government by July 1 of the fiscal year to which it applies. There is no penalty for failure to meet this deadline. The fiscal year begins July 1 and ends the following June 30. The governing board is required to hold a public hearing concerning the budget prior to its adoption. A project ordinance authorizing all appropriations necessary for the completion of a capital project or a grant project may be adopted in lieu of annual appropriations for each project and need not be readopted in any subsequent fiscal year.

*Fiscal Control* - The Fiscal Control Act sets forth certain fiscal control requirements concerning the duties of the finance officer; the system of accounting; budgetary accounting for appropriations; investment of idle funds; semiannual reports of financial information to the Commission; and an annual independent audit.

Except as otherwise provided by regulation of the Commission, the Fiscal Control Act requires a unit of local government to use the modified accrual basis of accounting in recording transactions. The Commission is empowered to prescribe regulations as to (a) features of accounting systems; (b) bases of accounting, including identifying in detail the characteristics of a modified accrual basis, identifying what revenues are susceptible to accrual, and permitting or requiring the use of a basis other than modified accrual in a fund that does not account for the receipt of a tax; and (c) definitions of terms not clearly defined in the Fiscal Control Act.

The Fiscal Control Act requires each unit of local government to have its accounts audited annually by an independent certified public accountant or by an independent accountant certified by the Commission as qualified to audit local government accounts. The audit must be conducted pursuant to a written contract containing the form, terms and fees for the audit. The Secretary of the Commission must approve this contract before the audit may begin and must approve invoices for the audit fee. Approval of final payment is not given until the audit report is rendered in accordance with the requirements of the contract. All audits are to be performed in conformity with generally accepted auditing standards.

## Major General Fund Revenue Sources

*Ad Valorem Tax* - Each unit of local government having authority to incur general obligation bonded indebtedness also has authority to levy ad valorem taxes on property having a situs within the unit. The ad valorem tax is levied on classes of property selected for taxation by the General Assembly through laws that are uniform throughout the State. The statute governing the listing, appraisal and assessment of property for taxation and the collection of taxes levied is the Machinery Act, G.S. Ch. 105, Subchapter II.

*Tax Base* - The basic class of property selected for taxation comprises all real and tangible personal property. Thus, unless a class of property is specifically excluded from the property tax base, exempted from taxation or specifically accorded some kind of preferential tax treatment, it must be taxed by each unit of local government exercising its authority to levy property taxes. Several classes of property have been selected for exclusion from the property tax base, exemption from taxation or taxation at reduced valuation or for special appraisal standards. The most significant of these classes are:

- (1) Tangible household personal property is excluded from the property tax base.
- (2) Stocks and bonds, accounts receivable and certain other types of intangible personal property are excluded from the property tax base.
- (3) Property belonging to certain qualified owners and used wholly and exclusively for religious, educational, charitable, cultural, fraternal or civic purposes is wholly exempted from taxation. Property belonging to the United States, the State and units of local government is also exempt from taxation.
- (4) Real and personal property owned by certain nonprofit homes for the aged, sick or infirm are excluded from property taxation, provided such homes are exempt from the State income tax.
- (5) Certain kinds of tangible personal property held for business purposes are excluded from taxation, the most important of which are:
  - (a) Manufacturers' inventories (raw materials, goods in process, finished goods, materials or supplies consumed in processing, crops, livestock, poultry, feed used in production of livestock and poultry, and other agricultural or horticultural products held for sale) and inventories of retail and wholesale merchants (tangible personal property held for sale and not manufactured, processed or produced by the merchant).
  - (b) Property imported through a North Carolina seaport terminal and stored at such terminal for less than 12 months awaiting further shipment.
  - (c) Certain pollution abatement and resource recovery equipment.
  - (d) "Bill and hold" goods manufactured in North Carolina and held by the manufacturer for shipment to a nonresident customer.
  - (e) Nuclear materials held for or in the process of manufacture or processing or held by the manufacturer for delivery.

- (f) Motor vehicle frames that belong to nonresidents and enter the State temporarily for the purpose of having a body mounted thereon.
- (6) A homestead exemption of the greater of \$25,000 or 50% of the appraised value of the residence is allowed if the property owner is a North Carolina resident, has income for the preceding calendar year of not more than the eligibility limit, and is at least 65 years of age or totally and permanently disabled.
- (7) Certain agricultural, horticultural and forest land is eligible for taxation at its value for agricultural, horticultural or forest use.

*Appraisal Standard* - All property must be appraised at its true value in money, except agricultural, horticultural and forest land eligible for appraisal at its present-use value. Property must be assessed for taxation at 100% of its appraised value.

*Frequency of Appraisal* - Real property must be appraised at least once in every eight years. The requirement of octennial real property revaluations has been enforced since 1965, and no taxing unit has been permitted to postpone a scheduled revaluation since that time. Many units revalue real property more frequently than every eight years. Personal property is appraised annually.

*Tax Day* - All real and tangible personal property (other than most motor vehicles) subject to ad valorem taxation must be listed for taxation as of January 1 each year. Motor vehicles, with certain exceptions, must be listed annually in the name of the record owner on the day on which the current vehicle registration is renewed or the day on which the application is submitted for a new vehicle registration.

*Tax Levy* - Property taxes are levied in conjunction with the adoption of a budget which covers a July 1 to June 30 fiscal year. The property tax levy must be sufficient to raise during the fiscal year a sum of money equal to the difference between total appropriations and the total estimated receipts of all other revenues. In estimating the percentage of the levy that will be collected during the fiscal year, the taxing unit is prohibited from estimating a greater collection percentage than that of the prior fiscal year.

The tax rate may not exceed \$1.50 per \$100 assessed valuation unless the voters approve a higher rate. Tax levies by counties for the following purposes are not counted against the rate limit: courts, debt service, deficits, elections, jails, schools, mandated social services programs and joint undertakings with any other taxing unit with respect to any of these. Tax levies by cities for the following purposes are not counted against the rate limit: debt service, deficits and civil disorders.

*Tax Collection* - The taxing unit has a lien by operation of law on all real property within its jurisdiction that attaches as of January 1 for all taxes levied for the fiscal year beginning on the following July 1. Taxes levied on a parcel of real property are a lien on that parcel but not on other real property owned by the taxpayer. Taxes levied on personal property are a lien on all real property owned by the taxpayer within the taxing unit. The tax lien enjoys absolute priority against all other liens and claims whatsoever except, in limited circumstances, federal tax liens and certain other prior liens and perfected security interests.

Except for motor vehicles, taxes fall due on September 1 following the date of levy and are payable at par until January 6. For the period January 6 to February 1, interest accrues at the rate of 2%, and for the period February 1 until the principal amount of the taxes, the accrued interest, and any penalties are paid, interest accrues at the rate of 3/4% per month or fraction thereof. Each taxing unit may enforce collection of its tax levy by (a) foreclosure of the lien on real property, (b) levy and sale of

tangible personal property and (c) garnishment and attachment of intangible personal property. There is no right of redemption of real property sold in a tax foreclosure action.

Discounts for early payment of property taxes are allowed by some taxing units. To allow such discounts, the unit must adopt a discount schedule which must then be approved by the Ad Valorem Tax Division of the Department of Revenue.

No taxing unit has authority to release or refund any valid tax claim. The members of any governing board voting to make an unlawful release or refund of property taxes are personally liable for the amount unlawfully released or refunded.

The Commission periodically publishes statistics on the percentage of property tax levies collected before the close of the fiscal year for which levied. These statistics are available upon request.

Although the State has not levied a general property tax in more than forty years, it does continue general oversight of property tax administration by units of local government through the Ad Valorem Tax Division of the Department of Revenue. The Division has three main functions: (1) it appraises the property of electric power, gas, telephone and telegraph companies, the rolling stock of bus companies and motor freight carriers and the flight equipment of airlines; (2) it oversees local property tax administration; and (3) it provides staff assistance to the Property Tax Commission, an administrative appellate agency hearing listing and valuation appeals from local taxing units.

### **Local Government Sales and Use Taxes**

The one percent local sales and use tax authorized by the Local Government Sales and Use Tax Act is levied by 99 of the 100 counties of the State (Mecklenburg County levies a virtually identical tax under a 1967 local act). The local sales tax base is the same as the State general sales tax base excluding exempt food sales, except that for goods sold to out-of-county purchasers for delivery out-of-county and sales of certain utility services. The situs of a transaction is the location of the retailer's place of business. Sales of tangible personal property delivered to out-of-county purchasers will be subject to sales tax in the county in which the retailer's place of business is located and will not be subject to the use tax of the destination county. The tax is collected by the State on behalf of local government, and the net proceeds, after deduction of the cost of collection and administration, are returned to the county of collection. The county governing board selects one of two formulas for allocation of the tax among the county and the municipalities therein. One formula calls for allocation on the basis of population and the other on the basis of ad valorem tax levy.

Counties are also authorized under the Supplemental Local Government Sales and Use Tax Act to levy a one-half percent sales tax. This sales tax is collected by the State, allocated to counties on a per capita basis and divided among each county and the municipalities located therein in accordance with the method by which the one percent sales and use taxes are distributed. An adjustment factor is applied to the per capita allocation for each county. All 100 counties levy this one-half percent supplemental sales tax.

Counties are also authorized under the Additional Supplemental Local Government Sales and Use Tax Act to levy an additional one-half percent sales tax. This additional supplemental sales tax is collected and distributed based on a point-of-origin allocation. During the first 16 fiscal years in which this tax is in effect, 60% of the revenue derived by counties from this tax is required to be used for public school capital outlay purposes or to retire any indebtedness incurred by the county for these purposes during the period beginning five years prior to the date the taxes took effect. Counties may be relieved of the percentage restriction if it can demonstrate to the satisfaction of the Local Government

Commission that it is able to meet the aforementioned capital outlay needs without resorting to proceeds of such tax. All 100 counties levy this additional supplemental one-half percent sales tax.

Counties were previously authorized under the Third One-Half Cent Local Government Sales and Use Tax Act, to levy an additional one-half cent local option sales tax. However, as a part of a Medicaid relief package for the counties, this third one-half cent tax was replaced by the Local Government Hold Harmless Provision. Effective October 1, 2008, this tax was reduced to one-fourth cent and the remaining one-fourth cent was eliminated effective October 1, 2009. The phase out of this tax is part of an effort to allow the State to assume the County's portion of the Medicaid expense over a three year period. The State must guarantee that each county's gain will be at least \$500,000 for each fiscal year as a result of the State assuming the county Medicaid share. Once the Third One-Half Cent tax was completely phased out on October 1, 2009, if the amount of a county's Medicaid cost assumed by the State plus \$500,000 is less than the county's repealed local sales tax amount, the State must reimburse the county for the amount of the difference. Counties are to hold municipalities that were incorporated as of October 1, 2008, harmless for the phase-out of the Third One-Half Cent tax. The hold harmless funds are paid to municipalities by the Secretary of Revenue each month from funds obtained by reducing the county's monthly allocation of the one-percent local sales and use tax proceeds. The Medicaid relief package also provides for corresponding increases in the State sales tax to accompany the reduction of the Third One-Half Cent tax that was effective October 1, 2008 and repealed on October 1, 2009. Thus, the State sales tax was increased by one-quarter cent on October 1, 2008, and by another one quarter cent on October 1, 2009.

### **Alcoholic Beverage Control Store Profits**

The sale of liquor in the State is a government monopoly. Stores are operated by counties and municipalities that have been authorized and have chosen to establish them. The net profits of these stores are distributed to the units of local government in which they operate. The General Assembly has enacted numerous local acts prescribing different formulas for the distribution of profits. Local elections are authorized to permit sales of liquor by the drink by qualified restaurants and clubs. An additional tax of \$20 per four liters is levied on liquor purchased by restaurants or clubs for resale as mixed beverages, and \$10 of the \$20 is paid to the State's General Fund.

### **Intragovernmental Shared Revenues**

The excise tax levied by the State on beer, fortified and unfortified wine is shared with counties and municipalities in which the sale of these beverages is lawful. Counties and cities where beer and wine are sold receive on a per capita basis an annual distribution equal to the following percentages of the net amount of excise taxes collected on the sale of beer and wine during the 12-month period ending March 31 each year: 23.75% of beer tax revenue, 62% of unfortified wine tax revenue and 22% of fortified wine tax revenue. A city or a county is eligible to share in both beer and wine excise tax revenues if beer and wine may legally be sold within its boundaries. If only one beverage may be sold, the city or county shares only in the excise tax for that beverage. Two hundred thousand dollars (\$200,000) from the net proceeds of the excise tax collected on unfortified wine is appropriated quarterly to the Department of Commerce to be used to promote the North Carolina grape and wine industry. The local share of these collections is computed on the net proceeds after deducting the transfer to the Department of Commerce. Some counties and municipalities do not permit the sale of either beer or wine and thus do not receive any share of this revenue.

Under the utility franchise tax law, the State levies a gross receipts tax on certain public utilities at rates of 3.22% to 6%. Cities receive quarterly distributions equal to 3.09% of taxable gross receipts from sales within municipalities of electricity during the preceding calendar quarter, minus one-fourth of

the city's hold back amount and one fourth of the city's proportionate share of the annual cost to administer.

The State levies a sales tax on the gross receipts of telecommunications and ancillary services at a statutorily prescribed rate. The rate is equal to the sum of the State's sales tax rate and the rates of local sales taxes levied in each of the 100 Counties. Each quarter, the State distributes to cities 18.7 percent of these proceeds from that quarter, minus \$2,620,948.

The State imposes a State excise tax on the distribution of piped natural gas, with statutorily prescribed rates that decrease with the amount of piped natural gas used by each customer. The State distributes quarterly to each city served by piped natural gas one-half of the tax attributed to sales within that city.

Cities and towns receive annually a motor fuel tax allocation equal to the amount produced during the year by a 1.75 cents tax on each gallon of motor fuel sold in the State. Payments are made from the collections of the prior fiscal year. Under the present distribution formula, 75% of the funds are allocated on the basis of population of eligible municipalities and 25% are allocated on the basis of the mileage of public streets within cities and towns that are not a part of the State highway system.

All cities and counties receive shares of three State sales taxes on local cable franchise system revenues which currently are 7.7 percent of the net proceeds of taxes collected on telecommunications and ancillary services, 23.6 percent of the net proceeds of taxes collected on video programming services (other than direct-to-home satellite service), and 37.1 percent of the net proceeds of taxes collected on direct-to-home satellite services. The distributions can be used for any public purpose after earmarking provisions are met. The first \$2 million of the local share of the proceeds from these three taxes must be used by the local governments to support local public, educational, or governmental ("*PEG*") access channels. A city or county that imposed subscriber fees during the first six months of the 2006-07 fiscal year must use a portion of the funds distributed to it for the operation and support of PEG channels, equal to two times the amount of subscriber fee revenue the county or city certifies that it imposed during the period. In addition, a city or county that used part of its franchise tax revenue in fiscal year 2005-06 for the operation and support of PEG channels, or a publicly owned and operated television station, must continue the same level of support.

### **State and Local Fiscal Relations**

The State finances from State revenues (primarily individual income taxes, corporate income taxes and sales taxes) several governmental programs that are largely financed from local revenues in other states, thus decreasing reliance on local property taxes for these purposes. The major programs of this nature are as follows:

*Public Schools and Community Colleges* -- The State provides approximately 70% of the funds required for current operating costs of the public school and community college systems, while county government finances the greater portion of the capital costs of these systems. North Carolina school administrative units do not have independent tax-levying authority. The local share of the costs of the public school and community college systems are raised primarily by county government from its general revenues, including the local sales tax revenue.

*Court System* -- The State finances virtually all of the current operating costs of the General Court of Justice. County government is required to provide courthouses, certain jails and related judicial facilities.

*Correctional System* -- The State finances all of the cost of correctional facilities used for confinement of convicted felons and long-term (more than 30 days) misdemeanants. Counties and some municipalities furnish jails for short-term misdemeanants and prisoners awaiting trial.

*Highway System* -- The State finances the entire cost of public roads and highways outside the corporate limits of cities and towns. Counties may voluntarily participate in improvements to public roads and highways. Within cities and towns, the State finances the cost of major thoroughfares and streets connecting elements of the State highway system. Cities share responsibility with the State for State-maintained roads inside city limits and take full responsibility for the remaining public streets within city limits.

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## **APPENDIX C**

### **FINANCIAL INFORMATION**

#### **Financial Information**

The financial statements of the City have been audited by certified public accountants for the Fiscal Year ended June 30, 2014. The following financial statements are the basic financial statements of the City, the notes thereto and the Management's Discussion and Analysis of the financial activities of the City, lifted from the audited Comprehensive Annual Financial Report of the City for the Fiscal Year ended June 30, 2014. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of the City's financial activities based on currently known facts, decisions or conditions. Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The City has not requested nor obtained the consent of its auditor to the inclusion of these financial statements in this Official Statement.

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# CITY OF DURHAM, NORTH CAROLINA

Management's Discussion and Analysis  
For the Year Ended June 30, 2014

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## Management's Discussion and Analysis

Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, and the basic financial statements to enhance their understanding of the City's financial performance.

## Financial Highlights

- The assets of the City of Durham exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,124,827,840. Of this amount, \$190,183,699 may be used to meet the City's ongoing obligations to citizens and creditors.
- Total net position increased by \$64,768,402, during the most recent fiscal year resulting from governmental and business-type activities. The increase in the governmental activities net position was \$11,376,854 while the increase in the business-type activities net position was \$53,391,548.
- The City of Durham has maintained its AAA bond rating from all three bond rating agencies for the 14<sup>th</sup> consecutive year.
- As of the close of the fiscal year, the City of Durham's governmental funds reported combined ending fund balances of \$137,308,406, an increase of \$10,459,283.
- The City of Durham's total debt decreased by \$9,970,794 (2.1%) during the current fiscal year.

## City Highlights

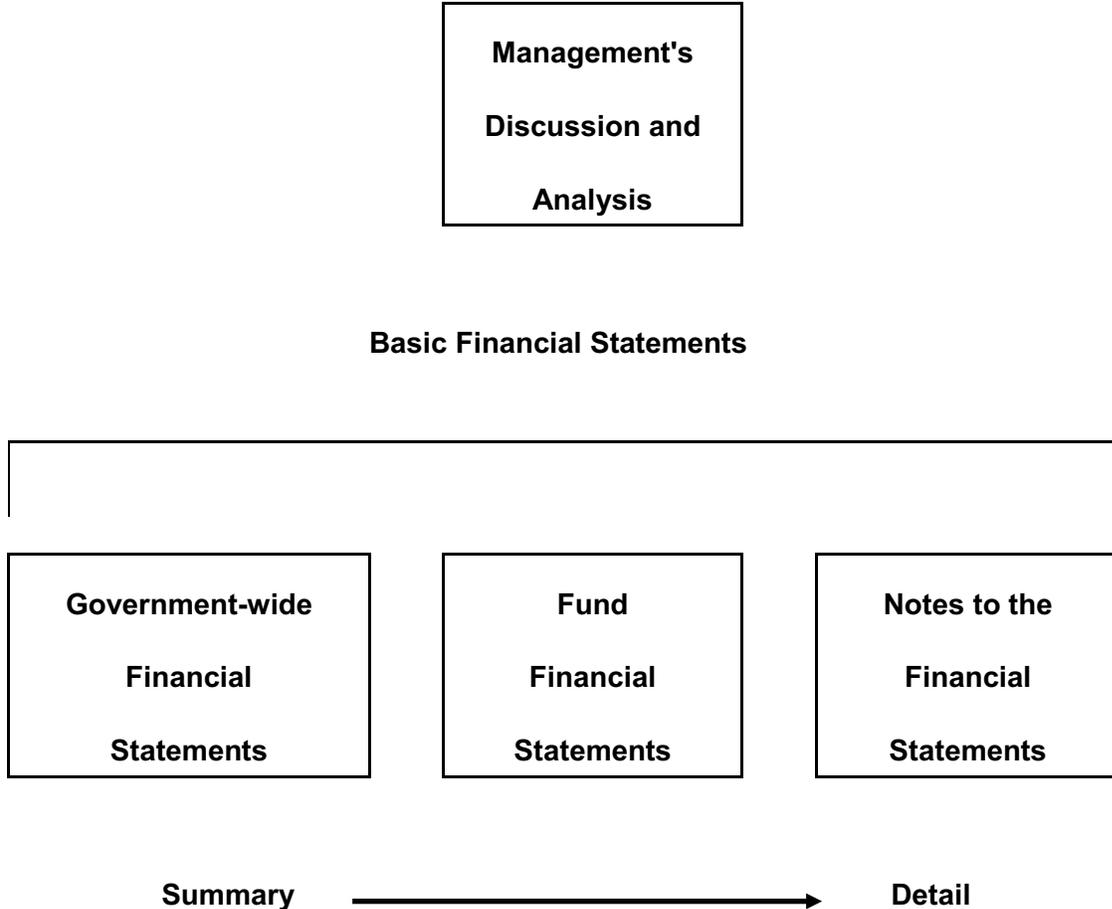
- Durham is the 2013 recipient of an Honorable Mention for the "The Richard Goodman" Strategic Planning Award from the Association of Strategic Planning. The award recognizes distinction in the practice of strategy, innovation in the strategic planning process, and honors organizations at the leading edge of strategic practice.
- For fiscal year 2014 the City of Durham received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 29<sup>th</sup> consecutive year, the Outstanding Achievement in Popular Financial reporting for the 10<sup>th</sup> consecutive year and the Distinguished Budget Presentation Award for the 25<sup>th</sup> consecutive year.
- AT&T and Google are exploring the feasibility of building a high speed fiber network which will provide internet speeds up to 100 times faster than current connections.

## Overview of the Financial Statements

The City of Durham's discussion and analysis is intended to serve as an introduction to the City of Durham's basic financial statements. The City of Durham'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. The discussion and analysis is also designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year's

challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. Since the Management’s Discussion and Analysis (MD&A) is designed to focus on the current year’s activities, resulting changes and currently known facts, please read it in conjunction with the Transmittal Letter and the City’s financial statements.

**Required Components of the Annual Financial Report**



**Figure 1**

**Basic Financial Statements**

The first two statements (Exhibits A-1 and A-2) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the City’s financial status.

The next statements (Exhibits A-3 through A-11) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements and 4) the fiduciary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the City’s individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

## **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City of Durham's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the City of Durham's assets, deferred outflows of resources, liabilities deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Durham is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Durham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Durham include General Government, Public Safety, Streets and Highways, Development, General Services, Parks and Recreation. The business-type activities of the City of Durham include Water and Sewer, Parking Facilities, Transit, Solid Waste Management, Golf Course, Durham Performing Arts Center, Ballpark and Storm Water Management.

The government-wide financial statements include not only the City of Durham itself, but also a legally separate non-profit corporation for which the City of Durham is financially accountable. The New Durham Corporation (NDC) is legally separate from the City, although the NDC is reported as if it were a part of the government because its purpose is to finance City revitalization projects and purchases of capital equipment. All NDC activities are included in the funds in which the activity takes place.

The government-wide financial statements can be found on pages 18 - 21 of this report.

## **Fund Financial Statements**

The fund financial statements are 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 Durham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Durham can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds** - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Durham adopts an annual budget for its General and Debt Service Funds, 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; 2) the final budget as amended; 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. The basic governmental fund financial statements can be found on pages 22 - 26.

**Proprietary Funds** - The City of Durham has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. These services include Water and Sewer, Parking Facilities, Transit, Solid Waste Management, Durham Performing Arts Center, Ballpark, Golf Course and Storm Water Management. They are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are used as an accounting device to accumulate and allocate costs internally among other funds. The City uses two internal service funds, one to account for risk management and claims settlement activities and a second to account for health and dental insurance. Because the Internal Service Funds are predominantly governmental rather than business-type activities, both funds have been included within the governmental activities in the government-wide financial statements. The proprietary funds financial statements can be found on pages 28 - 41.

**Fiduciary Funds** - The City of Durham has two different *Fiduciary Funds*, a pension trust, which is used to account for resources held for the benefit of the City's employees and a trust fund for Other Post Employment Benefits (OPEB). Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Fiduciary funds financial statements can be found on pages 42 - 43.

### **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 45 - 83.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Durham's progress in funding its obligation to provide pension benefits and other post employment benefits to its employees. Required supplementary information can be found on pages 84 - 87.

### **Interdependence with Other Entities**

The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

**Government Wide Financial Statement Analysis**

The following reflects the Net Position compared to the prior year:

**Statement of Net Position**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 212,750	\$ 208,200	\$ 176,450	\$ 160,333	\$ 389,200	\$ 368,533
Capital assets	587,842	605,171	715,558	658,462	1,303,400	1,263,633
Total assets	<u>800,592</u>	<u>813,371</u>	<u>892,008</u>	<u>818,795</u>	<u>1,692,600</u>	<u>1,632,166</u>
Long-term liabilities outstanding	280,466	300,323	194,417	174,313	474,883	474,636
Other liabilities	49,896	51,949	38,912	38,912	88,808	90,861
Total liabilities	<u>330,362</u>	<u>352,272</u>	<u>233,329</u>	<u>213,225</u>	<u>563,691</u>	<u>565,497</u>
Deferred inflows of resources	4,082	6,327	-	281	4,082	6,608
Net position:						
Invested in capital assets, net of related debt	365,679	346,977	523,201	486,710	888,880	833,687
Restricted	45,764	36,883	-	-	45,764	36,883
Unrestricted	54,706	70,911	135,478	118,578	190,184	189,489
Total net position	<u>\$ 466,149</u>	<u>\$ 454,771</u>	<u>\$ 658,679</u>	<u>\$ 605,288</u>	<u>\$ 1,124,828</u>	<u>\$ 1,060,059</u>

For more detailed information see the Statement of Net Assets on pages 18-19.

Net position may serve over time as one useful indicator of a government's financial condition. The net position exceeded liabilities and deferred inflows by \$1,124,827,840 at June 30, 2014. At June 30, 2013 the amount was \$1,060,059,438. Net position is reported in three categories: Invested in capital assets of \$888,879,847; restricted net assets of \$45,764,294; and unrestricted net assets \$190,183,699. At June 30, 2013, these amounts were \$833,867,302, \$36,883,561 and \$189,488,575, respectively.

The net investment in capital assets is reported net of the outstanding related debt is defined as the City's investment in City owned capital assets (e.g. land, land rights, buildings, automotive equipment, office and other equipment, and sewer lines), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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. Restricted net assets of \$45,764,294 represent resources that are subject to external restrictions on how they may be used.

The following is a schedule of revenues and expenses for the current fiscal year.

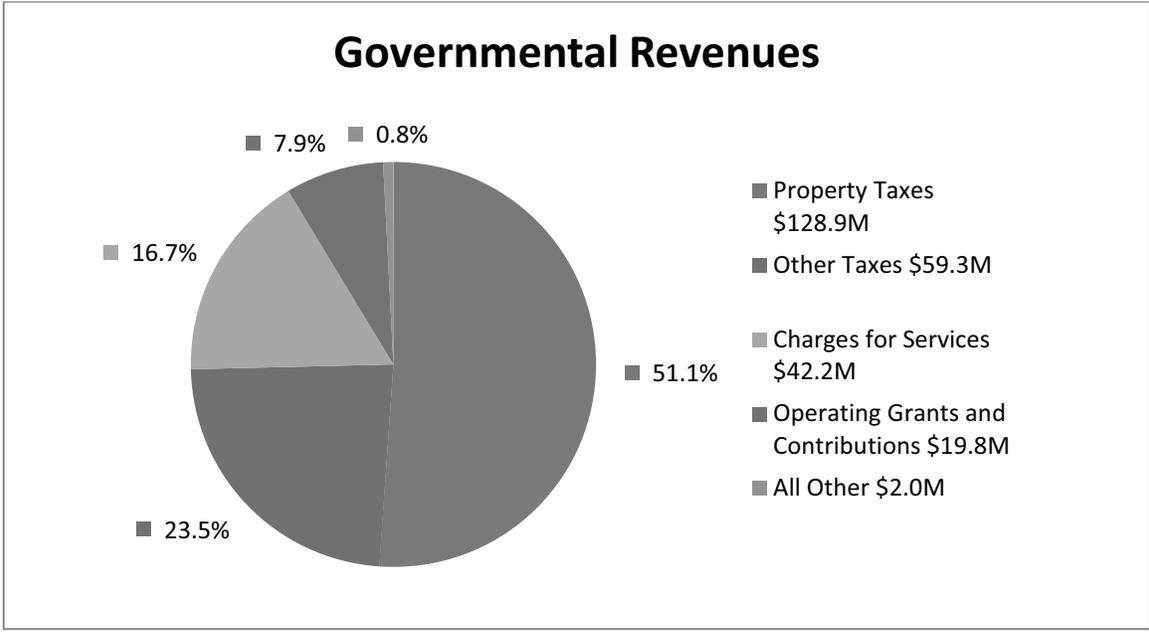
**Changes in Net Position**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 42,191	\$ 40,282	\$ 125,587	\$ 123,452	\$ 167,778	\$ 163,734
Operating grants and contributions	19,766	22,252	6,892	7,684	26,658	29,936
Capital grants and contributions	-	-	20,998	9,803	20,998	9,803
General revenues:						
Property taxes	128,898	127,072	9,413	-	138,311	127,072
Other taxes	59,274	57,563	1,550	1,559	60,824	59,122
Other	2,058	1,559	722	180	2,780	1,739
<b>Total revenues</b>	<b>252,187</b>	<b>248,728</b>	<b>165,162</b>	<b>142,678</b>	<b>417,349</b>	<b>391,406</b>
<b>Expenses:</b>						
General government	39,106	38,106	-	-	39,106	38,106
Public safety	93,529	86,736	-	-	93,529	86,736
Development	21,641	28,147	-	-	21,641	28,147
General services	18,807	20,705	-	-	18,807	20,705
Parks and recreation	14,005	14,065	-	-	14,005	14,065
Streets and highways	21,365	24,482	-	-	21,365	24,482
Interest on long-term debt	8,995	10,743	-	-	8,995	10,743
Water and sewer	-	-	73,352	70,908	73,352	70,908
Parking facilities	-	-	4,369	2,526	4,369	2,526
Transit	-	-	23,698	23,453	23,698	23,453
Solid waste disposal	-	-	17,948	23,371	17,948	23,371
Performing Arts	-	-	3,626	3,550	3,626	3,550
Ballpark	-	-	1,701	1,370	1,701	1,370
Storm water management	-	-	10,316	9,868	10,316	9,868
Golf course	-	-	122	122	122	122
<b>Total expenses</b>	<b>217,448</b>	<b>222,984</b>	<b>135,132</b>	<b>135,168</b>	<b>352,580</b>	<b>358,152</b>
Increase in net position before transfers	34,739	25,744	30,030	7,510	64,769	33,254
Transfers	(23,361)	(15,519)	23,361	15,519	-	-
Increase in net position	11,378	10,225	53,391	23,029	64,769	33,254
Net position, July 1	454,771	445,983	605,288	583,502	1,060,059	1,029,485
Restatement	-	(1,437)	-	(1,243)	-	(2,680)
Restated net position July 1	-	444,546	-	582,259	-	1,026,805
Net position, June 30	\$ 466,149	\$ 454,771	\$ 658,679	\$ 605,288	\$ 1,124,828	\$ 1,060,059

**Governmental Activities**

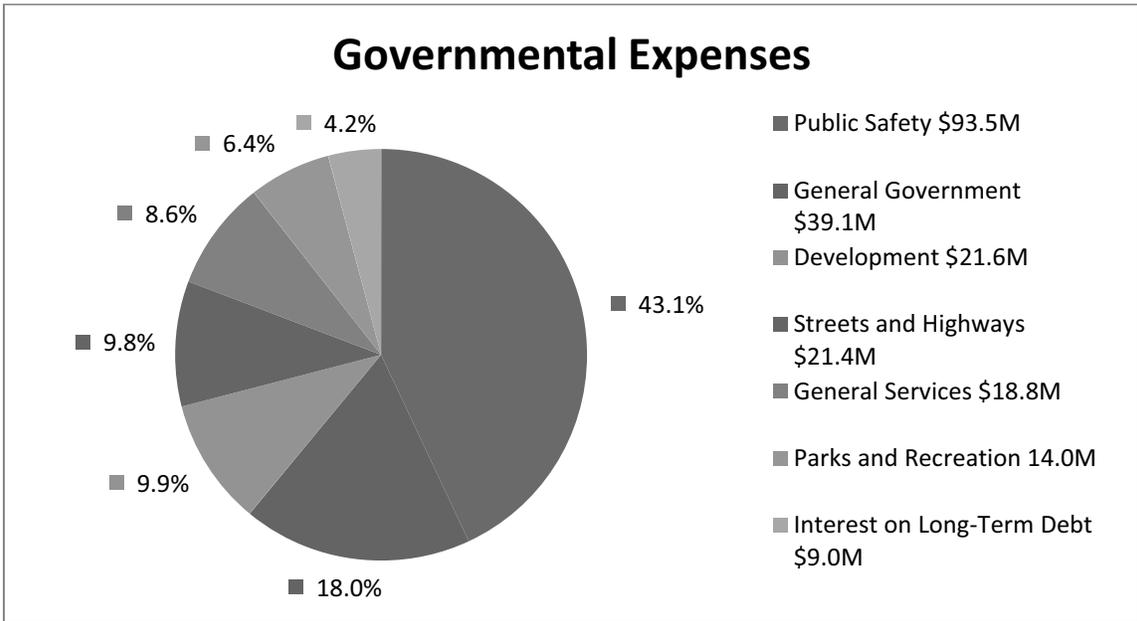
Governmental activities increased the City's net positions by \$11,376,854; this accounted for approximately 17.6% of the total growth of net position. The increase was primarily due to capital expenditures related to sidewalk and street improvements. Total property tax revenues (\$128,897,962) collected were approximately 1.4% more than property taxes collected (\$127,072,425) in the prior fiscal year. Property tax revenues covered approximately 59.3% of governmental activity expenses (\$217,448,730). This is a 2.3% increase from the prior year. Charges for services revenues also increased 4.7%. This increase was approximately 10.0% less than the increase in the previous year of 14.1%. Other taxes (\$59,274,219) were up 3.0% from the prior year (\$57,563,191). This was primarily due to increased collections on vehicle personal property tax and franchise taxes on electricity and natural gas. Public safety accounted for

approximately 42.3% of all expenses in governmental activities; this was up 3.4% from the prior year when it was 38.9%. There were significant decreases in the Development programs and Interest payment functions, 23.1% and 16.3% respectively. Development expenses were down primarily due to the winding down on the Southside project, a large revitalization housing project just south of downtown and the Interest payments reduction due to lower interest rates received over the past few years when refinancing outstanding debt. The following graphs show the breakdown by percentage of governmental revenues and expenses.



**Total Governmental Revenues = \$252.2 Million**

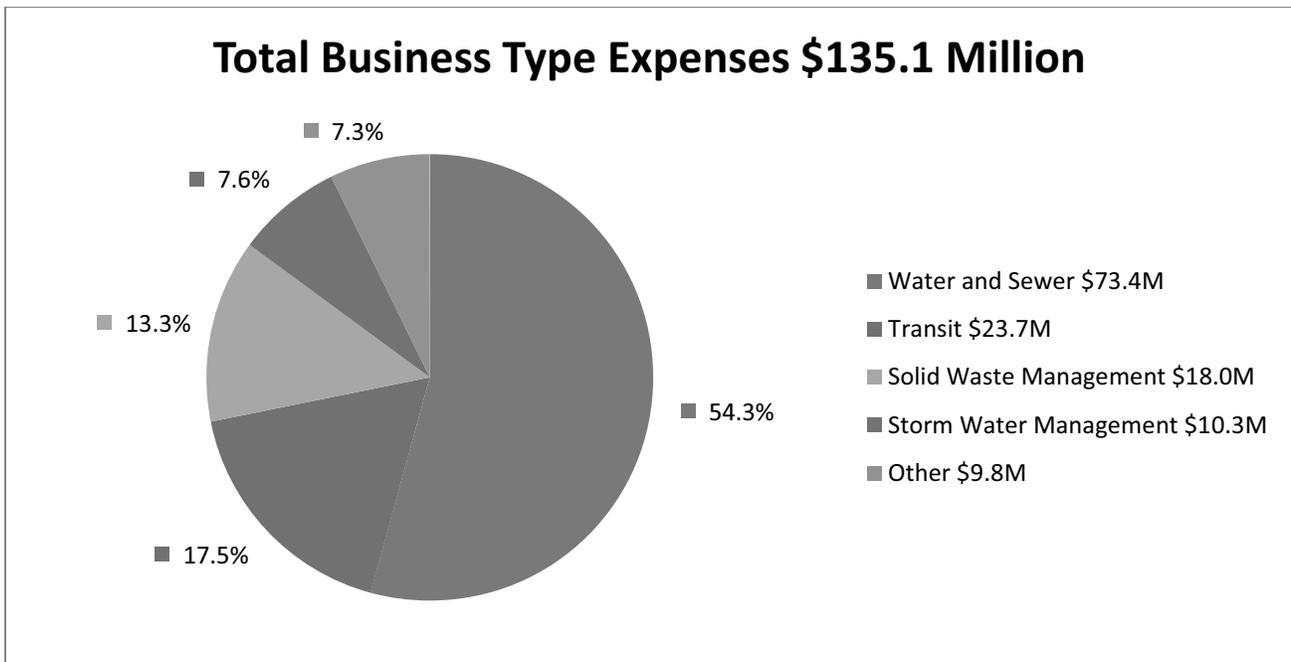
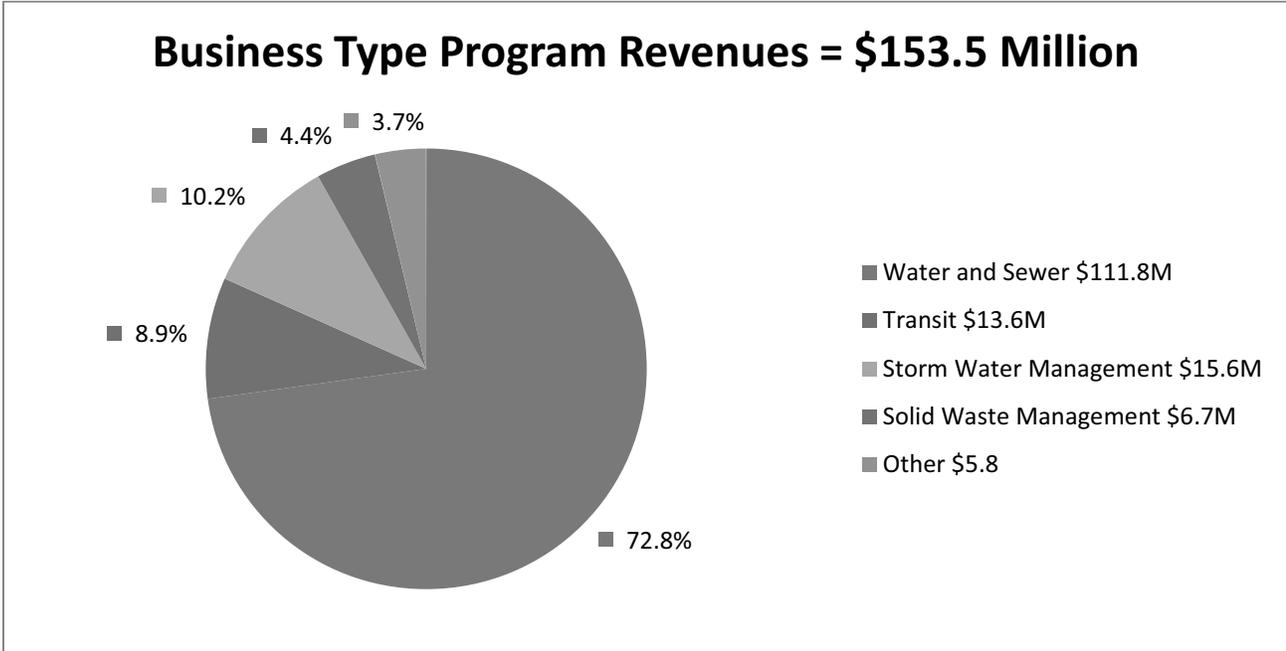
\* Other taxes include local option sales tax, gross receipts and hotel/motel occupancy tax.



**Total Governmental Expenses = \$217.4 Million**

**Business-type Activities**

Business-type activities increased the City of Durham’s net position by \$53,391,548. This change accounted for 87.6% of the total growth in the government’s net position. Key elements of this increase are as follows: revenues were up 8.9% primarily due to capital contributions from developers in the Water and Sewer Fund, this accounted for 89.3% of the growth and expenses were mostly flat with a reduction of \$35,511 (.03%) across all functions.



\* Other includes Durham Performing Arts Center, Durham Bulls Athletic Park, Golf Course and Parking Facilities

## **Financial Analysis of the Government's Funds**

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balance may serve as 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 Durham. The increase in fund balance in the General Fund from \$44,190,484 to \$51,440,834 was primarily due to reduction in receivables \$3.4M and deferred inflows \$3.7M. Expenditures were also down approximately \$2.9M and revenues were down approximately \$.9M. In the Non-Major Governmental Funds fund balance increased from \$76,483,060 to \$79,198,964 primarily due to reduction in receivables \$1.1M. Changes to the fund balance in the Debt Service and Housing Projects Funds was not significant.

The City has adopted a policy to maintain the General Fund Unassigned Fund Balance in an amount no less than the greater of 12 percent of the current year's originally adopted Adjusted Budgeted Expenditures, or the amount required by the Local Government Commission. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$28,181,588, while total fund balance is \$51,440,834. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 17.8% of total adjusted General Fund expenditures using the calculation formula derived from the policy, while total fund balance represents 32.4% of that same amount. The remainder of fund balance is not available for new spending because it is already categorized in the following classifications by GASB 54:

- Non-spendable; includes inventories and notes receivable
- Restricted; restricted by state statute and for debt purposes
- Assigned; for subsequent years expenditures and other purposes

Refer to the notes to the financial statements for additional details.

### **Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to:

- Water and Sewer Utility \$121,834,938
- Parking Facilities \$(94,524)
- Transit \$(2,749,229)
- Solid Waste Disposal \$(3,798,925)
- Durham Performing Arts Center \$3,871,864
- Ballpark \$15,011
- Storm Water Management \$17,804,856
- Golf Course \$0

The Water and Sewer unrestricted net position increased by \$10,470,586 primarily due to an increase in non-current assets, mostly infrastructure donated by developers. The Transit Fund deficit was reduced (32.7%) from \$4.1M to \$2.8M primarily due to increased property tax and fees associated charged on vehicle registrations. The Storm Water Management Fund unrestricted net position increased by \$4.1M (30.1%) due to a variety of factors, none that were individually significant

## **Budgetary Highlights**

During the fiscal year, the City revised the budget on three occasions. Generally, budget amendments fall into one of four 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; 3) increases in appropriations that become necessary to maintain services and 4) amounts that are carried over from the prior year and re-designated for the subsequent year's expenditures. The most significant change in the budget was to the Debt Service Fund and was related to debt refunding.

## **General Fund**

The following functions in the General Fund had significant variances between final budget and actual expenditures. Governance had \$1,299,688 less in expenditures than what was budgeted, a 9.8% variance. This was primarily due to a savings in economic development where incentives that were not paid and are being carried into the next fiscal year. Community Development had \$4,838,254 less in expenditures than was budgeted, a 9.4% variance, which was primarily due to reduction in costs in the Streets and Highways, Parks and Recreations and Property and Facility Management functions. The savings were due to both personnel costs because of vacancies and reduced operating expenditures. Administrative and Support Services had \$901,394 less in expenditures than was budgeted, a 7.4% variance, which was primarily due to savings in the contract services in the Finance Department for banking and in both the Finance and Technology Solutions Departments for personnel vacancies and reduced operating costs. For the revenue side the total difference was a 1.3% increase over the budgeted amount in total revenues and it was spread evenly across all categories with one exception, the licenses and permits had a significant difference due to a greater number of building permits issued.

## **Capital Asset and Debt Administration**

### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$1,303,400,442 an increase of \$39,766,891 from June 30, 2013, when the amount was \$1,263,633,551. These assets include buildings, infrastructure, land, machinery and equipment, park facilities, vehicles, water and sewer lines, and construction in progress. The decrease in governmental activities was primarily due to the addition of street paving and sidewalk additions and donated infrastructure for streets and sidewalks. Increases in the business-type activities were primary due to donated water and sewer lines.

Major capital asset transactions during the year include the following additions:

#### Governmental-type activities:

- Increase in construction in progress for capital assets \$8,514,045
- Decrease building and infrastructure \$12,178,792
- Increase in furniture and equipment \$1,876,897

#### Business-type activities:

- Increase in construction in progress for capital assets put in service \$3,734,115
- Added building and infrastructure \$82,534,559
- Increase in furniture and equipment \$716,515

**Capital Assets, Net**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 36,848	\$ 36,549	\$ 41,376	\$ 40,754	\$ 78,224	\$ 77,303
Buildings, equipment and depreciable assets	532,656	558,798	661,792	609,052	1,194,448	1,167,850
Construction in progress	18,338	9,824	12,390	8,656	30,728	18,480
<b>Total</b>	<b>\$ 587,842</b>	<b>\$605,171</b>	<b>\$ 715,558</b>	<b>\$ 658,462</b>	<b>\$ 1,303,400</b>	<b>\$1,263,633</b>

See Note III, D of this report for additional information.

**Debt Administration**

As of year-end, the City had \$456,438,135 in debt (e.g., bonds, notes) outstanding compared to \$466,408,895 in the prior fiscal year, a 2.1% decrease.

**Outstanding Debt**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 172,926	\$ 203,587	\$ 57,348	\$ 54,283	\$ 230,274	\$ 257,870
Revenue bonds	-	-	65,700	72,420	65,700	72,420
Certificates of Participation	8,213	68,976	29,090	32,118	37,303	101,094
Limited Obligation Bonds	61,921		28,420		90,341	
Installment Financing	1,249	14,049	626	828	1,875	14,877
Capital leases	9,862	-	-	-	9,862	-
Section 108 loan	8,800	4,400			8,800	4,400
State of North Carolina	-	-	1,080	1,965	1,080	1,965
Durham County	-	-	11,203	13,783	11,203	13,783
<b>Total</b>	<b>\$ 262,971</b>	<b>\$ 291,012</b>	<b>\$ 193,467</b>	<b>\$ 175,397</b>	<b>\$ 456,438</b>	<b>\$ 466,409</b>

See Note III, G of this report for additional information.

**General Obligation Bonds Refunding**

On October 23, 2013 the City of Durham issued Limited Obligation Bonds, 2013A in the amount of \$18,545,000 and 2013B (taxable) in the amount of \$16,175,000. The proceeds refunded all (\$4,000,000) of the General Obligation Housing Bonds, Series 2000 (taxable). The Refunded Bonds were called on the date of delivery of the 2013B Bond at the redemption price of 100% of principal amount thereof plus accrued interest to the redemption date.

As mentioned in the financial highlights section of this document, the City maintained for the fourteenth consecutive year its AAA bond rating from Moody's Investor Service and AAA rating from Standard and Poor's Corporation and Fitch Ratings. This bond rating is a clear indication of the sound financial condition of the City. The City of Durham maintains this highest financial rating

from all three major rating agencies. This achievement is a primary factor in keeping interest costs low on the City's debt.

The City is subject to the Local Government Bond Act of North Carolina that limits the net bonded debt the City may have outstanding to eight percent of the appraised value of property subject to taxation. At June 30, 2014 such statutory limit for the City was \$1,894,716,921 providing a debt margin of \$1,570,732,475. The City does not have any general obligation bonds that are authorized at June 30, 2014. Additional information regarding the City's long-term debt can be found in the notes to the financial statements.

### **Budget Highlights for the Fiscal Year Ending June 30, 2015**

The participation of citizens in the City of Durham budget process has been nationally recognized. During the development of the fiscal year 2015 budget the City held five "Coffees with Council" and a "Citizen Engagement Workshop" focused on the Strategic Plan, and also held other meetings to confirm the community's budget priorities. The result of these transparent interactions yielded generally the same major community priorities, all of which are included in one or more of the Strategic Plan goals adopted by the City Council; a Strong and Diverse Economy, Safe and Secure Community, a Well-Managed City, Thriving and Livable Neighborhoods, and Stewardship of City's Physical Assets.

The approved fiscal year 2014-2015 budget includes a 2.37 cent property tax increase, for voter-approved debt, public safety and parks maintenance, and solid waste fleet capital needs thus creating a new tax rate of 59.12 cents per \$100 of assessed value.

The total budget for FY 2014-15 of \$389.9 million, a 3.4 percent increase from last year's budget, and includes a \$175 million budget for services covered by the general fund. The 1.29 cent portion of the property tax increase is needed for voter-approved debt service costs from previous bonds and to cover 16 police officers and 15 firefighters' salaries that had been paid by recently expired federal grants. An additional half-cent portion of the new tax will hire 12 new employees each with full-time assignments for inspecting, repairing, cleaning, neatening and landscaping the City's parks and greenways. A further 0.58 cent will be used to cover solid waste fleet capital needs, which had previously been collected with a \$1.80 monthly fee that has now been eliminated. Other fees include a \$1 per month yard waste service fee increase; a \$2 increase per ton fee increase for commercial municipal solid waste disposal; and a 3 percent water and sewer rate increase as well as a 7.5 percent storm water rate increase.

The adoption of the City's first overall Strategic Plan by City Council set the direction for the future of the City and resource allocation. During the Strategic Plan update process in late 2012, goals, objectives, outcome measures, initiatives and key priorities were all assessed with new measures and initiatives added along with some additional completed modifications. The recently updated Strategic Plan was adopted by City Council on April 15, 2013. A major component of the update was to engage our residents, stakeholders, City staff and the Partners Against Crime Districts in an effort to understand their vision of the five strategic plan goals and their ideas for specific projects and activities that the City can take on to realize these visions. Information obtained from the visioning sessions and surveys was used to guide the strategic plan update. The Strategic Plan measurer's outcome, objectives, intermediate measures, and initiatives have all made significant progress during the past twelve months with a majority meeting or exceeding target.

In 2013, the City of Durham and Durham County aligned their strategic plans and collaborated on nine Joint City/County Initiatives with a focus on youth, beautification, health, sustainability, economic development, resident safety, and the community. This partnership has greatly improved communication, saved taxpayer dollars by pooling resources and has enabled the organizations to

more effectively streamline their processes. Durham Public Schools has also partnered with the City on three of the nine joint initiatives.

An update of the General Fund multi-year financial plan was completed in November 2013. It provided information to clearly identify the gap faced at the beginning of the budget development process. This is a crucial component of planning for the future as this plan projects the financial impact of achieving the objectives in the Strategic Plan.

Public Safety and crime continues to be the number one concern of most citizens. Feeling safe and lowering the crime rate were the two most important issues raised by the Council and Durham citizens. Ensuring that the Police Department, Fire Department and Emergency Communications Center (911) are staffed and properly equipped to protect our citizens is a high priority in the fiscal year 2015 budget.

- The Police department successfully received its Forensic Accreditation in the areas of latent prints and firearms. This will enhance the department's ability to provide greater efficiencies of crime analysis in all three key areas: latent prints, firearms and digital forensic examination.
- In October 2010, the Police department was awarded grant funding through the 2010 COPS Hiring Program (CHP) for 16 police officers. The estimated amount of the award over the three year funding period is \$2.5 million. This allowed the department to fill 16 positions unfunded during the FY2009-10 budget process. The grant funds ended in February 2014 and the City will assume funding for these 16 positions effective FY2014-15.
- In July 2012, the Fire department was awarded the 2011 Staffing for Adequate Fire and Emergency Response (SAFER) Grant for 15 additional firefighters to increase the department's "two-in, two-out" capability within existing districts, improving response times and staffing levels. With the additional staff, the department's minimum staffing levels have shown significant improvements. Funding is included in the budget this year to permanently retain the SAFER funded positions after the Grant Period ends during the first quarter of 2015.
- The Emergency Communications Center is the only 9-1-1 center in the United States to enable Text-to-9-1-1 technology using 9-1-1 digits and live-call takers using all 3 major carriers: Sprint, Verizon Wireless and AT&T Wireless.

Vacant and boarded properties continue to plague many neighborhoods in the community causing property value decline and increases in crime. A systematic approach is being established to bring unsafe and deteriorating rental properties into compliance with the housing code and to eliminate vacant and boarded houses. A key focus has been to educate landlords of their rights and responsibilities to support safe housing, in compliance with the minimum housing code.

- The original assessment of boarded structures in 2011 revealed 502 boarded properties city-wide. This number was reduced to 125 during FY2013-14, a 75% decrease and is anticipated to be reduced further by the completion of the 2015 fiscal year.
- Code enforcement efforts will continue to focus on compelling property owners to remediate code violations. The primary focus of FY2014-15 housing code enforcement will be the continued proactive inspection of rental property and remediation of boarded residential structures.
- Neighborhood Improvement Services in an effort to engage underrepresented residents, conducted community listening sessions throughout the community. This pilot project, using the Dynamic Facilitation Method, was successful in increasing participation and will become a part of the City's continued community engagement efforts.

In Targeting Distressed Neighborhoods City of Durham staff continues to take a holistic approach to make improvements.

- Funding the Dedicated Housing Fund with 1 cent (per \$100 assessed value) of the property tax rate to address housing needs.
- In FY2014-15, implementation of the Southside Redevelopment project will continue. A major focus during the year will be on the design and completion of the site preparation and infrastructure improvements associated with the second phase of homeownership development.
- In support of the Mayor's initiative to address poverty, Community Development will be providing funds to Habitat for Humanity for nine projects in the Northeast Central Neighborhood.

Providing year-round positive activities for youth is a continuing priority. Our goal is to engage youth through our city departments and support of local non-profits. The following points highlight activities for youth, teens and others.

- Parks and Recreation Department will continue to offer youth care programs (Afterschool, Summer Camp, Intersession camps, and Fun Days) offered throughout seven City Recreation Centers.
- Sustaining youth and family-oriented programs is a priority for the Parks and Recreation department. The Jr. NBA/Jr. WNBA provides basketball opportunities for approximately 600 youth, while the Durham Girls Soccer League provides soccer programming for approximately 300 youth.
- Outdoor recreation programs continue to be a success: low ropes course programs and high ropes discovery course programs at Bethesda Park, the adventure outings (kayaking, canoeing, etc.), community campouts, and community campfire programs.
- The City Manager's Office will partner with Durham County and Durham Public Schools to fund two new positions for the Durham System of Care. These positions will facilitate the planning and implementation of programs which aim to improve opportunities for at-risk and high risk youth. These positions will work to implement the recommendations provided by IBM in its study of local youth services.

### **Governmental Activities**

Appropriations for the General Fund increased by \$5.4 million (3.2%) primarily due to the property tax allocation to support the Solid Waste Fund. A budgeted increase of 28.9% in sales tax revenue of which 3% represents growth and 25.9% represents the additional revenue generated from tax reform of eliminating gas and electric franchise tax and replacing with a state sales tax. A 4.8% decrease in Business Licenses revenue and a 43.2% in state collected local government revenues due to tax reform. Personnel expenditures increased by \$2.3 million (1.8%), operating expenditures decreased by \$70,000 (.02%), capital expenditures increased by \$5,950 (3.3%), transfers decreased by \$1.46 million (13.6%). The Debt Service Fund has a \$43,069,510 million budget for fiscal year 2015, a 5.9% increase over fiscal year 2014 which had a budget of \$40,672,629.

### **Business-type Activities**

The Water and Sewer Fund will have overall rate increases for water and sewer charges of approximately 3.0%. Water and Sewer budget for operating expenses will increase by \$451,000 (1.6%) for fiscal year 2015. The increase is primarily due to transfers to the Risk Reduction Fund. Water Capital Improvement Program projects total \$18.75 million to improve the infrastructure

required to ensure adequate water supply, treatment and delivery, and an additional \$1.75 million for wastewater projects for FY2014-15. A \$16.1 million transfer to the Capital Improvement Program is planned for FY2014-15, about \$0.8 million more than the amount transferred in FY2013-14.

The Solid Waste Department will no longer charge a \$1.80 monthly solid waste fee per household to cover capital expenditures for Solid Waste Services. A transfer from the Debt Service Fund will be increased by \$1.39 million for FY 2014-15 to cover the revenue previously generated by the fee. Construction on a new 15,000 sq. ft. transfer station at the City's Waste Disposal and Recycling Center is currently in progress and anticipated to be complete in January 2015. Waste Industries, LLC is constructing the facility at no cost to the City, and will operate the new transfer station upon completion. This is an approximate \$3.4 million capital investment by Waste Industries. The City will assume ownership of the new facility once a Certificate of Occupancy has been issued. The department also has reduced operating costs by \$890,420 through making significant reductions to code enforcement and Waste Reduction, and savings in the waste disposal contract. These budget reductions will not affect core services, such as garbage, yard waste, and recycling collections.

The budget for Transit Services and Durham Area Transit Authority (DATA) includes 3.87 cents per \$100 of the property tax rate to provide continued funding to core transit services. Funding from the new ½ cent sales tax and \$7 motor vehicle fee enacted in 2013 for Bus service improvements helped to increase the frequency of bus services on overcrowded routes. These revenue sources in the FY2014-15 budget provide funding for needs identified in the Bus and Rail Investment Plan and the Designing Better Bus Service Plan and include new routes to get riders to work destinations more quickly, with increased frequency to ease overcrowding, improvements to bus stops and facilities, and security enhancements. Fare free transit service on the Bull City Connector continues, providing fast, frequent fare free transit service between Duke Hospital and points around Downtown Durham. This service is provided in partnership with Duke University. Efforts continue to develop and implement a regional plan for transit, including but not limited to integration of light rail, commuter rail, high speed rail and bus following a successful referendum in Durham in November 2011 for a ½ cent sales tax to support transit service improvements.

### **Financial Contact**

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, contact the City's Director of Finance at City Hall, 101 City Hall Plaza, Annex, Durham, North Carolina 27701-3329.

**CITY OF DURHAM, NORTH CAROLINA**

Statement of Net Position

June 30, 2014

	Governmental Activities	Business-type Activities	Total Primary Government
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents/investments	\$ 118,873,929	\$ 149,494,426	\$ 268,368,355
Taxes receivable, net	1,870,038	-	1,870,038
Accounts receivable, net	1,883,415	19,481,275	21,364,690
Assessments receivable, net	273,549	679,625	953,174
Notes receivable	28,084,478	-	28,084,478
Due from governmental agencies	18,663,502	5,051,744	23,715,246
Prepays	24,500	632,052	656,552
Inventories	488,955	1,406,194	1,895,149
Total current assets	<u>170,162,366</u>	<u>176,745,316</u>	<u>346,907,682</u>
Non-current assets:			
Investment in joint venture	7,456,478	-	7,456,478
Net pension assets	1,718,313	-	1,718,313
Restricted cash and cash equivalents/ investments	32,007,099	1,110,440	33,117,539
Internal balances	1,405,774	(1,405,774)	-
Capital assets:			
Land and other nondepreciable assets	55,186,551	53,766,426	108,952,977
Buildings, equipment and depreciable assets net of accumulated depreciation	532,655,883	661,791,582	1,194,447,465
Total noncurrent assets	<u>630,430,098</u>	<u>715,262,674</u>	<u>1,345,692,773</u>
Total assets	<u>800,592,464</u>	<u>892,007,990</u>	<u>1,692,600,455</u>

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

	Governmental Activities	Business-type Activities	Total Primary Government
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 8,316,262	\$ 10,069,888	\$ 18,386,150
Accrued payroll	571,630	114,909	686,539
Employee taxes and related withholdings	3,677,168	-	3,677,168
Accrued interest	3,035,581	9,903,977	12,939,558
Deposits and payments held in escrow	1,031,708	4,294,715	5,326,423
Current portion of due to Durham County	-	30,270	30,270
Current portion of bonds payable	13,255,681	8,984,320	22,240,001
Current portion of due to the State of North Carolina	-	135,000	135,000
Current portion of accrued compensated absences	5,128,787	1,412,988	6,541,775
Current portion of limited obligation bonds	7,021,699	2,548,301	9,570,000
Current portion of certificates of participation	2,564,771	910,229	3,475,000
Current portion of bank loan	409,502	205,248	614,750
Current portion of capital leases payable	2,514,748	-	2,514,748
Current portion of post closing costs	-	300,922	300,922
Current portion of pending claims	2,368,513	-	2,368,513
Total current liabilities	<u>49,896,050</u>	<u>38,910,767</u>	<u>88,806,817</u>
Long-term liabilities:			
Due to Durham County	-	11,173,154	11,173,154
Bonds	159,670,421	114,064,107	273,734,528
Due to State of North Carolina	-	945,000	945,000
Limited obligation bonds	54,899,453	25,871,058	80,770,511
Certificates of participation	5,647,974	28,179,958	33,827,932
Bank loan	838,988	420,512	1,259,500
Capital leases payable	7,347,740	-	7,347,740
Section 108 loan payable	8,800,000	-	8,800,000
Accrued compensated absences	4,566,420	616,784	5,183,204
Post closing costs	-	5,132,008	5,132,008
Net OPEB obligation	32,236,728	8,015,144	40,251,872
Pending claims	6,458,149	-	6,458,149
Total long-term liabilities	<u>280,465,873</u>	<u>194,417,725</u>	<u>474,883,599</u>
Total liabilities	<u>330,361,923</u>	<u>233,328,492</u>	<u>563,690,415</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid taxes	186,177	-	186,177
Assessments and deferred revenues	440,551	-	440,551
Prepaid business license and deposits	3,455,471	-	3,455,471
Total deferred inflows of resources	<u>4,082,199</u>	<u>-</u>	<u>4,082,199</u>
<b>NET POSITION</b>			
Net investment in capital assets	365,678,556	523,201,291	888,879,847
Restricted for:			
Cemetery Perpetual Care	1,520,050	-	1,520,050
Stabilization by State Statute	39,968,352	-	39,968,352
Grantors	4,275,892	-	4,275,892
Unrestricted	54,705,492	135,478,207	190,183,699
Total net position	<u>\$ 466,148,342</u>	<u>\$ 658,679,498</u>	<u>\$ 1,124,827,840</u>

**CITY OF DURHAM, NORTH CAROLINA**

Statement of Activities

For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 39,105,915	\$ 9,651,074	\$ 6,535,075	\$ -
Public safety	93,529,175	2,379,272	4,005,347	-
Development	21,641,674	6,323,842	4,730,280	-
General services	18,807,194	1,941,129	152,272	-
Parks and recreation	14,004,750	1,490,053	1,782,546	-
Streets and highways	21,364,599	20,405,661	2,560,744	-
Interest on long-term debt	8,995,423	-	-	-
Total governmental activities	<u>217,448,730</u>	<u>42,191,031</u>	<u>19,766,264</u>	<u>-</u>
Business-type activities:				
Water and sewer	73,352,021	90,777,092	-	20,998,226
Parking facilities	4,369,307	2,710,218	-	-
Transit	23,697,446	6,729,900	6,891,873	-
Solid waste management	17,948,248	6,748,151	-	-
Performing arts	3,626,265	2,471,745	-	-
Ballpark	1,700,881	565,313	-	-
Storm water management	10,315,651	15,584,436	-	-
Golf course	122,170	-	-	-
Total business-type activities	<u>135,131,989</u>	<u>125,586,855</u>	<u>6,891,873</u>	<u>20,998,226</u>
<b>Total primary government</b>	<u>\$ 352,580,719</u>	<u>\$ 167,777,886</u>	<u>\$ 26,658,137</u>	<u>\$ 20,998,226</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Other taxes				
Unrestricted investment and rental earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

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

Exhibit A-2

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (22,919,766)	\$ -	\$ (22,919,766)
(87,144,556)	-	(87,144,556)
(10,587,552)	-	(10,587,552)
(16,713,793)	-	(16,713,793)
(10,732,151)	-	(10,732,151)
1,601,806	-	1,601,806
(8,995,423)	-	(8,995,423)
<u>(155,491,435)</u>	<u>-</u>	<u>(155,491,435)</u>
-	38,423,297	38,423,297
-	(1,659,089)	(1,659,089)
-	(10,075,673)	(10,075,673)
-	(11,200,097)	(11,200,097)
-	(1,154,520)	(1,154,520)
-	(1,135,568)	(1,135,568)
-	5,268,785	5,268,785
-	(122,170)	(122,170)
<u>-</u>	<u>18,344,965</u>	<u>18,344,965</u>
<u>(155,491,435)</u>	<u>18,344,965</u>	<u>(137,146,470)</u>
128,897,962	9,412,843	138,310,805
59,274,219	1,550,077	60,824,296
670,853	722,461	1,393,314
1,386,457	-	1,386,457
(23,361,202)	23,361,202	-
<u>166,868,289</u>	<u>35,046,583</u>	<u>201,914,872</u>
11,376,854	53,391,548	64,768,402
454,771,488	605,287,950	1,060,059,438
<u>\$ 466,148,342</u>	<u>\$ 658,679,498</u>	<u>\$ 1,124,827,840</u>

**CITY OF DURHAM, NORTH CAROLINA**

Exhibit A-3

Balance Sheet  
Governmental Funds

June 30, 2014

	General	Housing Projects	Debt Service	Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 45,755,107	\$ 3,718,662	\$2,785,566	\$ 48,344,010	\$ 100,603,345
Restricted cash	-	117,972	42,702	31,846,425	32,007,099
Receivables, net:					
Taxes receivable	1,870,038	-	-	-	1,870,038
Accounts receivable	896,154	80,767	50,000	521,076	1,547,997
Assessments receivable	312,955	-	-	-	312,955
Notes receivable	555,500	12,306,562	-	15,222,416	28,084,478
Total receivables	<u>3,634,647</u>	<u>12,387,329</u>	<u>50,000</u>	<u>15,743,492</u>	<u>31,815,468</u>
Due from government agencies	16,032,041	-	-	2,630,723	18,662,764
Due from other funds	-	-	-	766,115	766,115
Prepaid expenditures	-	-	-	24,500	24,500
Inventories	488,955	-	-	-	488,955
 Total assets	 <u>\$ 65,910,750</u>	 <u>\$ 16,223,963</u>	 <u>\$2,878,268</u>	 <u>\$ 99,355,265</u>	 <u>\$ 184,368,246</u>

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

	General	Housing Projects	Debt Service	Non-major Governmental Funds	Total Governmental Funds
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 4,521,395	\$ 127,061	\$ -	\$ 3,125,922	\$ 7,774,378
Accrued payroll	559,991	-	-	10,140	570,131
Due to other funds	-	-	-	766,115	766,115
Employee taxes and related withholdings	3,677,168	-	-	-	3,677,168
Deposits and payments held in escrow	-	-	-	1,031,708	1,031,708
Total liabilities	<u>8,758,554</u>	<u>127,061</u>	<u>-</u>	<u>4,933,885</u>	<u>13,819,500</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes receivable	102,182	-	-	-	102,182
Prepaid taxes	186,177	-	-	-	186,177
Assessments and unavailable revenues	1,967,532	12,306,562	-	15,222,416	29,496,510
Prepaid business license and deposits	3,455,471	-	-	-	3,455,471
Total deferred inflows of resources	<u>5,711,362</u>	<u>12,306,562</u>	<u>-</u>	<u>15,222,416</u>	<u>33,240,340</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Prepaid expenditures	-	-	-	24,500	24,500
Inventories	488,955	-	-	-	488,955
Notes Receivable	555,500	-	-	-	555,500
Perpetual maintenance	-	-	-	1,520,050	1,520,050
Restricted:					
Stabilization by State Statute	21,786,463	1,074,037	-	17,107,852	39,968,352
Other functions	-	-	-	4,275,892	4,275,892
Committed:					
Capital projects	-	2,716,303	-	59,393,698	62,110,001
Assigned:					
Other purposes	428,328	-	2,878,268	-	3,306,596
Unassigned	28,181,588	-	-	(3,123,028)	25,058,560
Total fund balances	<u>51,440,834</u>	<u>3,790,340</u>	<u>2,878,268</u>	<u>79,198,964</u>	<u>137,308,406</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 65,910,750</u>	<u>\$ 16,223,963</u>	<u>\$ 2,878,268</u>	<u>\$ 99,355,265</u>	

Amounts reported for governmental activities in the statement of Net Position (Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.	587,842,434
Other long-term assets (notes receivable & deposits) are not available to pay for current-period expenditures and therefore are deferred in the funds.	30,524,508
Internal service funds are used by management to charge the costs of certain activities such as insurance and fleet, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	9,236,695
Investment in Joint Venture	7,456,478
Net OPEB obligation	(32,236,728)
LEO Special Separation Allowance net pension assets	1,718,313
Long-term liabilities, including bonds & COPS payable, are not due and payable in the current period and therefore are not reported in the funds	(272,666,183)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	(3,035,581)
Net position of governmental activities	<u>\$ 466,148,342</u>

**CITY OF DURHAM, NORTH CAROLINA**

Exhibit A-4

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

For the Year Ended June 30, 2014

	General	Housing Projects Fund	Debt Service Fund	Non-major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 128,612,070	\$ -	\$ 35,291,985	\$ 4,299,934	\$ 168,203,989
Licenses and permits	8,423,618	-	-	-	8,423,618
Intergovernmental revenues	25,750,592	-	3,587,465	11,165,681	40,503,738
Investment and rental income	282,156	88,857	18,375	1,211,886	1,601,274
Charges for services	6,424,531	-	-	4,039,910	10,464,441
Intragovernmental services	436,089	-	-	-	436,089
Assessments	47,425	-	-	-	47,425
Miscellaneous	1,008,964	1,784,082	-	159,895	2,952,941
Total revenues	<u>170,985,445</u>	<u>1,872,939</u>	<u>38,897,825</u>	<u>20,877,306</u>	<u>232,633,515</u>
<b>EXPENDITURES</b>					
<b>Current</b>					
General government	23,456,225	-	375,622	3,284,738	27,116,585
Public safety	83,258,461	-	-	7,219,170	90,477,631
Development	11,592,139	1,107,907	-	9,088,898	21,788,944
General services	14,405,158	-	-	3,969,303	18,374,461
Recreation	9,920,724	-	-	6,189,160	16,109,884
Streets and highways	10,924,803	-	-	3,382,630	14,307,433
<b>Debt service:</b>					
Principal	-	-	24,870,535	-	24,870,535
Interest and other charges	26,156	-	9,835,647	-	9,861,803
Total expenditures	<u>153,583,666</u>	<u>1,107,907</u>	<u>35,081,804</u>	<u>33,133,899</u>	<u>222,907,276</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>17,401,779</u>	<u>765,032</u>	<u>3,816,021</u>	<u>(12,256,593)</u>	<u>9,726,239</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Refunding and bonds issued	-	-	4,238,370	15,005,798	19,244,168
Payment to refunded bond escrow agent	-	-	(4,238,370)	-	(4,238,370)
Transfers in	200,000	1,053,484	-	4,083,520	5,337,004
Transfers out	(10,784,261)	-	(5,141,508)	(4,116,821)	(20,042,590)
Sale of property	432,832	-	-	-	432,832
Total other financing sources	<u>(10,151,429)</u>	<u>1,053,484</u>	<u>(5,141,508)</u>	<u>14,972,497</u>	<u>733,044</u>
Net change in fund balances	7,250,350	1,818,516	(1,325,487)	2,715,904	10,459,283
Fund balances - beginning	44,190,484	1,971,824	4,203,755	76,483,060	126,849,123
Fund balances - ending	<u>\$ 51,440,834</u>	<u>\$ 3,790,340</u>	<u>\$ 2,878,268</u>	<u>\$ 79,198,964</u>	<u>\$ 137,308,406</u>

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

**CITY OF DURHAM, NORTH CAROLINA**

Exhibit A-5

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds \$ 10,459,283

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	\$ 17,858,866	
Depreciation expense for governmental assets	(24,174,960)	
Asset impairment gain	<u>(130,129)</u>	(6,446,223)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.

Amount of donated assets	19,807,550	
Change in street/side walk assessments, housing loans and changes in deferred property tax	(3,379,152)	
Change in joint venture for the Civic Center	<u>(170,908)</u>	16,257,490

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	(23,644,168)	
Principal payments on long-term debt	28,870,536	
The effect of issuance costs, premiums, discounts, and similar items.	<u>1,132,255</u>	6,358,623

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	(94,024)	
Net pension obligation	(12,896)	
Other post employment benefits	(5,703,005)	
Capital Assets and debt transfers between Enterprise, Internal Service funds and General capital	<u>(8,836,183)</u>	(14,646,108)

Consolidated adjustment for the Internal Service Fund and the Governmental Funds

Net revenue of internal service Fund	(348,450)	
Portion of revenue allocated to business-type activities	<u>(257,761)</u>	<u>(606,211)</u>
Total changes in net position of governmental activities		<u>\$ 11,376,854</u>

**CITY OF DURHAM, NORTH CAROLINA**

Exhibit A-6

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
 General Fund  
 For the Year Ended June 30, 2014

	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Amended		
<b>Revenues</b>				
Ad valorem taxes	\$ 90,655,790	\$ 90,655,790	\$ 92,319,117	\$ 1,663,327
Other local taxes	39,372,477	39,372,477	36,292,953	(3,079,524)
Licenses and permits	7,192,746	7,192,746	8,423,618	1,230,872
Unrestricted intergovernmental	14,995,672	14,995,672	17,919,254	2,923,582
Restricted intergovernmental	8,254,813	8,254,813	7,831,338	(423,475)
Investment and rental earnings	267,672	267,672	282,156	14,484
Charges for services	6,917,857	6,917,857	6,424,531	(493,326)
Intragovernmental services	615,000	615,000	436,089	(178,911)
Assessments	100,000	100,000	47,425	(52,575)
Miscellaneous	350,630	470,630	1,008,964	538,334
<b>Total revenues</b>	<b>168,722,657</b>	<b>168,842,657</b>	<b>170,985,445</b>	<b>2,142,788</b>
<b>Expenditures</b>				
Governance	11,718,540	13,199,683	11,899,995	1,299,688
Public protection	84,713,631	85,021,319	83,213,781	1,807,538
Community services and development	49,076,206	51,681,077	46,842,822	4,838,255
Administrative and support services	11,835,922	12,186,109	11,284,715	901,394
Non-departmental charges	1,454,976	1,608,638	316,197	1,292,441
Debt service				
Interest and fiscal charges	90,000	90,000	26,156	63,844
<b>Total expenditures</b>	<b>158,889,275</b>	<b>163,786,826</b>	<b>153,583,666</b>	<b>10,203,160</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>9,833,382</b>	<b>5,055,831</b>	<b>17,401,779</b>	<b>12,345,948</b>
<b>Other financing sources (uses)</b>				
Transfers in	200,000	200,000	200,000	-
Transfers out	(10,742,545)	(10,796,503)	(10,784,261)	12,242
Sale of property and miscellaneous	314,708	314,708	432,832	118,124
Transfer from reserves	-	4,318,909	-	(4,318,909)
Appropriated fund balance	394,455	907,055	-	(907,055)
<b>Total other financing sources (uses)</b>	<b>(9,833,382)</b>	<b>(5,055,831)</b>	<b>(10,151,429)</b>	<b>(5,095,598)</b>
<b>Change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>7,250,350</b>	<b>\$ 7,250,350</b>
Fund balance - beginning			44,190,484	
Fund balance - ending			<u>\$ 51,440,834</u>	

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

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**CITY OF DURHAM, NORTH CAROLINA**

Statement of Net Position

Proprietary Funds

June 30, 2014

	Enterprise Funds			
	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents/investments	\$ 124,917,020	\$ 134,792	\$ -	\$ 3,917,682
Accounts receivable (net of allowance)	13,345,485	39,466	2,025,855	227,990
Assessments receivable (net of allowance)	679,625	-	-	-
Prepaid expenditures	-	-	632,052	-
Due from governmental agencies	816,386	10,843	4,097,085	43,617
Inventories	1,406,194	-	-	-
Due from other funds	4,548,838	-	-	-
Total current assets	<u>145,713,548</u>	<u>185,101</u>	<u>6,754,992</u>	<u>4,189,289</u>
Noncurrent assets				
Capital assets:				
Land	25,752,121	2,530,990	852,319	9,287,917
Construction in progress	8,372,962	70,135	-	-
Buildings, equipment and depreciable assets net of accumulated depreciation	535,390,892	24,905,809	22,346,784	8,391,588
Advance to other funds	507,244	-	-	-
Restricted cash and cash equivalents/ investments	31	-	-	582
Total noncurrent assets	<u>570,023,250</u>	<u>27,506,934</u>	<u>23,199,103</u>	<u>17,680,087</u>
Total assets	<u>715,736,798</u>	<u>27,692,035</u>	<u>29,954,095</u>	<u>21,869,376</u>

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

Durham Performing Arts Center Fund	Ballpark Fund	Storm Water Management Fund	Golf Course Fund	Total	Internal Service Funds
\$ 1,995,764	\$ 972,575	\$ 17,556,593	\$ -	\$ 149,494,426	\$ 18,270,584
2,015,087	-	1,827,392	-	19,481,275	335,418
-	-	-	-	679,625	-
-	-	-	-	632,052	-
-	63,515	20,298	-	5,051,744	738
-	-	-	-	1,406,194	-
-	-	-	-	4,548,838	-
<u>4,010,851</u>	<u>1,036,090</u>	<u>19,404,283</u>	<u>-</u>	<u>181,294,154</u>	<u>18,606,740</u>
-	1,450,428	56,526	1,446,201	41,376,502	-
-	2,683,103	1,263,724	-	12,389,924	-
37,796,168	25,246,735	5,681,245	2,032,361	661,791,582	-
-	-	-	-	507,244	-
-	1,109,827	-	-	1,110,440	-
<u>37,796,168</u>	<u>30,490,093</u>	<u>7,001,495</u>	<u>3,478,562</u>	<u>717,175,692</u>	<u>-</u>
<u>41,807,019</u>	<u>31,526,183</u>	<u>26,405,778</u>	<u>3,478,562</u>	<u>898,469,846</u>	<u>18,606,740</u>

Continued on next page.

**CITY OF DURHAM, NORTH CAROLINA**  
Statement of Net Position (Continued)  
Proprietary Funds  
June 30, 2014

	Enterprise Funds			
	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 3,913,097	\$ 118,072	\$ 4,931,899	\$ 467,654
Accrued payroll	75,288	406	-	16,317
Accrued interest	9,328,143	118,046	23,484	218,940
Deposits and payments held in escrow	3,641,175	-	-	-
Due to other funds	-	-	4,548,838	-
Current portion due to Durham County	30,270	-	-	-
Current portion of due to the State of North Carolina	135,000	-	-	-
Current portion of bank loan	-	-	-	205,248
Current portion of bonds payable	6,232,071	376,024	-	2,159,653
Current portion of limited obligation bonds	-	1,000,183	115,963	972,155
Current portion of certificate of participation	-	20,229	-	-
Current portion of accrued compensated absences	978,147	3,729	-	187,218
Current portion of post closing costs	-	-	-	300,922
Current portion of pending claims	-	-	-	-
Total current liabilities	<u>24,333,191</u>	<u>1,636,689</u>	<u>9,620,184</u>	<u>4,528,107</u>
<b>Noncurrent liabilities</b>				
Due to Durham County	11,173,154	-	-	-
Due to State of North Carolina	945,000	-	-	-
Bank Loan	-	-	-	420,512
Bonds	91,810,031	6,476,396	-	11,889,567
Limited obligation bonds	-	8,364,996	1,853,886	3,848,003
Certificates of participation	-	7,630	-	-
Accrued compensated absences	342,830	4,674	-	241,449
Advance from other funds	-	-	-	-
Post closing costs	-	-	-	5,132,008
OPEB Obligation	6,107,184	34,698	-	1,423,706
Pending claims	-	-	-	-
Total noncurrent liabilities	<u>110,378,199</u>	<u>14,888,394</u>	<u>1,853,886</u>	<u>22,955,245</u>
Total liabilities	<u>134,711,390</u>	<u>16,525,083</u>	<u>11,474,070</u>	<u>27,483,352</u>
<b>NET POSITION</b>				
Net investment in capital assets	459,190,480	11,261,476	21,229,254	(1,815,051)
Unrestricted	121,834,928	(94,524)	(2,749,229)	(3,798,925)
Total net position	<u>\$ 581,025,408</u>	<u>\$ 11,166,952</u>	<u>\$ 18,480,025</u>	<u>\$ (5,613,976)</u>

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

Durham Performing Arts Center Fund	Ballpark Fund	Storm Water Management Fund	Golf Course Fund	Total	Internal Service Funds
\$ 3,682	\$ 433,776	\$ 201,708	\$ -	\$ 10,069,888	\$ 541,884
-	-	22,898	-	114,909	1,499
135,305	80,059	-	-	9,903,977	-
-	-	653,540	-	4,294,715	-
-	-	-	-	4,548,838	-
-	-	-	-	30,270	-
-	-	-	-	135,000	-
-	-	-	-	205,248	-
-	216,572	-	-	8,984,320	-
-	460,000	-	-	2,548,301	-
890,000	-	-	-	910,229	-
-	-	243,894	-	1,412,988	-
-	-	-	-	300,922	-
-	-	-	-	-	2,368,513
<u>1,028,987</u>	<u>1,190,407</u>	<u>1,122,040</u>	<u>-</u>	<u>43,459,605</u>	<u>2,911,896</u>
-	-	-	-	11,173,154	-
-	-	-	-	945,000	-
-	-	-	-	420,512	-
-	3,888,113	-	-	114,064,107	-
-	11,804,173	-	-	25,871,058	-
28,172,328	-	-	-	28,179,958	-
-	-	27,831	-	616,784	-
-	507,244	-	-	507,244	-
-	-	-	-	5,132,008	-
-	-	449,556	-	8,015,144	-
-	-	-	-	-	6,458,149
<u>28,172,328</u>	<u>16,199,530</u>	<u>477,387</u>	<u>-</u>	<u>194,924,969</u>	<u>6,458,149</u>
<u>29,201,315</u>	<u>17,389,937</u>	<u>1,599,427</u>	<u>-</u>	<u>238,384,574</u>	<u>9,370,045</u>
8,733,840	14,121,235	7,001,495	3,478,562	523,201,291	-
3,871,864	15,011	17,804,856	-	136,883,981	9,236,695
<u>\$ 12,605,704</u>	<u>\$ 14,136,246</u>	<u>\$ 24,806,351</u>	<u>\$ 3,478,562</u>	<u>660,085,272</u>	<u>\$ 9,236,695</u>

Adjustment to reflect the consolidation of internal service fund activities  
related to enterprise funds:

Prior Years since July 1, 2001	(1,663,535)
Current Year	257,761
Net position of business-type activities	<u>\$ 658,679,498</u>

**CITY OF DURHAM, NORTH CAROLINA**

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2014

	Enterprise Funds			
	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
Operating revenues				
Charges for services	\$ 85,619,356	\$ 2,710,179	\$ 3,028,995	\$ 6,747,137
Operating expenses				
Personal services	22,526,492	78,808	126,922	6,304,625
Materials, services and supplies	21,335,603	2,052,661	3,710,610	9,024,156
General and administrative	5,997,679	453,881	324,921	153,670
Claims, fees and other	-	-	-	-
Transit services	-	-	16,708,498	-
Construction administration, engineering and repairs	295,931	-	-	-
Depreciation	18,418,243	1,162,333	2,731,046	1,724,454
Total operating expenses	<u>68,573,948</u>	<u>3,747,683</u>	<u>23,601,997</u>	<u>17,206,905</u>
Operating income (loss)	<u>17,045,408</u>	<u>(1,037,504)</u>	<u>(20,573,002)</u>	<u>(10,459,768)</u>
Non-operating revenues (expenses)				
Taxes	-	-	9,412,843	133,223
Intergovernmental revenue	49,733	-	-	-
Grants revenue	-	-	6,891,873	-
Investment income	613,527	2,815	-	10,387
Interest on assessments	34,291	-	-	-
Licenses and permits	-	-	3,215,237	-
Rent - non-operating property	439,322	40	-	-
Impact fees	3,797,600	-	-	-
Gain (loss) on disposals of property and equipment	168,904	-	-	-
Other revenue	667,886	-	485,668	1,014
Interest and fiscal charges	<u>(4,979,521)</u>	<u>(621,625)</u>	<u>(95,449)</u>	<u>(743,433)</u>
Total non-operating revenues (expenses)	<u>791,742</u>	<u>(618,770)</u>	<u>19,910,172</u>	<u>(598,809)</u>
Income/(loss) before capital contributions and transfers	<u>17,837,150</u>	<u>(1,656,274)</u>	<u>(662,830)</u>	<u>(11,058,577)</u>

Durham						
Performing Arts		Storm Water	Golf Course		Internal Service	
Center		Management		Totals	Funds	
Fund	Ballpark Fund	Fund	Fund			
\$ 2,071,744	\$ 383,406	\$ 14,149,666	\$ -	\$ 114,710,483	\$ 33,688,777	
-	47,640	5,984,333	-	35,068,820	426,457	
330,400	373,642	2,964,557	-	39,791,629	252,613	
296,831	133,691	855,266	-	8,215,939	-	
-	-	-	-	-	33,534,681	
-	-	-	-	16,708,498	-	
-	-	-	-	295,931	-	
<u>1,165,059</u>	<u>555,686</u>	<u>565,718</u>	<u>122,170</u>	<u>26,444,709</u>	<u>-</u>	
<u>1,792,290</u>	<u>1,110,659</u>	<u>10,369,874</u>	<u>122,170</u>	<u>126,525,526</u>	<u>34,213,751</u>	
<u>279,454</u>	<u>(727,253)</u>	<u>3,779,792</u>	<u>(122,170)</u>	<u>(11,815,043)</u>	<u>(524,974)</u>	
1,416,854	-	-	-	10,962,920	-	
-	-	-	-	49,733	-	
-	-	78,751	-	6,970,624	-	
13,006	7,655	75,071	-	722,461	85,957	
-	-	-	-	34,291	-	
-	-	-	-	3,215,237	-	
-	181,907	-	-	621,269	-	
-	-	-	-	3,797,600	-	
-	-	(1,105)	-	167,799	-	
400,000	-	1,357,124	-	2,911,692	-	
<u>(1,833,974)</u>	<u>(590,222)</u>	<u>-</u>	<u>-</u>	<u>(8,864,224)</u>	<u>-</u>	
<u>(4,114)</u>	<u>(400,660)</u>	<u>1,509,841</u>	<u>-</u>	<u>20,589,402</u>	<u>85,957</u>	
<u>275,340</u>	<u>(1,127,913)</u>	<u>5,289,633</u>	<u>(122,170)</u>	<u>8,774,359</u>	<u>(439,017)</u>	

Continued on next page

**CITY OF DURHAM, NORTH CAROLINA**

Statement of Revenues, Expenses and Changes in Fund Net Position (Continued)

Proprietary Funds

For the Year Ended June 30, 2014

	Enterprise Funds			
	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
Capital Contributions	\$ 20,998,226	\$ 5,099,681	\$ -	\$ -
Transfers from other funds	3,708,499	1,999,039	962,351	11,914,510
Transfers to other funds	<u>(123,000)</u>	<u>-</u>	<u>(1,085,475)</u>	<u>(3,810,211)</u>
Total capital contributions and transfers	<u>24,583,725</u>	<u>7,098,720</u>	<u>(123,124)</u>	<u>8,104,299</u>
Change in net position	42,420,875	5,442,446	(785,954)	(2,954,278)
Total net position, beginning	<u>538,604,533</u>	<u>5,724,506</u>	<u>19,265,979</u>	<u>(2,659,698)</u>
Total net position, ending	<u>\$ 581,025,408</u>	<u>\$ 11,166,952</u>	<u>\$ 18,480,025</u>	<u>\$ (5,613,976)</u>

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

Durham					
Performing Arts Center Fund	Ballpark Fund	Storm Water Management Fund	Golf Course Fund	Totals	Internal Service Funds
\$ -	\$ 3,646,502	\$ -	\$ -	\$ 29,744,409	\$ -
-	1,017,259	232,047	-	19,833,705	90,567
(200,000)	-	-	-	(5,218,686)	-
(200,000)	4,663,761	232,047	-	44,359,428	90,567
75,340	3,535,848	5,521,680	(122,170)	53,133,787	(348,450)
12,530,364	10,600,398	19,284,671	3,600,732	606,951,485	9,585,145
<u>\$ 12,605,704</u>	<u>\$ 14,136,246</u>	<u>\$ 24,806,351</u>	<u>\$ 3,478,562</u>	660,085,272	<u>\$ 9,236,695</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:

Change in net position	53,133,787
Current year	257,761
Change in net position business-type activities	<u>\$ 53,391,548</u>

**CITY OF DURHAM, NORTH CAROLINA**

Statement of Cash Flows  
 Proprietary Funds  
 For Year Ended June 30, 2014

	Enterprise Funds			
	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
Cash flows from operating activities:				
Receipts from customers	\$ 82,695,191	\$ 2,679,256	\$ 2,843,914	\$ 6,882,316
Payments to employees	(22,502,631)	(76,644)	(126,922)	(6,306,707)
Payments to suppliers	(26,758,658)	(2,379,087)	(19,364,299)	(9,345,572)
Payments for claims and related professional fees	-	-	-	-
Reimbursements from other governments	287,008	(3,315)	1,262,888	142,239
Motor vehicle license and permits	-	-	3,215,237	-
Deposits received from customers	392,865	-	-	-
Deposits returned to customers	(10,400)	-	-	-
Impact fees	3,797,600	-	-	-
Interest on assessments	34,291	-	-	-
Other revenues	463,028	40	485,668	913
Net cash provided by (used for) operating activities	<u>38,398,294</u>	<u>220,250</u>	<u>(11,683,514)</u>	<u>(8,626,811)</u>
Cash flows from non-capital financing activities:				
Transfers to other funds	(123,000)	-	(1,085,475)	(3,810,211)
Transfers from other funds	3,708,499	1,999,039	962,351	11,914,510
Taxes received, net	-	-	9,412,843	-
Grant funds received	-	-	6,891,873	-
Advance from other funds	-	-	(3,792,813)	-
Repayment of advance to other funds	3,903,540	-	-	-
Net cash provided by noncapital financing activities	<u>7,489,039</u>	<u>1,999,039</u>	<u>12,388,779</u>	<u>8,104,299</u>

Durham Performing Arts Center		Storm Water Management	Golf Course	Totals	Internal Service Funds
Fund	Ballpark Fund	Fund	Fund		
\$ 1,816,754	\$ 408,102	\$ 13,864,811	\$ -	\$ 111,190,344	\$ 33,624,383
-	(53,494)	(5,957,872)	-	(35,024,270)	(424,959)
(629,299)	(77,414)	(3,716,077)	-	(62,270,406)	(275,051)
-	-	-	-	-	(33,088,415)
-	(61,107)	14,090	-	1,641,803	(683)
-	-	-	-	3,215,237	-
-	-	292,447	-	685,312	-
-	(266,596)	-	-	(276,996)	-
-	-	-	-	3,797,600	-
-	-	-	-	34,291	-
400,000	181,907	1,357,124	-	2,888,680	-
1,587,455	131,398	5,854,523	-	25,881,595	(164,725)
(200,000)	-	-	-	(5,218,686)	90,567
-	1,017,259	232,047	-	19,833,705	-
1,416,854	-	-	-	10,829,697	-
-	-	78,751	-	6,970,624	-
-	-	-	-	(3,792,813)	-
-	-	-	-	3,903,540	-
1,216,854	1,017,259	310,798	-	32,526,067	90,567

Continued on next page.

**CITY OF DURHAM, NORTH CAROLINA**  
Statement of Cash Flows (continued)  
Proprietary Funds  
For Year Ended June 30, 2014

	<u>Enterprise Funds</u>			
	<u>Water and Sewer Utility Fund</u>	<u>Parking Facilities Fund</u>	<u>Transit Fund</u>	<u>Solid Waste Disposal Fund</u>
Cash flows from capital and related financing activities:				
Interest and agent's fees paid	\$ (4,969,284)	\$ (642,311)	\$ (96,773)	\$ (816,252)
Bonds issued	-	-	-	4,415,000
Proceeds on refunding bonds	-	-	-	388,000
Payments of principal - bank loan	-	-	-	(201,909)
Payments of principal - bonds	(12,187,711)	(376,024)	-	(1,998,992)
Payments of principal - cops	-	(20,112)	-	-
Payments of principal - lobs	-	(1,020,033)	(115,963)	(2,155)
Payments of principal - interfund loans	-	-	-	-
Repayments to the State of North Carolina	(885,000)	-	-	-
Payments of principal - Durham County	(28,180)	-	-	-
Acquisition and construction of capital assets	(21,215,647)	(171,349)	(492,587)	(1,401,600)
Assessments and frontage	648,323	-	-	-
Disposal of property and equipment	186,732	-	-	-
Net cash used in capital and related financing activities	<u>(38,450,767)</u>	<u>(2,229,829)</u>	<u>(705,323)</u>	<u>382,092</u>
Cash flows from investing activities:				
Interest on investments	<u>673,032</u>	<u>2,916</u>	<u>-</u>	<u>11,849</u>
Net cash provided by investing activities	<u>673,032</u>	<u>2,916</u>	<u>-</u>	<u>11,849</u>
Net increase (decrease) in cash and cash equivalents/investments	8,109,598	(7,624)	(58)	(128,571)
Cash and cash equivalents/investments, beginning of year	<u>116,807,453</u>	<u>142,416</u>	<u>58</u>	<u>4,046,835</u>
Cash and cash equivalents/investments, end of year	<u>\$ 124,917,051</u>	<u>\$ 134,792</u>	<u>\$ -</u>	<u>\$ 3,918,264</u>

Durham Performing Arts Center Fund	Ballpark Fund	Storm Water Management Fund	Golf Course Fund	Totals	Internal Service Funds
\$ (1,692,536)	\$ (518,549)	\$ -	\$ -	\$ (8,735,705)	\$ -
-	12,000,000	-	-	16,415,000	-
-	130,000	-	-	518,000	-
-	-	-	-	(201,909)	-
-	(216,572)	-	-	(14,779,299)	-
(795,000)	-	-	-	(815,112)	-
-	-	-	-	(1,138,151)	-
-	(110,726)	-	-	(110,726)	-
-	-	-	-	(885,000)	-
-	-	-	-	(28,180)	-
-	(11,164,725)	(1,970,218)	-	(36,416,126)	-
-	-	-	-	648,323	-
-	-	-	-	186,732	-
<u>(2,487,536)</u>	<u>119,428</u>	<u>(1,970,218)</u>	<u>-</u>	<u>(45,342,153)</u>	<u>-</u>
<u>13,939</u>	<u>8,039</u>	<u>81,384</u>	<u>-</u>	<u>791,159</u>	<u>85,957</u>
<u>13,939</u>	<u>8,039</u>	<u>81,384</u>	<u>-</u>	<u>791,159</u>	<u>85,957</u>
330,712	1,276,124	4,276,487	-	13,856,668	11,799
<u>1,665,052</u>	<u>806,278</u>	<u>13,280,106</u>	<u>-</u>	<u>136,748,198</u>	<u>18,258,785</u>
<u>\$ 1,995,764</u>	<u>\$ 2,082,402</u>	<u>\$ 17,556,593</u>	<u>\$ -</u>	<u>\$ 150,604,866</u>	<u>\$ 18,270,584</u>

Continued on next page.

**CITY OF DURHAM, NORTH CAROLINA**

Statement of Cash Flows (continued)

Proprietary Funds

For Year Ended June 30, 2014

	Enterprise Funds			
	Water and Sewer Utility Fund	Parking Facilities Fund	Transit Fund	Solid Waste Disposal Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 17,045,408	\$ (1,037,504)	\$ (20,573,002)	\$ (10,459,768)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	18,418,243	1,162,333	2,731,046	1,724,454
Motor vehicle license and permits	-	-	3,215,237	-
Other revenues	23,706	40	485,668	913
Rent - non-operating property	439,322	-	-	-
Interest on assessments	34,291	-	-	-
Impact fees	3,797,600	-	-	-
Changes in assets and liabilities:				
Receivables	(2,924,165)	(30,923)	(185,081)	135,179
Due from governmental agencies	287,008	(3,315)	1,262,888	142,239
Inventories	(14,735)	-	-	-
Accounts payable	(138,189)	117,237	1,379,730	(249,876)
Unavailable revenue	-	-	-	(280,706)
Accrued payroll	58,778	-	-	15,207
Accrued compensated absences	(34,917)	2,164	-	(17,289)
Deposits received from customers	392,865	-	-	-
Deposits returned to customers	(10,400)	-	-	-
Pending claims	-	-	-	-
OPEB	1,023,479	10,218	-	362,836
Net cash provided by (used for) operating activities	<u>\$ 38,398,294</u>	<u>\$ 220,250</u>	<u>\$ (11,683,514)</u>	<u>\$ (8,626,811)</u>
Noncash capital activity				
Internal transfer of capital assets/debt	\$ -	\$ 5,099,681	\$ -	\$ -
Contributions of capital assets from government and donated infrastructure	16,414,211	-	-	-
Net noncash capital activity	<u>\$ 16,414,211</u>	<u>\$ 5,099,681</u>	<u>\$ -</u>	<u>\$ -</u>
Debt and interest expense converted to capital contributions	<u>\$ 4,584,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Increase in capital assets from donated infrastructure, contributions from government, internal transfer of capital assets	<u>\$ 20,998,226</u>	<u>\$ 5,099,681</u>	<u>\$ -</u>	<u>\$ -</u>

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

Durham Performing Arts Center Fund	Ballpark Fund	Storm Water Management Fund	Golf Course Fund	Totals	Internal Service Funds
\$ 279,454	\$ (727,253)	\$ 3,779,792	\$ (122,170)	\$ (11,815,043)	\$ (524,974)
1,165,059	555,686	565,718	122,170	26,444,709	-
-	-	-	-	3,215,237	-
400,000	-	1,357,124	-	2,267,451	-
-	181,907	-	-	621,229	-
-	-	-	-	34,291	-
-	-	-	-	3,797,600	-
(254,990)	24,696	(284,855)	-	(3,520,139)	(64,394)
-	(61,107)	14,090	-	1,641,803	(683)
-	-	-	-	(14,735)	-
(2,068)	429,919	42,844	-	1,579,597	(22,438)
-	-	-	-	(280,706)	-
-	(62)	18,662	-	92,585	1,498
-	(5,792)	7,799	-	(48,035)	-
-	-	292,447	-	685,312	-
-	(266,596)	-	-	(276,996)	-
-	-	-	-	-	446,266
-	-	60,902	-	1,457,435	-
<u>\$ 1,587,455</u>	<u>\$ 131,398</u>	<u>\$ 5,854,523</u>	<u>\$ -</u>	<u>\$ 25,881,595</u>	<u>\$ (164,725)</u>
\$ -	\$ 3,646,502	\$ -	\$ -	\$ 8,746,183	\$ -
-	-	-	-	16,414,211	-
<u>\$ -</u>	<u>\$ 3,646,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,160,394</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,584,015</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 3,646,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,744,409</u>	<u>\$ -</u>

**CITY OF DURHAM, NORTH CAROLINA**

Exhibit A-10

Statement of Fiduciary Net Position

Pension Trust Fund - Law Enforcement Officers' Special Separation Allowance

Trust Fund - Other Post Employment Benefits

June 30, 2014

	Pension Trust Fund Law Enforcement Officers' Special Separation Allowance	Trust Fund Other Post Employment Benefits
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 111,891
Accounts Receivable	-	2,340
Investments at fair value:		
Agency securities	1,005,061	-
Total investments	<u>1,005,061</u>	<u>-</u>
Total assets	<u>1,005,061</u>	<u>114,231</u>
<b>LIABILITIES</b>		
Accounts payable	-	60
Accrued payroll year-end	71,756	-
Total liabilities	<u>71,756</u>	<u>60</u>
<b>NET ASSETS</b>		
Held in trust for pension and OPEB benefits	<u>\$ 933,305</u>	<u>\$ 114,171</u>

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

**CITY OF DURHAM, NORTH CAROLINA**

Exhibit A-11

Statement of Changes in Fiduciary Net Position  
Pension Trust Fund - Law Enforcement Officers' Special Separation Allowance  
Trust Fund - Other Post Employment Benefits  
For the Year Ended June 30, 2014

	Fund Law Enforcement Officers' Special Separation Allowance	Trust Fund Other Post Employment Benefits
	<u>                    </u>	<u>                    </u>
<b>ADDITIONS</b>		
Employer contributions	\$ 1,583,055	\$ 3,637,684
Plan member contributions	-	793,584
Investment earnings	4,982	818
Total additions	<u>1,588,037</u>	<u>4,432,086</u>
<b>DEDUCTIONS</b>		
Benefits	1,876,252	4,441,367
Administrative expenses	1,200	-
Total deductions	<u>1,877,452</u>	<u>4,441,367</u>
Change in net assets	(289,415)	(9,281)
Net assets - beginning of year	1,222,720	123,452
Net assets - end of year	<u>\$ 933,305</u>	<u>\$ 114,171</u>

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

# DURHAM



CITY OF MEDICINE

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**CITY OF DURHAM, NORTH CAROLINA**  
Notes to the Combined Financial Statements  
For the Year Ended June 30, 2014

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

The financial statements of the City have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

The City of Durham is a municipal corporation established in 1869. The City operates under a council-manager form of government by an elected mayor and a six-member council. The component unit discussed below is included in the City's reporting entity because of the significance of its operational and financial operations with the City.

**Blended Component Unit**

The New Durham Corporation ("NDC"), 101 City Hall Plaza, Annex, Durham, North Carolina 27701, is a nonprofit corporation duly incorporated in the state, and validly existing and in good standing under the North Carolina Nonprofit Corporation Act, Chapter 55A of the General Statutes of North Carolina and is governed by a three member board of directors. Although legally separate from the City, the NDC is reported as if it were a part of the primary government because its sole purpose is to carry out its municipal and governmental functions through the financing of City revitalization projects and purchases of capital equipment. All NDC activities are included in the funds in which the activity takes place.

**B. Government-Wide and Fund Financial Statements Basis of Presentation**

**Government-Wide Statements**

The government-wide financial statements, the statement of net position and the statement of activities report information on all the non-fiduciary activities of the primary government and its blended component unit. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Internal services provided and used are eliminated in the process of consolidation. The residual balances are included in the governmental activities column of the government-wide financial statements.

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 fees and charges paid by the recipients of goods or services offered by the programs and 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 City does not currently employ an indirect cost allocation system. An administrative service fee is charged by the General Fund to the other operating funds to address General Fund services provided (e.g., finance, human resources, legal, technology management, etc.). At the fund-level statements, the administrative service fee is included in the Non-Departmental line item as administrative fees. The administrative service fee is eliminated at year-end in the government-wide statements like a reimbursement (reducing the revenue and expense in the General Fund).

### **Fund Financial Statements**

The fund financial statements provide information about the City's funds. There are separate statements for each fund category; governmental, proprietary and fiduciary are presented, even though the fiduciary is excluded from the government-wide financial statements. The General Fund is always a major fund. Otherwise, major funds are funds whose revenues, expenditures-expenses, assets, or liabilities (excluding extraordinary items) are at least ten percent of corresponding totals for all governmental or enterprise funds and at least five percent of the aggregate amount for all governmental and enterprise funds for the same item. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The Housing Projects and Debt Service Funds meet the requirements of a major fund and all remaining governmental funds are aggregated and reported as non-major funds. Although only the Water and Sewer and Solid Waste Funds meet the criteria for major funds, the City has elected to report all enterprise funds as major funds.

The governmental funds in the financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budgeted fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

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.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

The government-wide financial statements, proprietary funds and fiduciary funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet or statement of net assets. The accrual basis of accounting is followed. Revenues are recognized in these funds when earned, and expenses are recognized when they 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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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.

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.

The City considers all revenues available if they are collected within 90 days after yearend, except for property taxes. Ad valorem taxes receivable are not accrued as revenues because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Effective 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 and uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources. Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues

which are unearned at year-end are recorded as unearned revenues. 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.

**The City reports the following major governmental funds:**

**General Fund** - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are property taxes, sales and other Intergovernmental taxes, and various other taxes and licenses. The primary expenditures are for public safety, community services and development including street maintenance.

**Housing Projects Fund** - This capital projects fund is established to track the City of Durham's affordable housing program. The projects included in this program are designed to assist and finance the rehabilitation of buildings, to assist in acquiring land for redevelopment, principally for the housing of persons of low and moderate income and to assist moderate income first time homeowners with low cost second mortgages.

**Debt Service Fund** - The Debt Service Fund accounts for the payment of the principal and interest for general obligation bonds, certificates of participation and limited obligation bonds for the general government.

**The City reports the following major enterprise funds:**

**Ballpark Fund** - This fund is established to account for revenues and expenses related to the operation of the Durham Bulls Athletic Park in downtown Durham.

**Durham Performing Arts Center Fund** - This fund is established to account for revenues and expenses related to the operations of a downtown performing arts theater.

**Golf Course Fund** - This fund is established to account for revenues and expenses related to the operations of the City's golf course.

**Parking Facilities Fund** - This fund is established to account for revenues and expenses related to the operations of the City's parking lots and garages.

**Storm Water Management Fund** - This fund is established to account for revenues and expenses related to storm water management including developing, monitoring, and inspection protocols and prioritization of drainage and flooding problems to initiate repair.

**Solid Waste Disposal Fund** - This fund is established to account for revenues and expenses related to the operation of the City's transfer station for the use of residents of the City and Durham County.

**Transit Fund** - This fund is established to account for revenues and expenses related to the operation of the bus system, which serves the City of Durham.

**Water and Sewer Utility Fund** - This fund is established to account for revenues and expenses related to the provision of water and sewer services to the residents of the City and adjacent areas.

**The City reports the following non-major governmental funds:**

**Community Development Block Grants Funds** - The Community Development Funds are established to account for projects that are financed primarily with Community Development Block Grant funds and Home funds that are used for revitalization of low and moderate income areas.

**HOME Program Grants Funds** - The HOME Programs Grants Funds are established to account for projects financed with HOME Program Grants funds that are to be used for revitalization of low and moderate income areas.

**Employment and Training Grants Funds** - The Employment and Training Grants Funds are established to account for various agreements, related to improving employment opportunities for underemployed and unemployed individuals. The Fund has been used to account for agreements under the Work Force Investment Act and the Job Training Partnership Act between the N. C. Department of Economic and Community Development, the Division of Employment and Training, and the City.

**Public Safety Grants Funds** - The Public Safety Grants Funds are established to account for various agreements to be used exclusively for law enforcement purposes, fire protection/safety to which federal, state and other aid is contributed.

**Emergency Telephone System Fund** - This fund is established to account for revenues received from the state of North Carolina to enhance the City's 911 system.

**Other Special Revenue Grants Funds** - The Other Special Revenue Grants Funds are established to account for miscellaneous activities for which federal, state and other aid is received.

**The City reports the following non-major capital projects funds:**

**Downtown Projects Funds** - These capital projects funds are established to track the City of Durham's downtown revitalization programs. The projects included in this program are designed to assist and finance the rehabilitation of buildings and to assist in acquiring land for redevelopment, principally for the assistance of business and residences within the downtown area.

**Impact Fee Funds** - The Impact Fee Funds are established to account for impact fees until they are transferred to other capital projects funds and expended for specific projects.

**Municipal Buildings Projects Funds** - The Municipal Projects Funds are established to track the construction, maintenance or expansion of City municipal buildings and facilities including the 911 Center, Fire and Police facilities.

**Recreation and General Capital Projects Funds** - These Funds are established to track the capital improvements associated with the cultural and recreational endeavors of the City of Durham. The general capital projects component represents projects not otherwise classified

below and acts as the fund balance account for past projects that have closed and had funds remaining.

**Street Projects Funds** - The Street Projects Funds are established to track street, thoroughfare and mass transit improvements. Street projects are intended to construct new infrastructure or make significant improvements to the City's roadways and mass transit system.

**The City reports the following non-major permanent fund:**

**Cemetery Perpetual Care Fund** - The Cemetery Perpetual Fund is established to account for perpetual care of the municipal cemetery.

**The City reports the following Internal Service Funds:**

**Risk Retention Fund** - This fund is established to provide a source of funds for payment of the City's uninsured legal liabilities, including risks such as workers' compensation, automobiles, general operations and professional activities. Claim settlements, actuarial expenses, legal fees, administrative expenses and other professional services required for claim disposition are paid from this fund.

**Employee Insurance Fund** – This fund is established to receive premium payments from the City, employees and retirees to fund payments for claims, administrative expenses and premiums for excess coverage for health and dental benefits for present City employees and retirees.

**The City reports the following Fiduciary Funds:**

**Law Enforcement Officers' Special Separation Allowance Fund** - This pension trust fund is used to account for the accumulation of resources for pension benefit payments to qualified law enforcement employees.

**Other Post Employment Benefits Fund:** This trust fund is used to account for the resources that are used to provide health insurance benefit payments for employees that have retired from the City.

**D. Budgetary Data**

The General Statutes of North Carolina require that the City adopt an annual balanced budget. The General Statutes also provide for balanced project ordinances for the life of projects, including both capital and grant activities, which are expected to extend beyond the end of the fiscal year. Amounts for projects are closed out at the end of the project. The City Council officially adopts the annual budget ordinance prior to July 1 of each year and adopts project ordinances as necessary. The Council has the authority to amend such ordinances. The annual budget ordinance is prepared using the modified accrual basis of accounting. The General Fund, Water and Sewer Utility Fund, Parking Facilities Fund, Transit Operating Fund, Impact Fee Fund, Emergency Telephone System Fund, Water and Sewer Capital Facilities Fee Fund, LEO Special Separation Allowance Fund, Durham Performing Arts Center Fund, Durham Performing Arts Center Fund Capital Reserve Fund, Cemeteries Perpetual Care Fund, Other Post Employment Benefits Fund, Solid Waste Disposal Fund, Ballpark Fund, Storm Water Fund, Housing Projects Fund, Business Improvement District Fund, Dedicated Housing Fund,

the Debt Service Fund, and Watershed Protection officially have legally adopted balanced annual budgets.

Changes to the budget can be made in two ways: 1) Appropriation transfer – if the transfer is between two budget units within the same budget fund (per budget ordinance). 2) Budget Ordinance Amendment – used for any transfers between budget categories and for changes to revenues or appropriations, requires City Council approval.

The City’s Internal Service Funds operate under financial plans that were adopted by the Council at the same time the City’s budget ordinance was approved, as is required by General Statutes.

During the fiscal year, there were 3 amendments for budgeting additional operating funds totaling \$15,776,346 approved by the City Council as follows:

General Fund	\$	4,951,509
Dedicated Housing Fund		313,484
Water and Sewer Fund		2,428,752
Solid Waste Disposal Fund		445,978
Storm Water Fund		385,124
Parking Facilities		319,585
Transit		1,192,628
Ballpark		325,492
Durham Performing Arts Center Fund		909,440
Emergency Telephone System Fund		249,984
Business Improvement District Fund		16,000
Debt Service Fund		4,238,370
	\$	<u>15,776,346</u>

Appropriations, unencumbered and unauthorized for carry forward, lapse at each fiscal year-end. Budgeted amounts in the accompanying statements are as originally adopted, as amended by the City Council, or as changed by approved transfer.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all governmental funds. Encumbrances outstanding at year-end are reported as restrictions of fund balance. Funds to cover outstanding encumbrances are re-appropriated through the budgetary process for the subsequent year. Encumbrances at year end do not represent GAAP and do not constitute expenditures or liabilities, but represent budgetary accounting controls.

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

**1. Deposits and Investments**

All deposits of the City are made in designated official depositories and are secured as 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, money market accounts, and certificates of

deposit. The Local Government Budget and Fiscal Control Act of North Carolina governs all investments permitted to local governments. General Statutes authorize the City to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC registered (2a-7) mutual fund. The securities of NCCMT – Cash Portfolio Money Market Mutual fund are valued at fair value which is the NCCMT's share price. Pooled cash and investments are maintained and used by all funds. Investments are reported at fair value as determined by quoted market prices. Interest earned is distributed to the various funds based on each fund's proportionate equity in pooled cash and investments.

## **2. Cash and Cash Equivalents**

Pooled cash and investments are maintained and used by all funds. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The City considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

## **3. Restricted Assets**

Certain investments are classified as restricted assets on the balance sheets and statement of net assets and maintained in separate bank accounts. The unexpended proceeds from revenue bonds in the Water and Sewer Utility Fund, the unexpended proceeds from certificates of participation agreements, limited obligation bonds and revenue bonds in the General Fund are classified as restricted assets because their use is restricted for the purposes for which the revenue bonds and certificates of participation agreements were originally issued.

## **4. Allowances for Doubtful Accounts**

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

## **5. Inventories and Prepaid Items**

Inventories held in the various Funds consist primarily of expendable materials and supplies held for consumption. Inventories are stated using the weighted-average method (which approximates FIFO). Inventory items are recorded as expenditures when consumed rather than when purchased. 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.

## **6. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consisting of road networks that were acquired subsequent to July 1, 1980 are reported at estimated historical cost using deflated replacement cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Major expenditures for capital assets and related repairs, which increase useful lives, are capitalized.

Capital outlay for the construction of streets, parks, water and sewer lines and other types of infrastructure expenditures are capitalized as land improvements. Maintenance, repairs and minor renewals are expensed as incurred. New public domain and general infrastructure are being capitalized and depreciated.

The City evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

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

<u>Assets</u>	<u>Years</u>
Public domain infrastructure and systems	10-80 years
Enterprise infrastructure and systems	50-80 years
Buildings	25-40 years
Furniture, machinery and equipment	5-12 years
Computer equipment	3-5 years

## 7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has three items that meet the criterion for this category - prepaid taxes, assessments and prepaid business licenses and deposits.

The balance in Deferred Inflows of Resources on the statements at year-end is composed of the following elements:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Property taxes receivable	\$ 102,182	\$ -
Prepaid taxes		186,177
Prepaid business license and deposits	-	3,455,471
Assessments and unavailable revenues	1,412,032	440,551
Notes receivable	<u>27,643,927</u>	<u>-</u>
	<u>\$ 29,158,141</u>	<u>\$ 4,082,199</u>

## **8. Long Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that 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 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.

## **9. Compensated Absences**

The vacation policy of the City provides for carrying forward up to 240 hours earned vacation leave on January 1 of each year (360 for Firemen) with such leave being fully vested when earned. Accrued vacation hours in excess of 240 (360 for Firemen) hours are automatically transferred to accrued sick hours on January 1 of each year. 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. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The City's sick leave policy provides for an unrestricted accumulation of earned sick leave. Upon termination of employment, accumulated sick leave is forfeited. Upon retirement, all of the accumulated sick leave may be used in the determination of length of service for retirement purposes. No obligation to the employer results from such application and therefore, no accrual has been made.

The City records compensatory time in accordance with the Fair Labor Standards Act (FLSA) for non-exempt employees. All amounts accrued are listed as current, as compensatory time is infrequent and is expected to be used within one year. Some exempt employees receive time off for management leave, from a minimum of 10 hours to a maximum of 80 hours per calendar year. The amounts are determined by supervisors and approved by the City Manager's Office.

## **10. Net Position/Fund Balances**

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, net of related debt; 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.

- Prepaids, notes receivable and inventories - portion of fund balance that is not an available resource because it represents the year-end balances of ending inventories, notes receivable and prepaid, which are not spendable resources.
- Perpetual maintenance - portion of fund balance associated with cemetery resources that are required to be retained in perpetuity for maintenance of the City's cemetery.

*Restricted fund balance:* This classification can be spent only for specific purposes, as stipulated by external resource providers and creditors, by constitution or through enabling legislation that is legally enforceable by an external party. Enabling legislation that creates a revenue stream must also stipulate the purposes for which that revenue can be used. Restrictions may only be changed by parties external to the entity or imposed by law.

- Restricted for Stabilization by State statute - This represents the amount of fund balance which cannot be appropriated by the governing board. North Carolina General Statutes (G.S. 159-8(a)) limit the amount that each local government may appropriate to the sum of cash and cash equivalents/investments, less the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the preceding Fiscal Year. Encumbrances represent commitments outstanding at June 30, 2014 related to purchase orders and unperformed contracts.
- Restricted for public safety - portion of fund balance that is restricted by revenue source for public safety expenditures.
- Restricted for community development – portion of fund balance restricted for grant expenditures.

*Committed fund balance:* The portion of fund balance that can only be used for specific purposes imposed by a formal action in a majority vote by a quorum of the City of Durham's governing body, City Council (the highest level of decision making authority). Any changes or removal of specific purposes requires the majority action by the Durham City Council. These amounts are not subject to legal enforceability by external parties, as in restricted; however, amounts cannot be used for any other purpose unless the governing body removes or changes the limitation by taking the same form of action employed to previously impose the limitation. Formal action to commit an amount to a specific purpose must be made prior to the end of the Fiscal Year. The actual amount, however, may be computed after the year end as part of the preparation of the financial statements.

- Committed for capital projects – portion of fund balance committed by the City Council for the construction of streets, municipal buildings, parks & recreation facilities and economic development.

*Assigned fund balance:* Amounts that are constrained by the City of Durham with the intent to be used for specific purposes and are neither restricted nor committed. These amounts can be assigned either by any action of the City Council, or by the City Manager as designated within authority to assign by the City Council's fund balance resolution. Amounts can be unassigned by the same process. Assignments calculations may be made after the end of the fiscal year during the process of preparation of the financial statements. The City Council may delegate to the City Manager (or his designee) the authority to assign amounts of a fund balance to promote sound financial operations of the City or to meet a future obligation.

- Assigned for economic development projects and incentives.

- Assigned for debt covenants – portion of fund balance restricted due to debt covenants that will be used to make future debt payments.

*Unassigned fund balance:* Portion of fund balance that has not been restricted, committed or assigned to specific purposes or other funds.

The City has a revenue spending guideline 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 the purposes of the fund balance classifications, the expenditures are to be spent from restricted fund balance first, followed in order by committed, assigned and unassigned fund balances. The finance officer may deviate from this order if it is in the best interest of the City.

The City Council has adopted a policy of maintaining a fund balance of no less than 12 percent of adjusted budgeted appropriations. The undesignated fund balance for fiscal year 2013 was 13.5 percent, and the unassigned fund balance for fiscal year 2014 is 17.8 percent.

## **F. Revenues, Expenditures and Expenses**

Substantially all governmental fund revenues are accrued. Property taxes are generally billed and collected within the same period in which the taxes are levied. Expenditures are recognized when the related fund liability is incurred except for the following permitted by generally accepted accounting principles: General obligation long-term debt principal and interest and compensated absences are reported, if any, only when due. Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

### **1. Inter-Fund Transactions**

Inter-fund transactions are reflected as loans, services provided and reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditure/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

### **2. Property Taxes**

The Durham County Tax Administrator acts as agent for the City in listing, assessing and collecting all taxes related to real and personal property located in the City. Taxes are levied on property assessed at 100% of the estimated actual value as of the year of revaluation. The City's tax rate may not exceed \$1.50 per \$100 assessed valuation for operating purposes without voted approval by the citizens of the City.

The property tax calendar is as follows:

- Taxes are listed each January 1.
- Liens may be placed on property January 1.
- Taxes are levied each July 1, except for ad valorem taxes on certain vehicles.
- Taxes are due September of each year.
- Taxes are considered delinquent after January 5 of the following year.

Penalties are applied to delinquent taxes at a rate of 2% in January and 3/4 of 1% per month for each month thereafter until collected or foreclosure proceedings are consummated. Garnishment and sale of taxable property are procedures used for collecting delinquent taxes. The tax rate for debt service purposes is unlimited provided that the voters have approved the bonds issued or provided that the bonds issued during any year have not exceeded 2/3 of that fiscal year's net debt reduction.

## **Note II – Stewardship, Compliance and Accountability**

### **A. Deficit Net Position Balance of Individual Fund**

The Solid Waste Disposal Fund had a deficit net position balance of \$5,613,976 at June 30, 2014. This deficit is related to outstanding debt and post closure costs of the landfill and is expected to be reduced by future revenues.

## **Note III – Detailed Notes on All Funds**

### **A. Deposits**

All 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 agents in the City'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 agents in its 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 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 under-collateralization, 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 year-end, the City's deposits had a carrying amount of \$32,788,178 and a bank balance of \$32,435,997. Of the balance, \$378,603 is covered by federal depository insurance. The remaining balance of \$32,057,394 is collateralized using the Pooling Method. At June 30, 2014, the City's petty cash and change funds totaled \$138,226.

## B. Investments

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

Investment Type	Fair Value	Maturities				
		Less Than 1 year	Maturities 1-5 Years	Maturities 5-10 Years	Maturities 10-20 Years	Maturities 20 plus Years
US Government Agencies	\$ 135,149,206	\$ 5,000,000	\$ 130,149,206	\$ -	\$ -	\$ -
Certificates of Deposit	57,529,880	45,029,880	12,500,000	-	-	-
Money Market	66,425,404	66,425,404	-	-	-	-
Commercial Paper	-	-	-	-	-	-
Municipal Bonds	9,455,000	915,000	8,540,000	-	-	-
Totals	<u>\$ 268,559,490</u>	<u>\$117,370,284</u>	<u>\$151,189,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Interest Rate Risk* - The City has no formal policy regarding interest rate risk, but does follow investment guidelines which state that in terms of risk tolerance the City's objective is not to incur any losses through trading of securities. The City also strictly follows the North Carolina (N.C.G.S.) 159-30 guidelines. In addition, investments of the City covered by these guidelines must be diversified to eliminate the risk of loss as a result of over concentration of securities in a specific issuer, or specific class of securities. If a loss has to be taken to restructure or reposition a portfolio, the action needs prior approval of the Finance Officer.

*Credit Risk* - The City has no formal policy regarding credit risk, but has internal management procedures that limit 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 Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The Bond Trustee Accounts are in highly rated money market instruments; all of the City's other investments are triple A rated.

*Custodial Credit Risk* - For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City requires collateralization for: Certificates of Deposit and repurchase (and reverse repurchase) agreements. In both cases the collateral must cover at least 105% of market value of principal and accrued interest. Collateral will be held by an independent third party with whom the City has a custodial agreement. Safekeeping receipts must be supplied to the City evidencing ownership.

*Concentration of Credit Risk* - The City places a limit on the amount of commercial paper that the City may invest in any one issuer to 20% of the City's total investments; this does not apply to bond proceeds. No more than 25% of the City's total investments may be in commercial paper. At June 30, 2013, 5% of the City's investments were in commercial paper. North Carolina General Statute 159-30 authorizes the City to invest its funds in Treasury; obligations of agencies of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; bonds and notes of any North Carolina local

government or public authority; certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Cash Management Trust, an SEC registered mutual fund.

### C. Receivables – Allowances for Doubtful Accounts

Receivables at June 30, 2014 for the City's individual major and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Housing Projects	Debt Service	Non-Major Governmental	Water And Sewer
<u>Receivables:</u>					
Taxes	\$ 2,110,780	\$ -	\$ -	\$ -	\$ -
Accounts	4,688,919	80,767	50,000	521,076	17,202,719
Special assessments	312,955	-	-	-	801,579
Notes	555,500	12,334,962	-	15,273,019	-
Gross receivables	<u>7,668,154</u>	<u>12,415,729</u>	<u>50,000</u>	<u>15,794,095</u>	<u>18,004,298</u>
Less: allowance for uncollectables	<u>(4,033,507)</u>	<u>(28,400)</u>	<u>-</u>	<u>(50,603)</u>	<u>(3,979,188)</u>
Net total receivables	<u>\$ 3,634,647</u>	<u>\$ 12,387,329</u>	<u>\$ 50,000</u>	<u>\$ 15,743,492</u>	<u>\$ 14,025,110</u>

	Parking Facilities	Transit	Solid Waste Disposal	Performing Arts Center	Storm Water	Internal Service
<u>Receivables:</u>						
Accounts	\$ 39,466	\$ 2,025,855	\$ 264,115	\$ 2,015,087	\$ 2,734,982	\$ 335,418
Less: allowance for uncollectables	<u>-</u>	<u>-</u>	<u>(36,125)</u>	<u>-</u>	<u>(907,590)</u>	<u>-</u>
Net total receivables	<u>\$ 39,466</u>	<u>\$ 2,025,855</u>	<u>\$ 227,990</u>	<u>\$ 2,015,087</u>	<u>\$ 1,827,392</u>	<u>\$ 335,418</u>

Notes receivable represent loans made by the City for housing, redevelopment or improvements to blighted areas of the City. These notes receivable have varying interest rates and payment terms, with stated interest rates ranging from 0 to 5 percent and scheduled repayment dates through 2044. Some notes are payable in equal installments while others have balloon payments. The City's policy is to defer loans in the fund financial statements when there is a stipulation that if a certain condition is met the loans are forgiven and treated as grants to the individuals. Nonperformance related to the stipulations would reduce the deferred amounts.

## D. Capital Assets

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

	Beginning Balances	Additions	Disposals/ Adjustments/ Transfers	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 31,455,367	\$ 900	\$ (19,281)	\$ 31,436,986
Land Rights	5,093,478	318,063	-	5,411,541
Construction in progress	<u>9,823,979</u>	<u>12,129,139</u>	<u>(3,615,093)</u>	<u>18,338,024</u>
Total capital assets not being depreciated	<u>46,372,824</u>	<u>12,448,102</u>	<u>(3,634,374)</u>	<u>55,186,551</u>
Capital assets being depreciated:				
Buildings	186,089,843	175,440	(27,397,500)	158,867,783
Infrastructure	533,897,346	21,535,614	(6,492,346)	548,940,614
Furniture and equipment	<u>82,095,309</u>	<u>3,566,109</u>	<u>(1,689,212)</u>	<u>83,972,206</u>
Total capital assets being depreciated	<u>802,082,498</u>	<u>25,277,163</u>	<u>(35,579,058)</u>	<u>791,780,603</u>
Less accumulated depreciation for:				
Buildings	(58,093,929)	(5,088,578)	5,630,072	(57,552,435)
Infrastructure	(130,662,127)	(10,620,913)	1,086,954	(140,196,086)
Furniture and equipment	<u>(54,527,965)</u>	<u>(8,465,469)</u>	<u>1,617,234</u>	<u>(61,376,200)</u>
Total accumulated depreciation	<u>(243,284,021)</u>	<u>(24,174,960) *</u>	<u>8,334,260</u>	<u>(259,124,721)</u>
Total capital assets being depreciated, net	<u>558,798,477</u>	<u>1,102,203</u>	<u>(27,244,798)</u>	<u>532,655,883</u>
Governmental activity capital assets, net	<u>\$ 605,171,301</u>	<u>\$ 13,550,305</u>	<u>\$ (30,879,172)</u>	<u>\$ 587,842,434</u>

\* Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 9,254
Public Protection	6,993,042
Development	641,585
General Services	3,269,053
Recreation	3,912,793
Streets and Highways	<u>9,349,233</u>
	<u>\$ 24,174,960</u>

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Business-type activities:	Beginning Balances	Additions	Disposals/ Adjustments/ Transfers	Ending Balances
Capital assets not being depreciated:				
Land	\$ 39,738,274	\$ 582,873	\$ -	\$ 40,321,147
Land Rights	1,015,505	39,850	-	1,055,355
Construction in progress	<u>8,655,809</u>	<u>31,115,419</u>	<u>(27,381,304)</u>	<u>12,389,924</u>
Total capital assets not being depreciated	<u>49,409,588</u>	<u>31,738,142</u>	<u>(27,381,304)</u>	<u>53,766,426</u>
Capital assets being depreciated:				
Infrastructure	692,354,912	18,371,766	27,452,872	738,179,550
Buildings	289,065,442	274,553	36,435,368	325,775,363
Furniture and equipment	<u>64,784,234</u>	<u>3,365,441</u>	<u>(2,648,926)</u>	<u>65,500,749</u>
Total capital assets being depreciated	<u>1,046,204,588</u>	<u>22,011,760</u>	<u>61,239,314</u>	<u>1,129,455,662</u>
Less accumulated depreciation for:				
Infrastructure	(257,574,878)	(13,553,097)	(455,940)	(271,583,915)
Buildings	(138,984,941)	(7,315,483)	(6,261,087)	(152,561,511)
Furniture and equipment	<u>(40,592,108)</u>	<u>(5,576,129)</u>	<u>2,649,583</u>	<u>(43,518,654)</u>
Total accumulated depreciation	<u>(437,151,927)</u>	<u>(26,444,709) *</u>	<u>(4,067,444)</u>	<u>(467,664,080)</u>
Total capital assets being depreciated, net	<u>609,052,662</u>	<u>(4,432,949)</u>	<u>57,171,870</u>	<u>661,791,582</u>
Business-type activities capital assets, net	<u>\$ 658,462,249</u>	<u>\$ 27,305,195</u>	<u>\$ 29,790,566</u>	<u>\$ 715,558,008</u>

\* Depreciation expense was charged to functions as follows:

Business-type activities:	
Water/Sewer distribution systems	\$ 18,418,243
Golf	122,170
Parking facilities	1,162,333
Stormwater	565,718
Performing Arts	1,165,059
Ballpark operations	555,686
Solid Water Disposal	1,724,454
Transit	<u>2,731,046</u>
	<u>\$ 26,444,709</u>

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## E. Interfund Receivables, Payables and Transfers

### 1. Interfund Receivables and Payables

The composition of interfund balances at June 30, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
Water and Sewer Utility	Transit Fund	\$ 4,548,838
Non-Major Governmental Fund	Non-Major Governmental Funds	766,115
		<u>\$ 5,314,953</u>

#### Advance to Other Funds

Receivable Fund	Payable Fund	Amount
Water and Sewer Utility	Ballpark	\$ 507,244
		<u>\$ 507,244</u>

Due to Other Fund balances are overnight loans at fiscal year end from the receivable fund to the payable fund to cover cash deficits in the payable fund. The amounts are reversed on the first day of the next fiscal year. The fund with the cash deficit then has a liability to the pooled cash and investments.

Advance to Other Fund balances are for loans that were made by the receivable to the payable fund for capital improvements in the payable fund.

### 2. Transfers to Other Funds

The following is a schedule of interfund transfers for the year ended June 30, 2014:

	Transfers Out							Total Transfers In
	General Fund	NonMajor Funds	Water & Sewer Fund	Transit Fund	Solid Waste Disposal Fund	Debt Service Fund	Durham Performing Arts Center	
Transfers In:								
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$200,000	\$ 200,000
NonMajor Funds	606,106	3,063,337		14,077	400,000	-	-	4,083,520
Housing Projects	-	1,053,484	-	-	-	-	-	1,053,484
Water & Sewer	298,288	-	-	-	3,410,211	-	-	3,708,499
Solid Waste	9,630,134	-	-	-	-	2,284,376	-	11,914,510
Storm Water	-	-	123,000	109,047	-	-	-	232,047
Ballpark Fund	159,166	-	-	-	-	858,093	-	1,017,259
Parking Fund	-	-	-	-	-	1,999,039	-	1,999,039
Transit Fund	-	-	-	962,351	-	-	-	962,351
Internal Service	90,567	-	-	-	-	-	-	90,567
Total	<u>\$10,784,261</u>	<u>\$4,116,821</u>	<u>\$123,000</u>	<u>\$1,085,475</u>	<u>\$3,810,211</u>	<u>\$5,141,508</u>	<u>\$200,000</u>	<u>\$25,261,276</u>
Transfers Out								

Transfers out of the General Fund to the Non-major Governmental Funds are for grant and capital related items. Transfers out of the General Fund to the Water and Sewer Fund are to cover amounts financed for information technology infrastructure project in fiscal year 2012 by the Water and Sewer Fund that has a five year payback period. Transfers out of the General Fund to the Solid Waste Disposal Fund are to cover operations in that fund. General Fund to the Ballpark Fund is to cover debt service payments. Transfers out of the Non-major Governmental Funds to the General Fund are related to prior financing of the General Fund for projects in the Non-major Governmental Funds. Transfers out of the Debt Service Fund to the Solid Waste, Ballpark, and Parking Funds are to cover debt service payments.

**F. Leases**

**Operating Leases**

The City leases building and office facilities under noncancelable operating leases. The future minimum lease payments as of June 30, 2014 were as follows:

<u>Year Ending June 30</u>	
2015	\$ 1,085,701
2016	706,858
2017	623,313
2018	<u>501,075</u>
Total	<u>\$ 2,916,947</u>

Operating lease amounts paid in 2014 were \$1,311,561.

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## G. Long-Term Obligations

### General Obligation Bonds

The City issues general obligation bonds to provide for the acquisition and construction of major equipment and capital facilities. These debt obligations are backed by the full faith, credit and taxing power of the City. However, the principal and interest requirements of the Water and Sewer Utility Fund, and the Parking Facilities Fund are intended to be paid from the revenues in those funds.

General obligation bonds outstanding at June 30, 2014:

	Issue Date	Due		Original Issue	Balance June 30, 2014
		Serially To	Interest Rate		
Public Improvements 2005	09/13/05	2026	3.00 - 5.00	\$ 25,000,000	\$ 2,250,000
Refunding Series 2005	11/01/05	2019	3.50 - 5.00	23,545,000	6,720,000
Public Improvements 2006	10/10/06	2016	4.00 - 5.30	21,775,000	14,950,000
Refunding Series 2007	05/01/07	2025	4.00 - 5.00	35,240,000	31,480,000
Public Improvements 2008	08/01/08	2026	3.50 - 5.00	58,920,000	49,920,000
Refunding, Series 2009	10/26/09	2020	2.00 - 5.00	20,300,000	9,010,000
Refunding, Series 2010	10/20/10	2030	2.72 - 5.00	43,825,000	37,240,000
GO Series 2012	7/10/12	2032	2.00 - 5.00	68,300,000	64,875,000
				<u>\$ 296,905,000</u>	<u>\$ 216,445,000</u>

The bonds are recorded as follows:

Governmental Activities	\$ 164,937,500
Business-type Activities (Water & Sewer, Solid Waste & Transit)	51,507,500
Total	<u>\$ 216,445,000</u>

The City is subject to the Local Government Bond Act of North Carolina that limits the net bonded debt the City may have outstanding to eight percent of the appraised value of property subject to taxation. At June 30, 2014, such statutory limit for the City was \$1,894,716,921 providing a debt margin of approximately \$1,570,726,430.

The following schedule shows annual requirements to amortize all general obligation bond debt outstanding as of June 30, 2014. Interest on variable rate bonds has been estimated using the rate in effect at June 30, 2014.

Fiscal Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 13,255,681	\$ 6,778,828	\$ 5,724,320	\$ 2,208,498
2016	12,638,270	6,225,721	5,031,730	1,957,230
2017	12,466,483	5,681,224	4,783,516	1,732,911
2018	12,346,697	5,150,093	4,478,303	1,514,263
2019	12,712,771	4,615,877	4,212,229	1,312,973
2020-2024	60,124,635	14,929,532	15,850,364	3,968,439
2025-2029	29,965,006	4,828,013	7,754,994	1,491,902
2030-2033	11,427,957	791,654	3,672,044	253,858
Total	<u>\$ 164,937,500</u>	<u>\$ 49,000,942</u>	<u>\$ 51,507,500</u>	<u>\$ 14,440,072</u>

**Status of Bond Authorizations**

The City has no authorized or unissued General Obligation Bonds at June 30, 2014.

**Defeased GO Bonds**

In prior years, the City defeased certain General Obligation Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The gain on refunding reduces debt service cost over the remaining life of the refunded bonds.

The following schedule shows the bonds refunded, amounts and the redemption dates at June 30, 2014:

## General Obligation Bonds

<u>Issue</u>	<u>Date</u>	<u>Type</u>	<u>Bonds Refunded</u>	<u>Amount of Refunded Bonds</u>	<u>Redemption Date</u>
2007 GO	5/2/2007	Advanced	2004	\$ 2,500,000	6/1/2014
2009 GO	10/26/2009	Advanced	2004	3,000,000	6/1/2014
2012 GO	7/11/2013	Advanced	2005	11,790,000	6/1/2016
				<u>\$ 17,290,000</u>	

**General Obligation Bonds Refunding**

On October 23, 2013 the City of Durham issued Limited Obligation Bonds, 2013A in the amount of \$18,545,000 and 2013B (taxable) in the amount of \$16,175,000 with a true interest cost of 3.51%. The proceeds refunded all (\$4,000,000) of the General Obligation Housing Bonds, Series 2000 (taxable). The Refunded Bonds were called on the date of delivery of the 2013B Bond at the redemption price of 100% of principal amount thereof plus accrued interest to the redemption date. The refunded bonds had an average coupon rate of 4.50%.

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### Certificates of Participation/Limited Obligation Bonds

The City has contracts payable to New Durham Corporation with terms of twenty years and interest and principal payments due annually. Certificates of Participation outstanding as of June 30, 2014:

	Issue Date	Serially To	Interest Rate	Original Issue	Balance June 30, 2014
Multi-purpose - 2005B	04/28/05	2025	3.25 - 5.25	\$ 34,885,000	\$ 3,560,000
DPAC & Vehicles - 2008 A & B	01/10/07	2034	3.75 - 5.69	45,870,000	29,185,000
Multi-purpose - 2010 A & B	08/03/10	2030	4.00 - 5.00	57,030,000	40,750,000
Multi-purpose - 2012 A & B	05/17/12	2025	4.00 - 5.70	75,585,000	14,365,000
Multi-purpose - 2013 A & B	10/09/13	2033	3.00 - 5.00	34,720,000	34,720,000
				<u>\$248,090,000</u>	<u>\$122,580,000</u>

The COPs are recorded as follows:

Governmental Activities	\$ 65,453,293
Business-type Activities (Ballpark and Parking Facilities Funds)	<u>57,126,707</u>
Total	<u>\$122,580,000</u>

Future requirements to pay principal and interest on the certificates of participation at June 30, 2014, are as follows:

Fiscal Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 9,586,470	\$ 2,449,752	\$ 3,458,530	\$ 2,679,460
2016	6,870,674	2,133,216	3,464,326	2,555,047
2017	6,876,923	1,905,039	3,523,077	2,419,344
2018	6,356,437	1,656,348	3,593,563	2,272,706
2019	4,247,369	1,457,576	2,967,631	2,134,379
2020-2024	15,886,306	5,215,591	13,093,694	8,907,985
2025-2029	10,819,868	2,377,282	12,595,132	5,856,384
2030-2034	4,809,246	397,867	14,430,754	2,273,129
Total	<u>\$ 65,453,293</u>	<u>\$ 17,592,671</u>	<u>\$ 57,126,707</u>	<u>\$ 29,098,434</u>

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**Bank Loan/Lease Purchase**

Future requirements to pay principal and interest on the bank loan agreement with Banc of America Public Capital Corp. and a lease purchase agreement with Motorola Solution’s, Inc. at June 30, 2014, are as follows:

	<u>Issue Date</u>	<u>To</u>	<u>Rate</u>	<u>Issue</u>	<u>June 30, 2014</u>
Multi Purpose 2011	10/21/11	2017	1.61 - 1.65	\$ 3,015,000	\$ 1,874,250
Lease Purchase 2012	12/19/12	2016	0.0784	12,397,744	9,862,488
				<u>\$ 15,412,744</u>	<u>\$ 11,736,738</u>

Installment financing is recorded as follows:

Governmental Activities	\$ 11,110,978
Business Activities	625,759
Total	<u>\$ 11,736,737</u>

Future requirements to pay principal and interest on the financings at June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 2,924,250	\$ 94,126	\$ 205,248	\$ 8,422
2016	7,763,904	67,764	208,587	5,091
2017	422,824	3,404	211,924	1,706
Total	<u>\$ 11,110,978</u>	<u>\$ 165,294</u>	<u>\$ 625,759</u>	<u>\$ 15,219</u>

**Section 108 Loan**

The City is using a HUD Section 108 Loan in the amount of \$8,800,000 to fund a portion of the Southside Revitalization Effort. As part of the structuring process, the City pledged to use future CDBG grants to repay the Section 108 Loan. Until all \$8,800,000 has been expended, the City will be using a series of short term variable rate notes to fund the project. The first note has a maximum draw of \$4,400,000 with a final maturity of August 1, 2032. The current outstanding balance was \$8,800,000 as of June 30, 2014.

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## Revenue Bonds

The City has revenue bonds to fund certain capital improvements in the Water and Sewer Fund. These obligations are not backed by the full faith and credit of the City, but only by net revenues, as defined, of the Water and Sewer Fund. The City is required to make monthly deposits with the trustee to cover annual debt service requirements.

	Issue Date	Due		Original Issue	Balance June 30, 2014
		Serially To	Interest Rate		
Series 2005	10/25/2005	2021	4.00 - 4.25	\$ 18,605,000	\$ 14,385,000
Series 2011	6/1/2011	2041	2.00 - 5.00	57,465,000	51,315,000
				<u>\$ 76,070,000</u>	<u>\$ 65,700,000</u>

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$80,490,000 in water and sewer revenue bond issued in 2001 (Refunded by 2011 Bonds) 2005 and 2011. Proceeds from the bonds provided financing for various line extensions and upgrades to the City's water and sewer plants. The bonds are payable solely from water and sewer customer net revenues and are payable through 2041. Annual principal and interest payments the bonds are expected to require 4.66 percent of operating revenues. The total interest and principal remaining to be paid on the bonds is \$110,442,440. Principal and interest paid for the current year and total customer operating revenues were \$10,916,249 and \$85,619,356 respectively.

Future requirements to pay principal and interest on the water and sewer bonds liabilities at June 30, 2014, are as follows:

Fiscal year	Principal	Interest	Total
2015	\$ 3,260,000	\$ 3,205,463	\$ 6,465,463
2016	3,400,000	3,062,463	6,462,463
2017	3,570,000	2,896,838	6,466,838
2018	3,750,000	2,712,088	6,462,088
2019	2,635,000	2,529,275	5,164,275
2020-2024	9,880,000	10,812,961	20,692,961
2025-2029	8,490,000	8,783,500	17,273,500
2030-2034	10,725,000	6,547,100	17,272,100
2035-2039	13,565,000	3,707,000	17,272,000
2040-2041	6,425,000	485,750	6,910,750
	<u>\$ 65,700,000</u>	<u>\$ 44,742,438</u>	<u>\$ 110,442,438</u>

## Durham County Notes

Notes payable to Durham County (the "County") consist of a series of 20-year notes with final maturity dates ranging from 2012 to 2020. The notes were given to the County in exchange for certain water and sewer assets transferred to the City. The notes bear interest at 5.54 percent. Principal payments for each note are due based on the collections of certain assessments, frontage fees and water and sewer charges received by the City, which are attributable to the related project. At the end of 20 years, the notes have been deemed to be fully satisfied and any

remaining balances and related accrued interest is deemed to be a capital contribution to the City. At June 2014 several of the notes reached the end of their term and a reduction in the notes was recorded in the amount of \$4,612,195 of which \$28,180 represents payments on the notes and \$3,703,963 represents capital contributions. Given the uncertainty of the timing of future collections, annual maturities for these notes are not determinable. The outstanding balance of the Durham County Notes as of June 30, 2014 was \$11,203,424 all of which will be paid from the Water and Sewer Utility Fund.

**State of North Carolina**

The City also has a line of credit that was drawn on during Fiscal Year 2008, which is a twenty-year promissory note from the North Carolina Drinking Water State Revolving Fund in the principal amount of \$2,700,000 at a rate of 2.87% per annum to provide funds to pay a part of the cost of a water project. The remaining balance was \$1,080,000 as of June 30, 2014. Future requirements to pay principal and interest to the State of North Carolina are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 135,000	\$ 30,996	\$ 165,996
2016	135,000	27,122	162,122
2017	135,000	23,247	158,247
2018-2022	<u>675,000</u>	<u>58,118</u>	<u>733,118</u>
	<u>\$ 1,080,000</u>	<u>\$ 139,483</u>	<u>\$ 1,219,483</u>

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## Changes in Long-Term Obligations

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

	Principal			Principal	
	Outstanding			Outstanding	Due Within
	June 30, 2013	Additions	Retirements	June 30, 2014	One Year
<b>Governmental activities</b>					
Bonds Payable					
General obligation bonds	\$ 195,077,925	\$ -	\$ (30,140,425)	\$ 164,937,500	\$ 13,255,681
Plus/(less deferred amounts)	8,508,969	-	(520,384)	7,988,585	-
Total bonds payable	<u>203,586,894</u>	<u>-</u>	<u>(30,660,809)</u>	<u>172,926,085</u>	<u>13,255,681</u>
Installment financing (COPs/LOBs)	65,053,213	18,175,000	(17,774,920)	65,453,293	9,586,470
Lease Purchase	12,397,740	-	(2,535,252)	9,862,488	2,514,748
Installment financing (bank loan)	1,651,330	-	(402,840)	1,248,490	409,502
Section 108 Loan	4,400,000	4,400,000	-	8,800,000	-
Plus (less) deferred amounts	3,922,706	1,069,168	(311,269)	4,680,605	-
Total installment financings	<u>87,424,989</u>	<u>23,644,168</u>	<u>(21,024,281)</u>	<u>90,044,876</u>	<u>12,510,720</u>
Pending Claims	8,380,397	29,893,630	(29,447,365)	8,826,662	2,368,513
Net OPEB Obligations	26,533,723	9,236,275	(3,533,270)	32,236,728	-
Accrued compensated absences	9,385,353	5,438,642	(5,128,788)	9,695,207	5,128,787
<b>Total governmental activities</b>	<u>\$ 335,311,356</u>	<u>\$ 68,212,715</u>	<u>\$ (89,794,513)</u>	<u>\$ 313,729,558</u>	<u>\$ 33,263,701</u>
<b>Business-type activities</b>					
Bonds Payable					
General obligation bonds	\$ 48,017,076	\$ 11,549,700	\$ (8,059,276)	\$ 51,507,500	\$ 5,724,320
Revenue bonds	72,420,000	-	(6,720,000)	65,700,000	3,260,000
Plus (less) deferred amounts	6,266,189	-	(425,262)	5,840,927	-
Total bonds payable	<u>126,703,265</u>	<u>11,549,700</u>	<u>(15,204,538)</u>	<u>123,048,427</u>	<u>8,984,320</u>
Installment financing (COPs/LOBs)	32,101,787	26,978,182	(1,953,262)	57,126,707	3,458,530
Installment financing (bank loan)	827,668	-	(201,909)	625,759	205,248
Plus (less) deferred amounts	16,662	388,000	(21,824)	382,838	-
Total certificates of participation	<u>32,946,117</u>	<u>27,366,182</u>	<u>(2,176,995)</u>	<u>58,135,304</u>	<u>3,663,778</u>
Landfill post closure costs	5,709,483	-	(276,553)	5,432,930	300,922
Accrued compensated absences	2,078,216	1,364,544	(1,412,988)	2,029,772	1,412,988
Notes payable to State of					
North Carolina	1,965,000	-	(885,000)	1,080,000	135,000
Notes payable to Durham County	13,782,642	-	(2,579,218)	11,203,424	30,270
Net OPEB Obligations	<u>6,557,709</u>	<u>2,360,160</u>	<u>(902,725)</u>	<u>8,015,144</u>	<u>-</u>
<b>Total Business-type activities</b>	<u>\$ 189,742,432</u>	<u>\$ 42,640,586</u>	<u>\$ (23,438,017)</u>	<u>\$ 208,945,001</u>	<u>\$ 14,527,278</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Approximately 95% of compensated absences liquidated in governmental activities are in the general fund. Compensated absences for governmental activities have typically been liquidated in the General Fund.

## H. Fund Balance

The following schedule provides management and citizens with information on the portion of governmental funds fund balance that is available for appropriation:

	General Fund	Housing Projects Fund	Debt Service Fund	Non-Major Governmental Funds
Total Fund Balance	\$ 51,440,834	\$ 3,790,340	\$ 2,878,268	\$ 79,198,964
Less:				
Prepaid expenditures	-	-	-	24,500
Inventories	488,955	-	-	-
Notes receivable	555,500	-	-	-
Cemetery perpetual care	-	-	-	1,520,050
Stabilization by State Statute	21,786,463	1,074,037	-	17,107,852
Debt service	-	-	2,878,268	-
Grantors, community development , emergency communications transportation and public safety	-	-	-	4,275,892
Capital projects, streets, economic development, parks & recreation and buildings	-	2,716,303	-	59,393,698
Economic Development	428,328	-	-	-
Remaining Fund Balance	<u>\$ 28,181,588</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,123,028)</u>

## I. Encumbrances

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain open at year-end. The encumbrances at year-end totaled \$4,671,772 for the General Fund and \$14,366,969 in the non-major governmental funds, these encumbrances are restricted and included in stabilization by state statute.

### Note IV – Other

#### A. Risk Management

The City is exposed to various risks of loss related to workers' compensation, property, general operations and vehicle liability. The City's Internal Risk Fund provides funds for losses retained by the City, including claims paid to others and deductible amounts on otherwise insured losses. Annually, as of June 30, the program has a third party actuary review the claim histories for all claim years for which open claims are outstanding. The actuary projects the ultimate claim payment obligation (including the incurred but not reported claims) for each year's claim experience and projects the new year's probable loss fund cost.

The City maintains the following deductibles or self-insured retentions on insurance policies: \$1,500,000 per occurrence for vehicle and general liability, including public official and law enforcement liability, \$1,000,000 for workers' compensation, \$150,000 per loss for commercial property – direct damage coverage's, \$25,000 for Property while in Transit, \$25,000 for Contractors' Equipment; \$10,000 per loss on boiler and machinery, \$10,000 per loss on employee theft, including money and securities; \$1,000 per loss on flood at NFIP insured properties. There is a \$250,000 bond on each Finance Officer. The amounts paid are based on historical cost information and actuarial estimates of the amounts needed to pay prior and current year claims and to have a reserve amount available to fund catastrophic losses.

The pending claims liability of \$6,657,290 reported in the statement of net assets at June 30, 2014 is based on the requirements of Governmental Accounting Standards Board Statement Number 10, which require that a liability for claims be reported if information prior to the issuance of the basic financial statements indicate that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The current portion of those pending claims at June 30, 2014 is \$2,368,513. Changes in the claims liability follow:

	Beginning of Year	Claims, Fees and Changes in Estimates	Payments	End of Year
2012	\$ 7,449,776	\$ 2,258,274	\$ 2,520,140	\$ 7,187,910
2013	7,187,910	2,553,462	3,405,621	6,335,751
2014	6,335,751	3,247,203	2,925,664	6,657,290

The City is self-insured for health and dental coverage for City employees and retirees. Prior to fiscal year 2013 the dental pending claims was recorded in the General Fund. On September 1, 2011, the City organized the Employees Insurance Fund. Contributions to the fund are made by both the City and present employees and contributions for retirees come from the OPEB Fund for both the City's and retirees' portions. The City has a private company administer the benefit pursuant to administrative services agreements and also maintains excess insurance coverage with private carriers for health and dental claims. The outstanding liability is for health and dental pending claims both reported and incurred but not reported and is recorded in the Government wide financial statements.

The current portion of those pending claims at June 30, 2014 is \$2,169,372. Changes in the liability follow:

	Beginning of Year	Fees, Claims and Changes in Estimates	Payments	End of Year
2012	\$ 2,003,352	\$ 22,241,717	\$ 22,260,934	\$ 1,984,135
2013	1,984,135	23,028,230	22,967,719	2,044,646
2014	2,044,646	26,646,427	26,521,701	2,169,372

## B. Jointly Governed Organization

### 1. Research Triangle Regional Public Transportation Authority

The City, in conjunction with other area local governments, is a member of the Research Triangle Regional Public Transportation Authority. The City and Durham County appoint one

member each and jointly appoint a third member. The Transportation Authority possesses final decision making ability and is solely responsible for the management, budget, and fiscal operations of the Transportation Authority.

## **2. Triangle J Council of Governments**

The City of Durham along with twenty-five other municipalities and seven counties, established the Triangle J Council of Governments. The participating governments established the Triangle J Council of Governments to coordinate various funding received from federal and state agencies. Each participating member appoints one official to the governing board of the Triangle J Council of Governments. The City paid membership fees of \$85,847 to the Council during the fiscal year ending June 30, 2014.

## **C. Joint Ventures**

### **Convention Center**

The Durham Convention Center Authority (the "Authority") is a joint venture established by the City and County of Durham and is assigned such powers as necessary, reasonable and practicable for the operation and maintenance of the Convention Center facility. The Authority consists of seven members who are appointed to three-year terms. Three members are appointed by the City and three members by the County, with the seventh member selected by the six members appointed by the City and County. The members elect from its membership a Chairman and Vice Chairman. Global Spectrum has a contract with the Authority and manages the operation of the Civic Center for the City and the County. The City and the County share all operating costs and all operating revenues equally. Financial statements for the Civic Center are located at the City of Durham, 101 City Hall Plaza, Durham, North Carolina 27701.

The City and County determined that the construction of a civic center would stimulate private investment in and rejuvenate the downtown area of the City. In October 1987, the City and County entered into agreements with a private developer to construct the Civic Center. The City and County initially deposited \$17,300,000, \$14,300,000 by the City and \$3,000,000 by the County, in an escrow account that, together with interest, was used to fund the purchase of the facility. The County has repaid the City for its portion of the cost of construction with annual payments. Both the City and the County have 50% ownership of the equity of the Civic Center. The total investment in joint venture for the City of Durham recorded in the statement of net assets for governmental activities for the Civic Center at June 30, 2014 is \$7,456,478.

### **Raleigh Durham Airport Authority**

The Raleigh Durham Airport Authority is a joint venture without equity interest; it is governed by an eight-member board, of which two members are appointed by the City of Durham, Wake and Durham Counties and the City of Raleigh. The City is not able to impose its will on appointed members. Each government contributes \$12,500 annually for administration of the Authority. The Authority possesses final decision-making ability and is solely responsible for the management, budget and fiscal operations of the Authority. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2014. Complete financial statements of the Authority may be obtained from the Authority's administrative offices at Raleigh Durham International Airport, North Carolina 27623.

## **D. Related Organization**

### **Durham Housing Authority**

In accordance with the process outlined in the North Carolina General Statutes, as amended by local act, the City Council appoints members to the governing board of the Authority but is not able to impose its will on appointed members. Budgetary and financial management and fiscal operations of the Housing Authority are totally the responsibility of the Housing Authority. The City receives reports and makes recommendations as provided by State General Statute 157-27. The Authority has independent legislative and administrative authority. The City of Durham is also disclosed as a related organization in the notes to the financial statements of the Authority. Financial Statements from the Durham Housing Authority can be obtained from the Authority's office at 330 East Main Street, Durham, NC 27701.

## **E. Post-Retirement Benefits**

### **Other Postemployment Benefits (OPEB)**

#### **1. Healthcare Benefits**

*Plan Description* - The City has elected to provide post-retirement health benefits for retirees who elect to continue group health insurance until age 65. For employees of the City hired prior to July 1, 2008 the eligibility for post-retirement health insurance is limited to retirees who participate in the North Carolina State Retirement system and who have not reached the age of 65 and have been a member of the group health plan for 90 days prior to the retirement date. The City provides a subsidy of 70% to 100%, based on coverage, of the premium charged by the provider for retiree and eligible dependent health insurance. Of the subsidy 70% to 100% above the City subsidizes the retiree's health care cost based on the years of service with the following percentages: 10 years 50%, 15 years 75% and 20 years 100%. At June 30, 2014 there were 421 employees hired prior to July 1, 2008 that were receiving benefits. At June 30, 2013 the number was 430. Under a City resolution adopted as of July 1, 2008 employees hired after June 30, 2008 by the City of Durham require mandatory participation in a Retirement Health Savings Plan (RHS). The plan provides a vehicle for employees to save pretax dollars for future tax-free withdrawals to pay qualified medical expenses. Both the City and the employee are required to contribute to the plan. The plan is administered by ICMA-RC and the requirement to receive the City's contribution at retirement date is the same as for employees hired prior to July 1, 2008; 10 years 50%, 15 years 75% and 20 years 100%.

*Summary of Significant Accounting Policies* - Postemployment expenses are made from the OPEB Trust Fund. The contribution requirements are based on the most recent actuarial study. The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due, as are the City contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. 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 of assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price. Administration costs of the Plan are financed through investment earnings. Postemployment expenses are made from the Post-Employment Benefits Fiduciary Fund.

*Annual OPEB Cost and Net OPEB Obligation* - The City's annual OPEB cost (expense) is calculated based on the ARC of the employer, 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 current year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the postemployment healthcare benefits:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	\$ 9,804,560	\$ 2,504,994	\$ 12,309,554
Interest on net OPEB obligation	1,054,293	269,364	1,323,657
Adjustment to annual required contribution	<u>(1,622,578)</u>	<u>(414,198)</u>	<u>(2,036,776)</u>
Annual OPEB cost (expense)	9,236,275	2,360,160	11,596,435
Contributions made	<u>(3,533,270)</u>	<u>(902,725)</u>	<u>(4,435,995)</u>
Increase (decrease) in net OPEB obligation	5,703,005	1,457,435	7,160,440
Net OPEB obligation, beginning of year	<u>26,533,723</u>	<u>6,557,709</u>	<u>33,091,432</u>
Net OPEB obligation, end of year	<u>\$ 32,236,728</u>	<u>\$ 8,015,144</u>	<u>\$ 40,251,872</u>

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

Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	For the Year Ended June 30
\$ 9,786,801	48.9%	\$ 27,923,557	2012
9,689,449	46.7%	33,091,432	2013
11,596,435	38.3%	40,251,872	2014

*Funded Status and Funding Progress* - As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded as it was on a pay as you go basis. The actuarial accrued liability for benefits was \$129,961,486, and there was no actuarial value of assets resulting in an unfunded actuarial accrued liability (UAAL) of \$129,961,486. The covered payroll (annual payroll of active employees covered by the plan) was \$79,848,956 and the ratio of UAAL to the covered payroll was 162.76 percent. The adjustment to the annual required contribution is due to changes by the actuary regarding assumptions used to make the calculation. 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 the healthcare cost 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 information about the actuarial value of plan assets and 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 to 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 of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2013, actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The medical cost trend rate varied between 8.00 – 4.50 percent. Both rates included a 3.00 percent inflation assumption. The actuarial value of assets 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, closed basis. The remaining amortization period at December 31, 2013, was 25 years.

## **2. Death Benefits**

For disabled retirees the City pays for one year of life insurance premium in the City's group life insurance plan, the coverage is equal to their annual salary at the time of retirement rounded to the nearest thousand dollars. During the fiscal year there was anywhere from 2 to 6 retirees covered by this benefit each month. The City paid \$1,339 for the year ended June 30, 2014 in premiums for this coverage.

## **F. Other Employment Benefits**

### **1. Death Trust Plan**

The City has elected to provide death benefits to law enforcement officers through the Death Trust Plan for Members of the Local Governmental Employees' Retirement System (Death Trust Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. Lump sum death benefits are provided to 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. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Trust Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Because the benefit payments are made by the Death Trust Plan and not by the City, the City does not determine the number of eligible participants. The contributions to the Death Trust Plan cannot be separated between the post employment benefit amount and the other benefit amount. For the fiscal years ended June 30, 2014, 2013 and 2012, the City made contributions of the required actuarial amount to the state for death benefits of \$38,377 for law enforcement officers' representing 0.14% of covered payroll, \$38,078 representing 0.14% of covered payroll and \$37,929 representing 0.14% of covered payroll, respectively.

## **2. Life Insurance**

The City provides life insurance to all full-time and part-time benefit eligible City of Durham employees. The life insurance benefit amount is equal to the employee's annual salary on June 30th prior to the next fiscal year. Employees can purchase additional amounts to increase the amount to equal to two or three times their annual salary or a \$5,000 flat amount. There is also an option to purchase a \$5,000 flat amount on dependents. The cost of the life insurance over \$50,000 is considered a fringe benefit by the Internal Revenue Service and is taxable income to the employee based on a life insurance benefit table published by the Internal Revenue Service in Publication 15-B.

## **G. Employee Retirement**

### **1. The North Carolina Retirement Systems**

*Plan description* - All permanent full-time City of Durham employees contribute to the state wide retirement system. Employees are included in one of three plans; the Local Government Employees' Retirement System (LGERS), the Local Government Fire Retirement System (LOCF) or the Law Enforcement Officers Retirement System (LEO), which are cost-sharing, multiple-employer defined benefit pension plans administered by the State of North Carolina. The LGERS and LOCF provide retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Government Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding policy* - Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The fiscal year 2014 rate for LGERS, LOCF and for LEO was 7.07%, 7.07% and 7.28% respectively, the fiscal year 2013 rate for LGERS, LOCF and for LEO was 6.74%, 6.74% and 6.77% respectively and the fiscal year 2012 rate for LGERS, LOCF and for LEO was 6.88%, 6.88% and 7.05%, respectively. The contribution requirements are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS and the LOCF for the fiscal years ended June 30, 2014, 2013 and 2012 were \$5,165,864, \$4,875,065 and \$5,130,834 for LGERS and \$1,126,438, \$1,041,357 and \$1,070,862 for LOCF, respectively. The City's contribution to LEO for the years ended June 30, 2014, 2013 and 2012 were \$1,995,621, \$1,841,354 and \$1,909,338 respectively. The contributions made by the City equaled the required contributions for each year.

### **2. Supplemental retirement income plan for Law Enforcement Officers**

*Plan description* - The City contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all law enforcement officers and any other employees who are currently members of a state-administered retirement plan and are eligible to participate in the Plan. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend the benefit provisions to the North Carolina General Assembly.

*Funding policy* - Article 12E of G.S. Chapter 143 requires the City to contribute an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. The City also contributed 4.5% of its full-

time non-law enforcement employees' salaries to the plan. Contributions for the year ending June 30, 2014 were \$1,370,841 for law enforcement officers and \$4,004,992 for non-law enforcement employees. Voluntary contributions from all employees were \$3,077,471 and 401K ROTH voluntary was \$479,548.

The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

### **3. Deferred Compensation**

All permanent City employees and elected officials may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. Voluntary contributions from all employees were \$886,837.

The City contributes to the deferred compensation plan for firefighters who do not have social security taxes deducted from their wages. The amount contributed is a match to the employee's contribution; the employee must contribute the required percentage to receive a City match. For fiscal year end 2014 the required percentage was 5%. The amount contributed by the City was \$722,522 which is for wages amounting to \$14,450,433. The City also contributes an amount of 10% to the City Manager in accordance with his contract the amount contributed for fiscal year 2014 was \$20,331.

### **4. Law Enforcement Officers' Special Separation Allowance**

*Plan description* - The City of Durham administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The plan does not issue a stand-alone financial report and is not included in the report of a public retirement system or other entity.

The Separation Allowance covers all full-time law enforcement officers of the City. At December 31, 2013, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	93
Active plan members	<u>513</u>
Total	<u>606</u>

### **Summary of significant accounting policies**

*Basis of accounting* - Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and

when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method used to value investments* - Short-term debt, deposits, repurchase agreements, and North Carolina Capital Management Trust investments are reported at fair value. Certain longer term United States Government and United States Agency securities are also reported at fair value.

### Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$1,583,055 or 5.8% of the annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The annual required contribution for the fiscal year ended June 30, 2014 was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return and (b) projected salary increases ranging from 4.25% to 7.85% per year. The inflation component was 3.00%. The assumptions did not include post employment benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2013 was 17 years.

*Annual pension cost and net pension asset* - The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 1,541,465
Interest on net pension obligation	(86,560)
Adjustment to annual required contribution	<u>141,046</u>
Annual pension cost	1,595,951
Contributions made	<u>1,583,055</u>
Increase in net pension obligation	12,896
Net pension asset beginning of year	<u>(1,731,209)</u>
Net pension asset end of year	<u>\$ (1,718,313)</u>

### 3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Assets
6/30/2012	\$ 1,404,477	103.91%	\$ (1,701,322)
6/30/2013	1,491,025	102.00%	(1,731,209)
6/30/2014	1,595,951	99.19%	(1,718,313)

### Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 6.56 percent funded. The actuarial accrued liability for benefits was \$16,880,930 and the actuarial value of

assets was \$1,107,239, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,773,691. The covered payroll (annual payroll of active employees covered by the plan) was \$27,102,338, and the ratio of the UAAL to the covered payroll was 58.20 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### H. Closure and Post Closure Care Costs

The City owns a landfill site located in the northeast portion of the City. State and federal laws and regulations required the City to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each June 30. The \$5,432,930 reported as landfill closure and post-closure care liability at June 30, 2014 is based on the use of 100% of the estimated capacity of the landfill.

The City closed the landfill December 31, 1997. The City will adjust the estimated amount to perform all closure and post-closure care as the amount changes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. At June 30, 2014, the City had expended \$8,978,529 in closure costs for the Club Boulevard facility. The City has met the requirements of a local government financial test that is an option under state and federal laws and regulations that help determine if a unit is financially able to meet closure and post-closure care requirements.

Changes in the liability are as follows:

	Beginning of Year	Changes in Estimates	Payments	End of Year
2012	\$ 6,179,819	\$ (20,406)	\$ 200,351	\$ 5,959,062
2013	5,959,062	(33,276)	216,303	5,709,483
2014	5,709,483	(22,309)	254,244	5,432,930

#### I. Federal and State Assisted Programs

The City has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant money.

#### J. New Pronouncements

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements

of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

The GASB has issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This Statement establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

The GASB has issued Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013.

The GASB has issued Statement No. 71, "Pension Transition for Contributions made Subsequent to the Measurement Date." This Statement is to improve accounting and financial reporting standards by addressing an issue in GASB Statement Number 68 Accounting and Financial Reporting for Pensions concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that statement by employers and non-employer contributing entities. The requirements of this Statement are effective with statement 68 and should be applied simultaneously with the provisions of statement 68.

Management is in the process of determining what, if any, impact implementation of the above statements may have on the financial statements of the City.

#### **K. Contingencies**

The City is involved in several pending lawsuits and claims, which it intends to defend vigorously. In the opinion of the City's attorney and management, the disposition of these matters is not expected to have a material adverse effect on the City's financial position.

#### **L. Subsequent Events**

The City has evaluated events through October 24, 2014 in connection with preparation of these financial statements which is the date the financial statements were ready to be issued.

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**APPENDIX D**

**PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL**

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**PROPOSED FORM OF OPINION OF EACH CO-BOND COUNSEL**

March \_\_, 2015

City of Durham, North Carolina  
Durham, North Carolina

**\$50,775,000**  
**City of Durham, North Carolina**  
**General Obligation Refunding Bonds, Series 2015**

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance and sale by the City of Durham, North Carolina (the “City”) of \$50,775,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2015 (the “2015 Bonds”).

The 2015 Bonds are issuable as fully registered obligations and will mature and bear interest at the rates and at the times established in the “Pricing Certificate” as defined in the Bond Resolution adopted by the City Council of the City (the “City Council”) on December 18, 2014 (the “Bond Resolution”).

In connection with the issuance of the 2015 Bonds, we have examined the following, and we have assumed the truth and accuracy of the representations, covenants and warranties set forth therein:

- (a) Certified copies of (1) the bond order adopted by the City Council on December 18, 2014, effective on the adoption thereof, and (2) the Bond Resolution;
- (b) A specimen 2015 Bond; and
- (c) Such other documents as we deemed relevant and necessary in rendering this opinion.

From such examination we are of the opinion, under existing law, that:

1. The 2015 Bonds have been duly authorized under the provisions of the Constitution and laws of the State of North Carolina (the “State”), including The Local Government Bond Act, Section 159-43 *et. seq.*, of the General Statutes of North Carolina.
2. The 2015 Bonds are legal, valid and binding general obligations of the City. The rights of the owners of the 2015 Bonds and the enforceability of the 2015 Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.
3. The City has pledged its faith and credit for the payment of the principal of and the interest on the 2015 Bonds, and the City is authorized to levy on all real property taxable by the City such *ad valorem* taxes as may be necessary to pay the 2015 Bonds and the interest thereon without limitation as to rate or amount.
4. Interest on the 2015 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted

current earnings for the purpose of computing federal alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the 2015 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the 2015 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds. We express no opinion regarding other federal tax consequences arising with respect to the 2015 Bonds.

5. The interest on the 2015 Bonds is exempt from State of North Carolina income taxation.

Our services as Co-Bond Counsel in connection with the issuance of the 2015 Bonds have been limited to rendering the opinions expressed above based on our review of such proceedings and documents as we deem necessary to approve the validity of the 2015 Bonds and the tax-exempt status of interest thereon. In rendering the foregoing opinions, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, and documents and proceedings.

It is to be understood that the rights of the owners of the 2015 Bonds and the enforceability of the 2015 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally or by equitable principles, whether considered at law or in equity.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Preliminary Official Statement or the Official Statement (collectively, the "*Official Statement*"), or any other offering material relating to the 2015 Bonds (except to the extent, if any, stated in the Official Statement), and we express no opinion herein relating thereto (excepting only the matters set forth as our opinion in the Official Statement and the section entitled "**TAX TREATMENT**") or as to the financial resources of the City or the ability of the City to make the payments required under the Bond Resolution, that may have been relied on by anyone in making the decision to purchase 2015 Bonds.

Respectfully submitted,

[To be signed by each of Co-Bond Counsel]

**APPENDIX E**  
**BOOK-ENTRY SYSTEM**

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## **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues and money market instruments (from over 100) countries that DTC’s direct participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC System is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants and to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC nor its nominee, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the City takes no responsibility for the accuracy thereof.

NEITHER THE CITY, THE REGISTRAR NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE

PRINCIPAL AMOUNT OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THE BOND RESOLUTION; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

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# DURHAM



# 1869

CITY OF MEDICINE



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