NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

A. Reporting entity

The City of Raleigh (the "City") is a municipal corporation established in 1792 by the North Carolina General Assembly. The City operates under a council-manager form of government with a mayor and seven Council Members comprising the governing body.

The accounting policies of the City of Raleigh conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. All applicable GASB statements have been implemented. The accompanying financial statements present the government and its component unit, a legally separate entity for which the City is financially accountable.

The financial statements of the following organization are included in this report as a blended component unit:

Blended Component Unit. Walnut Creek Financing Assistance Corporation (WCFAC). The WCFAC is governed by a five-member board appointed by the City Council. Although it is legally separate from the City, the WCFAC is reported as if it were part of the primary government because its main purpose is to issue certificates of participation for the City. Financial transactions of the WCFAC are audited and reported through the City's annual audit. No separate financial statements are prepared.

B. Government-wide and fund financial statements

Government-wide statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City and its blended component unit. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or activity. Indirect expense allocations are not shown on the statement of activities. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues to be available if they are collected within 90 days after year-end, except for property taxes. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to earned vacation pay and claims and judgments, are recorded only when payment is due.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

General fund – The general fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in other funds.

The City reports the following major enterprise funds:

Water and sewer fund – The water and sewer fund accounts for the user charges, fees, other resources and all costs associated with the operation of the water and sewer systems of the City.

Convention center fund – The convention center complex fund accounts for the user charges, fees, other resources and all costs associated with the operation of the convention center and performing arts center facilities of the City.

Mass transit fund – The mass transit fund accounts for the user charges, fees, federal contributions and all operating costs associated with the operation of the transit system in the City.

Stormwater fund – The stormwater fund is established to account for revenues and expense related to stormwater management.

Parking fund – The parking facilities fund accounts for the parking fee charges and all costs associated with the operation of all parking decks and lots owned by the City.

Solid Waste Services fund – The solid waste services fund accounts for the revenues and expenditures related to the operation of the City's residential garbage collection and recycling programs.

Additionally, the City reports the following fund types:

Internal service funds account for print services, employees' health benefits, equipment replacement, risk management services, and vehicle fleet services provided to other departments or agencies of the City on a cost reimbursement basis.

Fiduciary funds - The pension trust funds account for the City's contributions to a supplemental money purchase pension plan fund, the law enforcement officers' special separation allowance fund, and other post employment benefits.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other City functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Management of the City has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

D. Assets, liabilities, Deferred Outflows/Inflows of Resources and net position or equity

1. Deposits and investments

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. All deposits are made in City Council designated official depositories and are secured as required by State law (G.S. 159-30(c)). The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law (G.S. 159-30(c)) authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The City's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. In accordance with State law, the City has a portion of its investments in callable securities, some of which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City ad valorem taxes are billed by the Wake County Revenue Collector after July 1 of each year based upon the assessed value on property, other than motor vehicles, listed as of the prior January 1 lien date. In accordance with state law, property taxes on certain registered motor vehicles are assessed and collected throughout the year based on a staggered registration system. Wake County is responsible for the monthly billing and collections of City property taxes due on registered motor vehicles. Under the staggered registration system, property taxes become due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due.

Uncollected taxes billed for vehicles registered by February of the fiscal year are shown as a receivable in the financial statements and are offset by unavailable revenue. Taxes for vehicles registered after February 28, apply to the 2013-14 fiscal year and are not shown as receivables at June 30, 2013.

The City Council is required to approve the tax levy no later than August 1, although this traditionally occurs in the month of June. Taxes are due on September 1 but do not begin to accrue penalties for nonpayment until the following January 5. Collections of City taxes are made by the County and are remitted to the City as collected.

Ad valorem taxes receivable at year-end are not considered to be available as a resource that can be used to finance the current year operations of the City and, therefore, are not susceptible to recognition as earned revenue. The amount of the recorded receivable for ad valorem taxes has been reduced by an allowance for uncollectible accounts and the net receivable is offset by unavailable revenue in an equal amount.

Other accounts receivable which are reported in governmental funds and which represent amounts considered measurable and available are recorded as revenue but, based on state law, are restricted in fund balance at year-end.

Any other accounts receivable which represent amounts not subject to accrual as earned revenue are recorded as assets and are offset by unavailable revenue in an equal amount. Assessments receivable have been reduced by an amount deemed to be uncollectible.

The amounts due from other governmental agencies are grants and participation agreements which are restricted for specific programs and capital projects. Program grants, primarily accounted for in the special revenue funds, are recognized as receivables and revenue in the period benefited, i.e., at the time reimbursable program costs are incurred.

Capital project grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

3. *Inventories and prepaid items*

Inventories in the governmental, enterprise and internal service funds consist primarily of expendable supplies held for consumption. Inventories are recorded as an expenditure at the time an item is used and are carried at cost, using the first-in, first-out (FIFO) method.

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.

4. *Restricted Assets*

Certain proceeds of the City's enterprise fund revenue bonds and general obligation bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, software, and infrastructure assets, (e.g. streets, sidewalks, water and sewer delivery systems and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All infrastructure acquired before July 1, 2001 (date of implementation of GASB 34) has been recorded by the City at historical cost if purchased or constructed or at fair market value at the date of donation. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City for business-type activities during the fiscal year was $40,906,415. Of this amount, $14,312,606 was included as part of the cost of capital assets under construction in connection with water and sewer as well as solid waste services projects.

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

Assets	Years
Buildings and machinery	40
Water and sewer systems	50
Streets and sidewalks	25
Major improvements	20
Software	20
Buses	10
Furniture & fixtures	5
Equipment	5-10

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has two items that meet this criterion, unamortized bond refunding charges and an accumulated decrease in the fair value of hedging derivatives for the City's interest rate swap agreements.

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 multiple items that meet the criterion for this category - prepaid taxes, loans receivable, assessments and property taxes receivable and other unavailable revenues.

7. *Earned vacation pay*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the 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 expenditures.

9. *Net Position/Fund Balances*

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

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 balance as follows:

<u>Nonspendable Fund Balance</u> – 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.

Inventories – portion of fund balance that is not an available resource because it represents the year end balance for inventories, which are not spendable resources.

<u>Restricted Fund Balance</u> – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for stabilization by state statute - portion of fund balance restricted by State Statute [G.S.15-98(a)].

Restricted for debt service – portion of fund balance that must be used to pay City obligations.

Restricted for federal program reserves – portion of fund balance that is restricted by revenue source for federal programs.

Restricted for streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures.

Restricted for public safety – portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by a resolution from the majority vote by quorum of City of Raleigh's City Council. Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance – portion of fund balance that the City of Raleigh intends to use for specific purposes. The City of Raleigh City Council has designated the City Manager as the delegated Official that can "assign" portions of fund balance per the City of Raleigh's fund balance goal policy.

Subsequent year's appropriation – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; all budget amendments regardless of amount must be submitted to the City council for approval.

Assigned for Community development – portion of fund balance the City intends to use for community development across the City.

Assigned for City projects – portion of fund balance that the City intends to use for specific projects.

Assigned for disaster recovery – portion of fund balance that the City intends to use for disaster recovery efforts.

Assigned for debt service – portion of fund balance that the City intends to use for future debt service payments.

Assigned for parks and recreation – portion of fund balance that the City intends to use for specific parks and recreation programs.

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

The City of Raleigh has also adopted a minimum fund balance policy for the general fund which instructs management to conduct business of the City in such a manner that available fund balance is at least equal to or greater that 14% of next years budgeted expenditures. Any portion of the general fund balance in excess of 14% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

10. Interest rate swap

The City enters into interest rate swap agreements to modify interest rates on outstanding debt. The interest rate swaps are reported in the net position statements for government-wide and proprietary funds at fair market value.

Note 2. Stewardship, compliance, and accountability

A. Budgetary information

As required by the North Carolina Budget and Fiscal Control Act, the City adopts balanced budget ordinances for all funds except the trust funds which are not budgeted and four internal service funds which have financial plans approved. The budgets shown in the financial statements reflect amounts adopted by the budget ordinances as amended and approved at the close of the day of June 30, 2013. The City adopts annual budgets prepared on the modified accrual basis for the general fund, the enterprise operating funds and the convention center financing fund. All other funds including all capital project funds and the remaining grant funds adopt project budgets.
Appropriations for funds with annual budgets lapse at the end of the budget year. Capital and grant project budget appropriations do not lapse until the completion of the project or grant. The City Council may amend the budget throughout the year for new projects or other changes to existing appropriations as are needed.

At June 30, 2013, the effect of such amendments, less eliminating transfers, was as follows:

	Original Budget	Total Amendments	Budget June 30, 2013
General Fund	$ 409,913,983	$ 19,126,685	$ 429,040,668
Special Revenue Funds	52,826,424	2,616,857	55,443,281
General Capital Projects Funds	575,133,892	19,347,416	594,481,308
Enterprise Funds	578,049,075	62,854,328	640,903,403
Internal Service Funds	27,741,038	2,096,831	29,837,869

The appropriated budget is prepared by fund, function, and department. Appropriations are adopted at the Fund level with the exception of the General fund which is adopted at the department level and the Public Utilities Fund which is adopted at the function level. The City Manager is authorized to transfer budget amounts within a fund up to $50,000. Transfers greater than $50,000, all transfers between funds, and all amendments increasing total budgeted expenditures require City Council approval.

B. Deficit net position

The Solid Waste Services fund, an enterprise fund, had a deficit net position of $1,498,782 as of June 30, 2013. Fiscal year 2012-13 is the first year the Solid Waste Services activity is reported as an enterprise fund. The deficit is related to post closure costs of the City’s landfill that are expected to be reduced by future revenues.

Note 3. Detailed notes on all funds

A. Deposits and investments

Deposits. All of the City's deposits are either insured or collateralized by the Pooling Method. Under the Pooling Method, a collateral pool, all insured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agent in the City's 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 amount 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 Pooling Method depository. The City relies on the State Treasurer to monitor these financial institutions. It is the City’s policy to utilize only the pooling method of collateralization. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that the deposits are properly secured.

At June 30, 2013, the City's bank balance in operating accounts was $18,132,206 and the carrying amount of the City's deposits was $6,298,664. The difference represents reconciling items such as deposits and payments in transit. Of the bank balance, $258,086 was covered by federal depository insurance and $17,874,120 was covered by collateral held under the Pooling Method.

Investments. At June 30, 2013, the City had the following investments and maturities:

Investment Type	Fair Value	%	< 1 Year	1- 3 Years	>3 - 5 Years	> 5 Years
US Government Treasuries	$ 42,516,606	8.2	$ 11,258,012	$ 15,466,827	$ 13,991,486	$ 1,800,281
Federal Home Loan Bank	96,646,176	18.6	54,432,948	24,020,227	18,193,001	-
Freddie Mac	63,898,408	12.3	10,463,228	21,081,240	32,353,940	-
Fannie Mae	57,756,677	11.1	318,390	36,227,796	21,122,341	88,150
Federal Farm Credit Bank	153,922,437	29.6	49,956,103	55,840,112	48,126,222	-
Commercial paper	29,907,988	5.8	29,907,988	-	-	-
Bank certificates of deposit	10,000,000	1.9	10,000,000	-	-	-
NCCMT - Cash Portfolio	4,682,033	0.9	4,682,033	-	-	-
NC Municipal Bonds	11,425,947	2.2	258,940	9,305,124	1,861,883	-
Other investments	48,583,291	9.4	35,726,181	9,581,440	1,068,362	2,207,308
Total City-wide investments	$ 519,339,563	100%	$ 207,003,823	$ 171,522,766	$ 136,717,235	$ 4,095,739

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy limits direct investment of operating funds to securities maturing no more than five years from the date of purchase. Investments shown with a maturity date greater than five years are pursuant to N.C.G.S 147-69.2 and represent accounts holding the City’s capital reserves, risk reserve funds, and Law Enforcement Officer’s special separation allowance fund. Also, the City’s investment policy requires purchases of securities to be laddered with staggered maturity dates to meet the operating requirements of each individual fund and cash flow requirements of the city’s overall operations. Reserve funds invested by external asset managers are not required to meet liquidity needs within the short-term and may have maturities generally consistent with benchmark indices established to monitor performance of the asset managers.

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The City limits 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 currently holds investments with long-term credit ratings as follows:

	Long-term Credit Ratings		
Bank	S & P	Moody's	Fitch
Branch Banking & Trust Co (certificates of deposit)	A-	A2	A+
NCCMT - Cash Portfolio	AAAm	N/A	N/A
US Agencies	AA+	Aaa	AAA

Concentration of Credit Risk. The City's investment policy does not restrict the level of investment in federal agencies, but it restricts investment in commercial paper or bankers' acceptances of a single issuer to no more than 5.0% of the total investment portfolio. Commercial paper is 5.8% of the total investment, however; the balance is with multiple issuers and, therefore, meets the City's policy.

Fiduciary funds are reported on a stand-alone basis and are not presented in the government-wide statement of net position.

A summary of cash and investments at June 30, 2013 is as follows:

	Government-wide	Fiduciary
Petty cash and change funds	$ 17,405	$ -
Deposits (checking, money market)	26,982,093	-
Fiduciary cash	-	61,732,235
Investments	516,255,543	3,084,020
Total cash and cash equivalents	543,255,041	64,816,255
Restricted deposits and bond proceeds	283,416,181	-
Total cash	$ 826,671,222	$ 64,816,255

Investment results shown in the financial statements are a combination of actual interest received, realized gains and losses on current year activity, and unrealized gains and losses as of the balance sheet date. For the fiscal year ended June 30, 2013, the City's realized and unrealized losses outpaced gains and actual interest received in many funds, resulting in a loss on investments shown on the face of the financial statements.

B. Capital assets

Capital asset activity for the year ended June 30, 2013 was as follows (stated in thousands):

	Balance June 30, 2012	Additions	Transfers	Deletions	Balance June 30, 2013
Governmental activities					
Capital assets, not being depreciated:					
Land	$ 148,291	$ 779	$ (2,093)	$ -	$ 146,977
Construction in progress	187,466	62,863	(34,779)	-	215,550
Total capital assets, not being depreciated	335,757	63,642	(36,872)	-	362,527
Capital assets, being depreciated:					
Buildings and machinery	113,802	-	(241)	115	113,446
Streets and sidewalks	692,965	7,935	3,060	-	703,960
Equipment	104,171	6,777	(922)	2,935	107,091
Furniture and fixtures	2,475	19	(133)	122	2,239
Improvements - general and parks	180,445	1,046	5,239	-	186,730
Software	38,334	-	3,739	-	42,073
Total capital assets being depreciated	1,132,192	15,777	10,742	3,172	1,155,539
Less accumulated depreciation for:					
Buildings and machinery	49,050	2,709	(27)	115	51,617
Streets and sidewalks	374,449	24,466	-	-	398,915
Buses	-	-	-	-	-
Equipment	80,009	7,557	(895)	2,935	83,736
Furniture and fixtures	2,242	60	(27)	122	2,153
Improvements - general and parks	96,306	7,993	(2,256)	-	102,043
Software	5,354	2,104	-	-	7,458
Total accumulated depreciation	607,410	44,889	(3,205)	3,172	645,922
Total capital assets being depreciated, net	524,782	(29,112)	13,947	-	509,617
Governmental activities capital assets, net	$ 860,539	$ 34,530	$ (22,925)	$ -	$ 872,144

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

General government	$ 2,976
Community development	58
Public works	26,750
Public safety	1,908
Leisure services	7,019
Capital assets held by certain internal service funds are charged to the various governmental functions based on the usage of the assets	6,178
Total depreciation expense - governmental activities	$ 44,889

Annexations: The amount reported as additions for street and sidewalks includes $7,724,793 from annexations during fiscal year 2012-13.

	Balance June 30, 2012	Additions	Transfers	Deletions	Balance June 30, 2013
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 75,295	$ -	$ 2,952	$ -	$ 78,247
Construction in progress	175,262	85,360	13,475	-	274,097
Total capital assets, not being depreciated	250,557	85,360	16,427	-	352,344
Capital assets, being depreciated:					
Buildings and machinery	387,314	-	295	-	387,609
Streets and sidewalks	1,746	-	-	-	1,746
Water and sewer systems	1,112,474	5,518	189	-	1,118,181
Parking decks	146,284	10	40	-	146,334
Buses	29,140	1,002	-	616	29,526
Equipment	43,120	1,987	921	287	45,741
Furniture and fixtures	2,643	133	-	-	2,776
Improvements	149,691	1,367	7,945	193	158,810
Total capital assets being depreciated	1,872,412	10,017	9,390	1,096	1,890,723
Less accumulated depreciation for:					
Buildings and machinery	72,716	9,423	27	-	82,166
Streets and sidewalks	728	70	-	-	798
Water and sewer systems	282,999	22,975	-	-	305,974
Parking decks	28,641	3,608	-	-	32,249
Buses	17,613	2,197	-	598	19,212
Equipment	34,989	2,598	883	278	38,192
Furniture and fixtures	2,137	472	27	-	2,636
Improvements	49,923	7,591	2,288	193	59,609
Total accumulated depreciation	489,746	48,934	3,225	1,069	540,836
Total capital assets being depreciated, net	1,382,666	(38,917)	6,165	27	1,349,887
Business-type activities capital assets, net	$ 1,633,223	$ 46,443	$ 22,592	$ 27	$ 1,702,231

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Water/Sewer	$ 30,832
Convention center	8,644
Parking	3,636
Mass Transit	3,126
Solid Waste Services	1,096
Stormwater	374
Capital assets held by certain internal service funds are charged to the various business-type activities based on the usage of the assets	1,226
Total depreciation expense - business-type activities	$ 48,934

Annexations: The amount reported as additions for water and sewer systems includes $5,503,212 added from annexations during fiscal year 2012-13.

Commitments - construction projects

At June 30, 2013, the City has $86,999,424 in project obligations for business-type activities for construction projects in progress as follows: $78,521,421 for water and sewer projects, $234,186 for transit projects, $6,944,333 for stormwater projects, $368,734 for convention center projects, $625,601 for solid waste services projects and $305,149 for parking garage projects. These obligations are fully budgeted and are being financed primarily by state loans, general obligation bond proceeds, revenue bond proceeds, federal grants, storm water fees and certificates of participation.

In addition, the City has $65,139,018 in general government project obligations at June 30, 2013. These obligations relate to construction in progress projects for street construction, redevelopment projects and community center and park construction, and other major public facilities. These projects are fully budgeted and the funding for these governmental projects is indicated through designations of fund balance at June 30, 2013.

C. Unavailable Revenue and Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with inflows of resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	General	NonMajor Governmental	Total
Amounts arising from cash:			
Police informant account	$ 83,927	$ -	$ 83,927
Cemetery cash account	8,086	-	8,086
Cafeteria plan cash	43,508	-	43,508
Prepaid taxes and assessments	544,103	4,033	548,136
Grants, program income	-	201,106	201,106
Streets and sidewalk advance	-	55,820	55,820
	679,624	260,959	940,583
Amounts not arising from cash:			
Loans receivable	2,037,952	60,503,893	62,541,845
Taxes receivable	2,349,353	-	2,349,353
Assessments receivable	483,309	973,859	1,457,168
	4,870,614	61,477,752	66,348,366
Total	$ 5,550,238	$ 61,738,711	$ 67,288,949

D. Interfund receivables, payables, and transfers

Interfund balances result from timing differences between dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These balances routinely clear out each month or prior to year-end.

The composition of interfund balances as of June 30, 2013, is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Nonmajor governmental funds	$ 2,775,139
	Internal service funds	958,670
	Proprietary funds	565,114
	Pension fund	99
Nonmajor governmental funds	Nonmajor governmental funds	448,380
	Proprietary funds	48,537
	General fund	16,727
Water and sewer fund	Nonmajor governmental funds	98,877
Mass transit fund	General fund	95,157
	Total	$ 5,006,700

The largest component of receivables to the general fund represents cash deficits which were reclassified from the following special revenue funds; community development ($1,537,822), disaster recovery ($185,614) and grants fund ($962,397). This reclass occurs due to the nature of grant drawdowns occurring after spending has taken place. The second largest component of receivables to the general fund is from the Print Shop fund, which is an internal service fund, of $958,670. This fund will consolidate into the general fund beginning in the new fiscal year. The general fund also has a $523,562 interfund loan from the Convention Center fund. The largest portion of nonmajor governmental funds to nonmajor governmental funds, $355,339 represents reimbursement for streets projects that are recorded in the street improvement fund.

A summary of interfund transfers for the fiscal year ended June 30, 2013 is as follows:

	General fund	Nonmajor governmental funds	Water and sewer funds	Solid waste services fund	Convention center funds	Parking facilities operating funds	Mass transit fund	Stormwater utility fund	Internal service funds	Total Transfers Out
General fund	$ -	$ 18,199,760	$ 75,148	$ 12,328,519	$ 2,026,247	$ 2,031,145	$ 17,702,029	$ -	$ -	$ 52,362,848
Nonmajor governmental funds	8,643,831	-	-	-	14,663,026	-	1,393,143	-	-	24,700,000
Water and sewer funds	-	2,010,585	-	-	-	-	-	180,486	428,020	2,619,091
Solid waste services fund	-	259,122	-	-	-	-	-	-	-	259,122
Convention center funds	22,949	109,352	-	-	-	-	-	-	-	132,301
Parking facilities operating funds	-	16,127	-	-	-	-	-	-	140,000	156,127
Mass transit fund	99,082	2,359,234	-	-	-	-	-	-	-	2,458,316
Stormwater utility fund	-	242,911	-	-	-	-	-	-	-	242,911
Internal service funds	958,670	60,114	-	-	-	-	-	-	-	1,018,784
Total Transfers In	$ 9,724,532	$ 23,257,205	$ 75,148	$ 12,328,519	$ 16,689,273	$ 2,031,145	$ 19,095,172	$ 180,486	$ 568,020	$ 83,949,500

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the general fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The transfer made internally in the general fund between its operating and debt service components was $41,935,177. This transfer was eliminated as part of the consolidation of the general fund as reported in the basic financial statements.

E. Operating leases

During fiscal year 2012-13 total rental payments on noncancelable operating leases was $6,109,878. The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2013:

Fiscal Year Ending June 30	
2014	$ 5,989,806
2015	4,787,700
2016	2,870,072
2017	2,045,080
2018	360,445
2019 and beyond	362,040
	$ 16,415,143

F. Long-term obligations

1. General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and to finance the City's non-capital related affordable housing program (Housing General Obligation Bonds). General obligation bonds have been issued for both the governmental and business-type activities. The bonds are direct obligations and pledge the full faith and credit of the City. The utility related issues are expected to be repaid with user charges and the remaining bonds are expected to be repaid with general fund revenues. Interest on the bonds is payable semi-annually.

General obligation bonds outstanding at June 30, 2013 are as follows:

Purpose	Interest Rates	Date Issued	Date Series Matures	Amount of Original Issue	Balance Outstanding June 30, 2013
Governmental Activities					
Housing-Series 1996	5.6% to 5.75%	6/1/1996	6/1/2016	$ 2,280,000	$ 345,000
Public Improvement, Series 2002C	4.0%	12/1/2002	2/1/2013	14,905,000	-
Public Improvement, Series 2004	3.0% to 3.25%	3/1/2004	4/1/2015	15,000,000	1,000,000
Public Improvement Refunding - Series 2004A	3.0% to 4.0%	3/1/2004	4/1/2016	17,338,150	4,815,799
Housing, Series, 2004B	4.22% to 4.375%	3/1/2004	4/1/2017	7,000,000	2,805,000
Street Improvement, Series 2005A	4.0%	8/1/2005	2/1/2015	10,600,000	1,200,000
Public Improvement, Series 2005B	4.0%	8/1/2005	2/1/2015	50,585,000	5,800,000
Housing Series 2007 Taxable	5.1% to 5.4%	3/1/2007	3/1/2027	7,000,000	4,900,000
Public Improvement, Series 2009A	2.25% to 4.25%	3/10/2009	2/1/2029	11,130,000	8,910,000
Public Improvement Refunding - Series 2009B	2.25% to 2.5%	3/11/2009	2/1/2017	13,778,981	5,312,633
Housing, Series 2009C - Taxable	3.7% to 5.5%	3/11/2009	2/1/2029	10,000,000	8,000,000
GO Refunding, Series 2009D	3.5% to 5.0%	7/28/2009	12/1/2020	33,640,000	30,325,000
GO Refunding, Series 2009E	4.0% to 5.0%	7/28/2009	12/1/2018	14,180,000	14,180,000
Public Improvement, Series 2009F	3.0% to 5.0%	9/3/2009	2/1/2029	57,665,000	50,765,000
Housing, Series 2009G	3.5% to 5.3%	9/3/2009	2/1/2030	10,000,000	8,500,000
GO Refunding, Series 2011A	3.0% to 5.0%	10/27/2011	9/1/2022	32,055,000	32,055,000
GO Refunding, Series 2011B	0.55% to 1.5%	10/27/2011	9/1/2015	1,870,000	1,305,000
Public Improvement, Series 2012A	2.0% to 5.0%	5/15/2012	4/1/2032	9,000,000	8,700,000
Public Improvement, Series 2012B	2.0% to 5.0%	5/16/2012	4/1/2032	138,600,000	133,900,000
Total Governmental Activities					$ 322,818,432

General obligation bonds outstanding at June 30, 2013:

Purpose	Interest Rates	Date Issued	Date Series Matures	Amount of Original Issue	Balance Outstanding June 30, 2013
Business-type Activities					
Water and Sewer:					
Sanitary Sewer Refunding - Series 2002C	4.0%	12/1/2002	2/1/2013	$ 3,055,000	$ -
Water Refunding, Series 2004A	2.0% to 4.0%	3/1/2004	4/1/2016	6,187,620	1,718,657
Sanitary Sewer Refunding - Series 2004A	2.0% to 4.0%	3/1/2004	4/1/2016	3,674,230	1,020,545
Sanitary Sewer Refunding - Series 2009B	2.25% to 4.0%	3/11/2009	2/1/2017	1,305,737	503,441
Water and Sewer Total					3,242,643
Parking Facilities:					
Parking Facilities Refunding–Series 2009B	2.25% to 4.0%	3/11/2009	2/1/2017	4,445,282	1,713,926
Parking Facilities Total					1,713,926
Total Business-type Activities					$ 4,956,569

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
Ending June 30	Principal	Interest	Principal	Interest
2014	$ 20,969,543	$ 13,521,887	$ 1,605,457	$ 138,152
2015	20,760,143	12,862,355	1,579,858	95,067
2016	19,969,503	12,015,497	1,385,497	50,984
2017	19,739,243	11,121,775	385,757	9,645
2018	20,055,000	10,172,650	-	-
2019-2023	97,100,000	36,893,750	-	-
2024-2028	79,675,000	18,335,025	-	-
2029-2032	44,550,000	3,576,213	-	-
	$ 322,818,432	$ 118,499,152	$ 4,956,569	$ 293,848

Status of bond authorizations

The following represent continuing authorization of general obligation bonds, which were unsold at June 30, 2013:

October 11, 2011	
Housing	$ 16,000,000
Transportation	20,000,000
	$ 36,000,000

On October 8, 2013, a general obligation bond referendum was approved by the voters for $75 million in transportation bonds.

2. *Defeased debt and refundings*

During fiscal year 2012-13, the City issued $136,250,000 of water and sewer revenue refunding bonds to generate resources for future debt service payments on $117,175,000 of series 2006A revenue bonds and $21,220,000 of series 2005 revenue refunding bonds. The reacquisition price exceeded the net carrying amount of the old debt by $14,410,371. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The advance refunding was undertaken to reduce total debt service payments over the next 21 years by $16,857,059 and resulted in an economic gain of $13,357,437.

In prior years, the City has defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2013, the amount of defeased debt outstanding was $47,685,000 for general obligation and $279,275,000 for non-general obligation.

3. *Revenue bonds*

The City also issues revenue bonds to fund various water and sewer utility capital projects. The bonds are payable serially over the next 30 years and have stated interest rates between 0.65% and 5.0% and one variable rate issue at 4.163% at June 30, 2013.

The City has pledged water and sewer customer revenues, net of specified operating expenses, to repay $681,605,000 in water and sewer system revenue bonds. This pledge relates to all water and sewer revenue bonds outstanding, issued for the purpose of making water and sewer system improvements. The bonds are payable solely from water and sewer customer net revenues and are payable through 2043. Annual debt service requirements for 2012-13 were 23.1% of gross utility revenue and are expected to remain in this range.

Annual debt service requirements to maturity are as follows:

Fiscal Year	Business-type Activities	
Ending June 30	Principal	Interest
2014	$ 15,715,000	$ 28,451,465
2015	19,445,000	29,540,822
2016	22,155,000	28,648,658
2017	23,150,000	27,934,175
2018	24,035,000	27,057,098
2019-2023	133,110,000	120,012,023
2024-2028	143,505,000	89,753,203
2029-2033	158,270,000	54,001,743
2034-2038	110,410,000	19,855,401
2039-2043	31,810,000	3,844,750
	$ 681,605,000	$ 429,099,338

A trust agreement, dated December 1, 1996 and amended by the First Amendatory Trust Agreement, dated as of April 15, 2004, authorizes and secures all outstanding revenue bonds. Certain financial covenants are contained in the trust agreement, controlled by the trustee, including the requirement that the City maintain a long-term debt service coverage ratio on all utility debt of not less than 1.00. The City was in compliance with all such covenants during the fiscal year ended June 30, 2013.

The debt service coverage ratio for the fiscal year end is as follows:

Operating revenues	$ 186,523,277
Operating expenses	119,886,993
Operating income	66,636,284
Nonoperating revenues	6,526,049
Nonoperating expenses	(19,138,599)
Change in net position	54,023,734
Allowable revenue adjustments for calculation	(5,635,043)
Allowable expense adjustments for calculation	49,828,358
Income available for debt service	98,217,049
Debt service, principal and interest paid on revenue bonds and certain state loans (Parity)	$ 37,062,626
Debt service coverage ratio	2.65

4. *Other long-term obligations*

Other long-term obligations include reimbursement contracts, capital lease obligations, certificates of participation, installment financing agreements, limited obligation bonds, earned vacation pay and landfill closure and postclosure costs. The total amount to be paid in the future periods including interest on certificates, installment financing agreements and other installment obligations is $738,875,330.

Installment financing agreements

The City has previously issued $243,425,000 in variable rate certificates of participation to finance the construction of the convention center.

This debt was sold by the Walnut Creek Financing Assistance Corporation, a blended component unit of the City, whose main purpose is to issue certificates of participation for the City. The City has remarketing and standby purchase agreements with banks related to the variable rate certificates. Under these agreements, the banks will remarket any certificates for which payment is demanded. If the certificates cannot be remarketed, the banks will purchase the certificates. Interest rates may change pursuant to the terms of the debt agreements based on market conditions. The interest rates, per the remarketing agreements, cannot exceed 12.0%. The maximum interest, which cannot exceed 12.0%, required for these variable rate certificates through maturity would be $375,886,800. The following schedule shows the expiration dates, which can be renewed, fees paid in fiscal year 2012-13 pursuant to the terms of the debt agreements, and the interest rate at year-end for these issues.

Issue	Balance June 30, 2013	Agreement Expiration	Fees Paid FY 2013	Interest Rate June 30, 2013
2004A	$ 55,000,000	January 5, 2016	$ 387,553	0.05 %
2005B	$ 188,425,000	December 26, 2014	$ 1,004,254	0.05/0.06 %

During fiscal year 2012-13, the City drew down $264,844 in debt proceeds from a PNC Drawdown Program for improvements to the Duke Energy Center for the Performing Arts. This installment financing program was initiated in May 2013 and operates similar to a credit line in that the City reimburses its capital expenditures by drawing down proceeds. The City owes only what it has drawn to date, and interest is a variable rate which was 0.56% at June 30, 2013. This program has both governmental and business-type activity components, with a total maximum limit of $22,000,000. Subsequent to fiscal year end, agreement was amended to increase the total maximum to $25,300,000.

The debt service requirements to maturity for these variable rate installment financing agreements, including the converted fixed rate note, are shown below:

Fiscal Year	Business-type Activities	
Ending June 30	Principal	Interest
2014	$ -	$ 9,527,071
2015	7,360,000	9,458,610
2016	7,959,844	9,138,605
2017	8,040,000	8,825,032
2018	8,410,000	8,474,488
2019-2023	48,325,000	36,521,801
2024-2028	60,715,000	24,957,638
2029-2033	83,270,000	10,926,676
2034-2037	19,610,000	558,335
	$ 243,689,844	$ 118,388,256

The City has previously entered into installment financing agreements to finance various general governmental capital projects. These debt issues carry fixed interest rates of 5.54% (outdoor amphitheater), 3.0% to 5.25% (downtown improvement projects), 1.76% (enterprise resource planning technology), and 3.0% to 4.25% (parks projects). The City also previously entered into limited obligation bonds that carry fixed coupon interest rates from 3.0% to 5.57%, and one variable rate at 0.16% at June 30, 2013, for the purpose of rehabilitating existing structures and constructing remote operations centers. Principal and interest requirements will be provided by appropriation in the year in which they become due.

During fiscal year 2012-13, the City drew down $239 in debt proceeds from a PNC Drawdown Program for design of street improvement project. This installment financing program was initiated in May 2013 and operates similar to a credit line in that the City reimburses its capital expenditures by drawing down proceeds. The City owes only what it has drawn to date, and interest is a variable rate which was 0.56% at June 30, 2013. This program has both governmental and business-type activity components, with a total maximum limit of $22,000,000. Subsequent to fiscal year end, agreement was amended to increase the total maximum to $25,300,000.

Annual maturities are as follows:

Fiscal Year	Governmental Activities	
Ending June 30	Principal	Interest
2014	$ 9,179,688	$ 3,812,321
2015	9,260,312	3,514,705
2016	8,383,820	3,239,043
2017	8,413,733	2,770,029
2018	7,839,589	2,515,113
2019-2023	19,297,109	10,092,489
2024-2028	15,340,970	6,667,734
2029-2033	15,773,115	3,363,111
2034-2037	5,008,642	349,041
	$ 98,496,978	$ 36,323,586

The City has previously entered into installment financing agreements to finance various downtown parking facilities. These agreements bear interest at rates ranging from 4.20% to 5.25% with a variable rate component for one agreement, not to exceed 15%, which was 0.20% at June 30, 2013. There are also two variable rate agreements that had interest rates of 0.20% and 0.16% at June 30, 2013. Principal and interest requirements will be provided by appropriation in the year in which they become due.

Annual maturities are as follows:

Fiscal Year Ending June 30	Business-type Activities Principal	Business-type Activities Interest
2014	$ 3,325,000	$ 3,192,883
2015	3,435,000	3,074,722
2016	3,530,000	2,968,770
2017	3,660,000	3,003,135
2018	3,790,000	2,861,003
2019-2023	19,530,000	12,753,858
2024-2028	20,050,000	9,490,325
2029-2033	21,820,000	4,924,775
2034-2037	7,570,000	524,650
	$ 86,710,000	$ 42,794,121

During the current fiscal year, the Solid Waste Services Department was moved from the general fund to a separate enterprise fund. The debt associated with the Solid Waste Services function was moved from general government to business-type activities. These include certificates of participation that carry fixed interest rates of 4.0% to 5.0% (solid waste transfer station), limited obligation bonds that carry fixed coupon interest rates from 3.0% to 5.57% and a variable rate of 0.16% (design and construction of remote operations center). Annual maturities are as follows:

Fiscal Year Ending June 30	Business-type Activities Principal	Business-type Activities Interest
2014	$ 1,276,706	$ 827,370
2015	1,288,705	777,030
2016	1,304,706	732,961
2017	1,316,705	689,974
2018	1,328,706	637,323
2019-2023	6,857,890	2,356,493
2024-2028	5,834,030	768,106
2029-2032	356,885	42,806
2034-2037	71,377	2,141
	$ 19,635,710	$ 6,834,204

The City has previously issued certificates of participation and master installment financing agreements to fund separate internal service funds for the purchase of rolling stock equipment for governmental and business-type activities. The debt issues carry fixed interest rates ranging from 1.75% to 2.79%. During fiscal year 2012-13, the City issued $34,526,906 in rolling stock equipment installment financing that carries an interest rate of 0.90%. Principal and interest requirements for these debt issues will be provided by appropriation in the year they become due.

Annual maturities are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
Ending June 30	Principal	Interest	Principal	Interest
2014	$ 11,314,171	$ 430,680	$ 1,571,196	$ 56,046
2015	8,468,816	263,406	932,541	28,988
2016	8,507,341	167,592	937,488	18,083
2017	6,360,603	83,548	661,818	8,689
2018	5,830,557	26,258	606,663	2,731
	$ 40,481,488	$ 971,484	$ 4,709,706	$ 114,537

State Revolving Loans

During the current fiscal year, the City's Water and Sewer Utility enterprise received $7,544,657 in proceeds from state revolving fund loans. These loans carry fixed interest rates of 0.0% to 2.45% and are payable over 20 years. Final amounts for these loans will be determined when the associated projects close. Repayment will begin six months after project completion.

The City has previously entered into state revolving loans to finance various water and sewer capital projects. These debt issues carry fixed interest rates of 2.6% to 5.85% (water/sewer system improvements), 2.66% (water improvements to Rolesville merged utilities), and 0.0% (spray irrigation). Principal and interest requirements for these debt issues will be provided by appropriation in the year they become due. The City's participation in the state revolving fund loan program is summarized below:

State Revolving Loans	Interest Rates	Date Issued	Date Series Matures	Amount of Original Issue	Balance Outstanding June 30, 2013
Water and Sewer:					
Crabtree Creek Interceptor-State Bond Loan	5.85%	3/1/1998	5/1/2016	$ 5,000,000	$ 750,000
Neuse River Nitrogen Removal	2.95%	7/31/1998	5/1/2018	7,972,965	1,990,254
Crabtree Creek Interceptor Phase 3	2.60%	1/7/2000	5/1/2020	3,300,000	1,155,000
Rolesville Projects (F-97-0931)	2.66%	11/14/2005	5/1/2025	2,316,247	1,389,747
Rolesville Projects (F-98-0931)	2.66%	11/14/2005	5/1/2025	683,753	410,252
Spray Irrigation	0.00%	9/1/2010	5/1/2030	625,694	478,306
Crabtree Creek North Bank Interceptor	2.45%	7/5/2011	TBD	11,094,556	5,836,491
Centennial Reuse Pipeline Segment 4	0.00%	5/1/2012	TBD	5,125,312	1,708,166
Water and Sewer Total					13,718,216
Stormwater:					
Stormwater-Water Pollution Control	0.00%	3/11/2009	5/1/2032	139,610	132,630
Stormwater Total					132,630
Total Loan Amount					$ 13,850,846

Annual maturities for Water and Sewer Utility are as follows:

Fiscal Year Ending June 30	Business-type Activities Principal	Business-type Activities Interest
2014	$ 991,186	$ 169,279
2015	1,368,419	134,850
2016	1,368,419	100,015
2017	1,118,419	76,555
2018	1,118,419	56,533
2019-2023	3,106,844	112,620
2024-2028	2,326,842	11,970
2029-2033	1,942,436	-
2034-2037	377,233	-
	$ 13,718,217	$ 661,822

The City's Stormwater Utility enterprise entered into a revolving loan in the amount of $139,610 administered by the state, but with funding from the Environmental Protection Agency. This loan is to be repaid in annual payments over 20 years at 0.0% interest. All proceeds for this loan were drawn and the first annual installment of $6,980 was paid during fiscal year 2012-13.

Annual maturities for the Stormwater Utility are as follows:

Fiscal Year Ending June 30	Business-type Activities Principal
2014	$ 6,980
2015	6,981
2016	6,980
2017	6,981
2018	6,980
2019-2023	34,903
2024-2028	34,902
2029-2032	27,923
	$ 132,630

Other City obligations include installment purchase agreements for various land and building acquisitions, and capital construction projects. These agreements and notes bear interest at rates from 0.0% to 8.0%. Principal and interest requirements will be provided by appropriation in the year in which they become due.

Annual maturities on installment purchase agreements and notes are as follows:

Fiscal Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest
2014	$ 63,770	$ 4,594
2015	28,067	623
	$ 91,837	$ 5,217

Earned vacation pay

At June 30, 2013, earned vacation pay consists of $17,506,913 for governmental activities and $3,779,446 for business-type activities.

Landfill postclosure care costs

State and federal laws and regulations require the City to maintain a final cover over its Wilders Grove landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The landfill was closed for waste disposal on December 31, 1997. During FY13, the third party cost estimate was updated for both postclosure costs and the corrective action plan (CAP) costs associated with ground water violations at the landfill identified in FY08. The $3,829,335 reported as landfill postclosure liability as of June 30, 2013 includes the CAP report cost estimate as well as the cost to perform the on-going postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to demonstrate financial assurance for postclosure care. The City is in compliance with these requirements, and, demonstrated such by completion of the local government financial assurance test submitted to DENR on November 6, 2012.

5. Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental activities:					
General obligation bonds	$ 344,045,902	$ -	$ 21,227,470	$ 322,818,432	$ 20,969,543
Unamortized premiums - GO bonds	31,056,628	-	2,263,307	28,793,321	2,263,304
Bond refunding charges - GO bonds	(7,846,545)	-	(920,341)	(6,926,204)	(920,340)
Installment financing agreements	142,882,782	31,273,271	35,085,750	139,070,303	20,557,629
Unamortized premiums on IFA	1,604,555	-	771,978	832,577	103,665
Earned vacation pay	17,932,426	10,334,386	10,759,899	17,506,913	10,759,899
Landfill postclosure	4,181,908	-	4,181,908	-	-
Claims payable	27,660,006	-	2,013,467	25,646,536	9,367,352
Total governmental activities	$ 561,517,662	$ 41,607,657	$ 75,383,438	$ 527,741,878	$ 63,101,052
Business-type activities:					
General obligation bonds	$ 6,679,100	$ -	$ 1,722,531	$ 4,956,569	$ 1,605,457
Unamortized premium - GO bonds	208,132	-	46,292	161,840	46,291
Bond refunding charges - GO bonds	(332,837)	-	(83,210)	(249,627)	(83,210)
Revenue bonds	629,750,000	203,145,000	151,290,000	681,605,000	15,715,000
Unamortized premium - Rev. bonds	24,267,545	30,255,617	8,746,384	45,776,778	2,771,396
Bond refunding charges - Rev. bonds	(9,994,136)	(14,410,371)	(2,464,846)	(21,939,661)	(1,544,893)
Installment financing agreements	342,931,982	32,107,464	6,443,340	368,596,106	7,171,068
Unamortized premiums - IFA	316,383	668,313	110,141	874,555	109,883
Earned vacation pay	2,828,323	2,885,679	1,934,556	3,779,446	1,934,556
Landfill postclosure	-	4,181,908	352,573	3,829,335	391,996
Claims payable	95,484	-	-	95,484	95,484
Total business-type activities	$ 996,749,976	$ 258,833,610	$ 168,097,761	$ 1,087,485,825	$ 28,213,028

The current year additions to the installment financing agreements include noncash related financing activities in the amount of $63 for governmental activities.

Certain internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals for governmental activities. At year end $270,473 of internal service funds earned vacation pay are included above as part of governmental activities. Also, for the governmental activities, landfill closure and postclosure costs and earned vacation pay are generally liquidated by the general fund.

6. Arbitrage

In accordance with Section 148 of the Internal Revenue Code of 1986, as amended, and Sections 1.103-13 to 1.103-15 of the related Treasury Regulations, the City must rebate to the federal government "arbitrage profits" earned on governmental bonds issued after August 31, 1986. Arbitrage profits are the excess of the amount earned on investments over the interest paid on the borrowings. At June 30, 2013, the City had no arbitrage liabilities.

7. Interest rate swaps

2005 Swap

The City entered into an interest rate swap agreement for the Downtown Municipal Improvement Projects Series 2005B variable rate certificates of participation effective January 20, 2005. The synthetic fixed rate swap effectively changes these variable rate demand obligations (VRDOs) to the fixed rate of 4.36%.

The certificates of participation and the related swap agreement mature on February 1, 2034. The swap notional amount of $188,425,000 matches the variable rates certificates of participation. Beginning in February 2015, the notional value of the swap and the principal amount of the associated debt will decline annually. Under the swap agreement, the City pays the counterparty a fixed interest payment semiannually at 4.36% of the notional amount and receives a variable interest payment equivalent to the Bond Market Association Municipal Swap Index (BMA). At June 30, 2013, the swap had a negative fair value to the City of $38,974,834. This mark to market valuation was established by market quotations obtained by the counterparty, representing an estimate of the amount that would be paid for replacement transactions. As of June 30, 2013, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's positive fair value. At June 30, 2013, Citibank NA, the counterparty, was rated "A3" by Moody's Investor's Service, "A" by Standard and Poor's Ratings Services, and "A" by Fitch Ratings. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the City being required to make or being entitled to receive an unanticipated termination payment based on the market value on the date of termination. As rates vary, variable rate bond interest payments and net swap payments will vary. The principal and interest payments shown below are components of the business-type activities demand bond debt service requirements as reported on page 38.

Using rates as of June 30, 2013, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for the term of the 2005B variable rate certificates, were as follows:

Fiscal Year Ending June 30	Principal	Variable Rate Interest	Interest Rate Swaps, Net*	Total Interest
2014	$ -	$ 113,055	$ 8,102,275	$ 8,215,330
2015-2019	40,300,000	519,066	37,199,730	37,718,796
2020-2024	50,580,000	386,451	27,695,655	28,082,106
2025-2029	63,570,000	219,849	15,755,845	15,975,694
2030-2034	33,975,000	50,199	3,597,595	3,647,794
Total	$ 188,425,000	$ 1,288,620	$ 92,351,100	$ 93,639,720

**Computed using 4.36% less floating rate paid to the City (0.06% at June 30, 2013) times $188,425,000 less accumulated annual reductions, if any.*

2008 Swap

On February 9, 2006, the City entered into forward starting swap transactions with two financial institutions as related to $150,000,000 of water and sewer revenue bonds to be issued in 2008. The City engaged the swap transactions effective June 18, 2008 in conjunction with the issue of variable rate revenue bonds. Under the swap agreements, the City pays the counterparties a fixed interest rate payment at 4.163% of the swap notional amount ($150,000,000) and receives a variable interest rate payment equivalent to the BMA. At June 30, 2013, the swaps had a combined negative fair value to the City of $24,730,022, which mitigates the City's exposure to credit risk. However, should interest rates change and the fair value of swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' positive fair values. At June 30, 2013, Citigroup and Wells Fargo, the counterparties, were rated "A3"/"AA-"/"A" and "A2"/"A"/"A+", respectively by Moody's, Standard and Poor's, and Fitch. The derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the City being required to make or being entitled to receive an unanticipated termination payment based on the market value on the termination date. As rates vary, variable rate bond interest payments and net swap payments shown below are components of the business type activities revenue bond debt service requirements as reported on page 37.

Using the rates as of June 30, 2013, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for the term of the 2008 A and B variable rate bonds were as follows:

Fiscal Year Ending June 30	Principal	Variable Rate Interest	Interest Rate Swaps, Net*	Total Interest
2014	$ 3,880,000	$ 83,643	$ 5,719,787	$ 5,803,430
2015-2019	22,040,000	381,228	26,069,641	26,450,869
2020-2024	27,415,000	308,934	21,125,937	21,434,871
2025-2029	34,090,000	219,063	14,980,258	15,199,321
2030-2034	42,350,000	107,334	7,339,857	7,447,191
2035	9,630,000	5,778	395,119	400,897
Total	$ 139,405,000	$ 1,105,980	$ 75,630,599	$ 76,736,579

**Computed using 4.163% less floating rate paid to the City (0.06% at June 30, 2013) times $150,000,000 less accumulated annual reductions, if any.*

G. Restricted assets

Cash, cash equivalents and investments are restricted in the accompanying statements as follows by fund:

Governmental	Deposits	Unspent Debt Proceeds
General Fund	$ 184,818	$ 17,822,282
Nonmajor governmental funds	994,054	117,657,448
Total governmental	1,178,872	135,479,730
Enterprise		
Water and sewer fund	14,695,573	92,032,813
Convention center fund	254,925	-
Mass transit fund	50,305	-
Stormwater fund	7,314,361	-
Parking Fund	-	2
Total enterprise	22,315,164	92,032,815
Internal service funds		
Governmental equipment replacement fund	-	29,010,143
Public utilities equipment replacement fund	-	3,399,457
Total internal service fund	-	32,409,600
Total	$ 23,494,036	$ 259,922,145

Note 4. Other information

A. Risk management and employees' health benefits

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical and dental claims for employees, retirees, and dependents.

The City protects itself from potential loss through a combination of self-insurance programs and the purchase through the private sector of commercial insurance for various primary and excess coverages. There were no significant changes in insurance coverage from the prior year.

City insurance coverage includes workers' compensation, general liability, automobile liability, police liability, automobile comprehensive, real and personal property. For workers' compensation, the City self-insures the first $1,000,000 per occurrence with excess coverage of $10,000,000 per occurrence and employers' liability coverage of $1,000,000 per occurrence and in the aggregate. For liability, the City self-insures the first $1,000,000 per occurrence, with excess coverage of $10,000,000 in the aggregate. For property, the City self-insures the first $100,000 per occurrence, with excess coverage up to the replacement value of $300,000,000 in the aggregate. The excess coverage includes $100,000,000 in the aggregate for loss due to flood and $10,000,000 annual aggregate for flood plain location losses.

The City of Raleigh, in accordance with NC General Statute §159-29, maintains a Public Official Bond on The Chief Financial Officer in the amount of $500,000. In addition, the City purchases a Crime and Fidelity insurance policy for all other employees in the amount of $1,000,000. City taxes are collected by the Wake and Durham County tax collectors. Wake and Durham County tax collectors are endorsed onto the City of Raleigh's Crime and Fidelity insurance policy for their collection of taxes on behalf of the City of Raleigh up to the $1,000,000 coverage limit.

The City provides medical and dental coverage for employees and retirees. Employees can provide dependent coverage, if desired.

The City, as allowed by GASB Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, uses internal service funds, the risk management fund and the employees' health benefits fund, to account for its risk financing activities. The claims liability total of $25,646,536 reported for these two internal service funds at June 30, 2013, is based upon the requirements of Statement 10, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates 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. Claims liabilities reported include an estimate for claims incurred but not reported. The changes in reported claims liabilities in fiscal years 2012-13 and 2011-12 are as follows:

	2013	2012
Insurance claims payable, beginning of year	$ 27,660,006	$ 27,812,204
Current year claims and changes in estimates	29,466,002	31,533,282
Claim payments	(31,479,472)	(31,685,480)
Insurance claims payable, end of year	$ 25,646,536	$ 27,660,006

Employees' health benefits and risk management current portion of pending claims is $9,367,352.

B. Commitments and contingent liabilities

Commitment - loan guarantees

The City has provided a loan guaranty to Bank of America, in the original amount of $275,000. The loan balance as of June 30, 2013 was $17,564. The guaranty provides the borrower, CMA Associates Limited Partnership, financial assistance in connection with the construction and operation of an apartment project at City Market, in accordance with the City's downtown housing redevelopment program.

Commitment - enterprise funds

The City has entered into a raw water storage contract with the U. S. Corps of Engineers for raw water usage of up to 100 million gallons per day from Falls Lake. The contract requires that the City pay certain capital and operating costs of the lake which are dependent upon future costs of operation. The City's fiscal year 2012-13 obligation was $714,977. It is estimated, at this time, that the future annual cost to the City will not exceed $800,000.

Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally by the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Contingent liabilities – facility fees

The City enters into Thoroughfare Facility Fee Reimbursement contracts that provide developers with contract awards based on the calculated value of the capital contributions to the City. Each contract states minimum amounts that must be paid and recorded as long-term liabilities in the City's entity-wide financial statements. The remaining liability amounts for each contract are paid based on a formula and are contingent on available funds in the facility fee reimbursement account. The total value of the contracts at June 30, 2013 was $14,177,851. Of this amount, $5,095,915 was recorded as a liability, and the remaining $9,081,936 represents a contingent liability.

Contingent liabilities – Charter Square, LLC

On November 20, 2008, the City entered into a tri-party agreement between the City of Raleigh, Charter Square, LLC and Bank of America concerning the development of Site One, a parcel of land in downtown Raleigh that was sold by the City to Charter Square on that same date. The tri-party agreement, as amended, was subsequently assigned and amended on December 22, 2010 with Bank of America assigning its rights and obligations under the tri-party agreement to Americo Financial Life and Annuity Insurance Company.

In its agreements with the City, Charter Square, LLC agreed to construct an office building, pedestrian plaza, and public connector ("the project") on the Site One property by November 19, 2013. If Charter Square, LLC failed to complete the Project by November 19, 2013, it would be contractually obligated to reconvey Site One to the City, and the City would be contractually obligated to reacquire Site One from Charter Square, LLC. Additionally, should Charter Square, LLC fail to meet the milestone of starting construction on the project by September 20, 2012, then it was acknowledged by the parties to the tri-party agreement that Charter Square, LLC would be unable to meet the Project completion milestone date of November 19, 2013. In that case, the City would be obligated on or before November 19, 2013 to repurchase the Site One property for $5,275,000 and to reimburse Charter Square, LLC's Project construction costs incurred to date, not to exceed $5,500,000, and other third party Project costs, not to exceed $9,500,000, for a potential maximum obligation to the City of $20,275,000. On September 19, 2012, all parties agreed to extend the start of the construction milestone by one year to September 20, 2013. Construction had yet to begin on the Project by September 20, 2013 and, consequently, the Raleigh City Council authorized the City to reacquire the Site One Property by November 19, 2013 and to reimburse Charter Square, LLC its construction costs and third party out of pocket Project Costs, such maximum obligation not to exceed $20,275,000. The City is currently auditing the reimbursement amount provided by Charter Square, LLC and expects the total amount due to Charter Square, LLC to be less than the maximum amount of $20,275,000.

C. Jointly governed organizations

Raleigh-Durham Airport Authority. The Raleigh-Durham Airport Authority plans and conducts operations of the Raleigh-Durham International Airport. This eight-member governing body is jointly appointed by the City of Durham, City of Raleigh, County of Durham and County of Wake, with each member government appointing two members. The authority selects the management and sets the budget and financing requirements of the airport. Each member government contributes $12,500 annually for administration of the authority. Neither the City nor the other member governments exercise management control or are responsible for budget and financing requirements for the authority. A special airport tax district of Durham and Wake Counties was created to aid in the financing of major airport facilities and is governed by two members each from the respective county boards of commissioners. Because of its limited role in the Raleigh-Durham Airport Authority and the related special tax district, the City does not consider its participation to be a joint venture and, accordingly, further disclosure of the airport entity is not included. The authority does not meet the criteria to be included in the City's financial reporting entity.

Triangle J Council of Governments. The City, in conjunction with three counties and 22 other municipalities are members of the Triangle J Council of Governments. The participating governments established the council to coordinate various regional interests and intergovernmental funding. Each participating government appoints one delegate to the council's governing board. The City paid dues of $100,338 to the council during the fiscal year ended June 30, 2013. The council does not meet the criteria to be included in the City's financial reporting entity.

Related organizations

The Raleigh Housing Authority. The Raleigh Housing Authority assists in providing housing for low income, elderly and disabled residents of the City. The mayor appoints all members of the authority's governing body, but the authority is not otherwise financially accountable to the City. The City has no responsibility in selecting the management of the authority. The primary revenue sources for the authority are federal grants and program revenues. Financial transactions between the City and the authority reflect contractual agreements between the parties for the provision of specific services by the authority for the City.

The City is not responsible for financing any deficits of the authority nor is it entitled to any surplus. In addition, the City does not guarantee any debt of the authority and such debt is not included in determining the City's statutory debt limit.

The Raleigh Historic Districts Commission, Inc. The Raleigh Historic Districts Commission, Inc. was formed in 1993 to exercise jurisdiction for all historic properties and historic overlay districts within Raleigh's city limits and extraterritorial jurisdiction. The commission consists of 12 members appointed by the city council. The City's accountability for the commission does not extend beyond making appointments to the commission. Revenues to support the commission come from private contributions and grants from local and state governments. In the fiscal year ended June 30, 2013 the City appropriated $46,350 to the commission. The not-for-profit organization does not meet the criteria to be included in the City's financial reporting entity.

The Raleigh Parking Deck Associates, Inc. A for-profit corporation established to finance and construct a parking deck is reflected in substance through a capital lease with the City. The corporation does not meet the criteria to be included in the City's financial reporting entity.

Interlocal agreement with Wake County

Pursuant to enabling legislation in 1991, the City of Raleigh and Wake County entered into an interlocal agreement to provide for the funding of various projects and facilities from the proceeds to be realized from the levy of a county-wide room occupancy tax and a prepared food and beverage tax. The proceeds and distributions of the taxes are accounted for in a special revenue fund maintained by the County. The City, by terms of the enabling legislation, is granted specific allocations of the taxes, but has entered into the interlocal agreement requiring joint action of the City and County governing bodies to expend both the City and County allocations.

At June 30, 2013 the balance of the trust maintained by the County was $1,318,111, which is not available to the City except for current and future projects jointly determined by the City and the County. During fiscal year 2012-13, the City received funding as follows: an annual $1,000,000 that the City Council previously dedicated for continuing support of the performing arts and convention center complex; an annual $680,000 to fund visitor-related programs and activities and $17,494,977 to support the financing of the convention center facility. The City will continue to receive $1,000,000 allocations that the City Council may use for any eligible purpose in the original state legislation. In addition, the City will annually receive 85% of all uncommitted interlocal tax funds for debt service and other costs related to the convention center facility.

A tri-party agreement exists between the City of Raleigh, Wake County and the Centennial Authority, a public body created by the State of North Carolina to construct and govern operations of a multi-purpose regional sports and entertainment complex, which opened in October, 1999. Through the interlocal and tri-party agreements, part of the funding for this construction has been provided by the trust. Future receipts from the taxes are committed by the authority for operating support and repayment of the authority's debt.

Joint venture

The Greater Raleigh Convention and Visitors Bureau. The Greater Raleigh Convention and Visitors Bureau promotes and solicits business, conventions, meeting and tourism in Wake County. The bureau receives its primary revenue from a county-wide 6% occupancy tax and is a joint venture of the City of Raleigh and Wake County. The governing body of the bureau is a board of directors appointed by the Raleigh City Council and the Wake County Commissioners. The County is required to distribute monthly a percentage of the tax collected with a minimum aggregate annual distribution of $1,000,000. If tax revenues are not sufficient to fully fund the bureau's minimum annual distributions, the City and County must fund the deficiency equally to ensure that the bureau receives its minimum distribution of $1,000,000 in any fiscal year. There was no additional funding required of the City or County in the year ended June 30, 2013. All unexpended funds of the bureau revert to the County and City at the end of the fiscal year. Except for an investment in capital assets previously recorded by the City, the only equity in the fund at year-end is for encumbrances which will be expensed in the subsequent year. Based on this, no additional equity interest in the bureau is recorded at June 30, 2013. Full financial statements for the bureau can be obtained at the Greater Raleigh Convention and Visitors Bureau, Post Office Box 1879, Raleigh, North Carolina 27602. The bureau does not meet the criteria to be included in the City's financial reporting entity.

D. Prior Period Adjustment

It was necessary to restate the financial results for the fiscal year ended June 30, 2012. The City's early implementation of GASB Statement 65 requires that bond issuance costs, previously deferred and amortized, be accounted for as current expenditures retroactively. Accordingly, beginning net position was reduced by $3,323,378 reflecting the write-off of unamortized bond issuance costs. The effects to beginning net position were reflected in governmental activities in the amounts of $401,417 and in enterprise funds; water and sewer fund $1,239,578, convention center fund $1,409,194 and the parking fund $273,189.

E. Employee retirement systems and pension plans

North Carolina Local Government Employees' Retirement System

Plan description. The City contributes to the statewide Local Government Employees' Retirement System (LGERS); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The 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 Services 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. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annually covered payroll. The contribution requirements of members and of the City are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were $12,793,475, $13,036,530, and $12,137,748, respectively. The contributions made by the City equaled the required contributions for each year.

Law Enforcement Supplemental Plans

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan description. The City contributes to the Supplemental Retirement Income Plan (Plan), a section 401(k) defined contribution pension plan administered by the Department of State Treasurer and a board of trustees. The plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officers' salary, and all amounts collected are vested immediately. Also, law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were $3,492,365 which consisted of $2,217,994 from the City and $1,274,371 from the law enforcement officers.

Law Enforcement Officers' Special Separation Allowance

Plan description. The City administers a public employee retirement system (the "separation allowance"); a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The separation allowance is equal to .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 separation allowance is reported in the City's report as a pension trust fund. A separate stand-alone report is not issued.

All full-time City law enforcement officers are covered by the separation allowance. At December 31, 2012, the separation allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	126
Current active employees	764
Total	890

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. The City pools money from several funds, including the law enforcement officers' separation allowance fund. All such pooled cash and investments are considered cash and cash equivalents, which approximates 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 $2,712,850 or 6.2% of 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. Administrative costs of the Separation Allowance plan are financed through investment earnings.

The City's annual pension cost and net pension obligation to the separation allowance for the current year were as follows:

Employer annual required contribution	$ 2,411,473
Interest paid on pension obligation	(91,616)
Adjustment to annual required contribution	114,027
Annual pension cost	2,433,884
Employer contributions made for current fiscal year	(2,712,850)
Increase in net pension asset	(278,966)
Net pension (asset) obligation beginning of fiscal year	(1,832,312)
Net pension (asset) obligation end of fiscal year	$ (2,111,278)

Annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return and (b) projected salary increases ranging from 4.25% to 7.85% per year. Item (b) included an inflation component of 3.00%. The assumptions did not include post-retirement 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, 2011 was 19 years.

The trend information is as follows:

Funding Status:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset End of Year
June 30, 2011	$ 2,358,084	78.4%	$ (1,762,120)
June 30, 2012	2,279,862	103.1%	(1,832,312)
June 30, 2013	2,433,884	111.5%	(2,111,278)

The negative amounts shown above as the net pension obligations represent asset amounts or prepaid expenses. At these year-ends, there was no net pension obligation. Other required supplementary information is included in the required supplemental financial data.

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was 11.3% funded. The actuarial accrued liability for benefits was $27,480,439, and the actuarial value of assets was $3,103,169, resulting in an unfunded actuarial accrued liability (UAAL) of $24,377,270. The covered payroll (annual payroll of active employees coved by the plan) was $43,960,650, and the ratio of UAAL to the covered payroll was 55.5%.

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.

Other Post Employment Benefits (OPEB) Plan

Plan description. The City administers a public employee retirement system, single employer defined benefit pension plan that provides health insurance, life insurance, and Medicare supplement benefits to eligible retirees. Employees who meet any of the retirement options available through NCLGERS and retire with 15 or more years of service may continue in the City's group health plan until age 65. Medicare eligible retirees receive a Medicare supplement of $100 per month. Dependent health coverage is available until the spouse turns 65. The City's group medical coverage continues with the option of limited or zero cost to the retiree, depending on coverage plan selected, until age 65 for retirees that were hired prior to June 30, 2008.

Retirees that were hired on or after June 30, 2008 will pay a maximum of 50% of the premium cost if they retired with 15 years of service until age 65. The percentage of premium contribution decreases by 5% for each additional year of service at retirement, with retirees that have 25 years of service at retirement able to continue coverage at limited or no cost.

For employees hired before July 1, 2007, spouse / dependent coverage for retirees is provided at the same cost as active members. Employees hired on or after July 1, 2007 will have to pay the entire cost for spouse / dependent coverage as a retiree.

Eligible retirees with a minimum of ten years service are provided life insurance coverage as follows: for the first five years after retirement coverage is $1,750; after five years of retirement coverage reduces to $1,000. Disabled retirees receive life insurance equal to their salary at the time of disability until age 65. The City Council may amend the benefit provisions at any time. A separate stand-alone report is not issued.

All active full-time employees are eligible for membership. At December 31, 2012, the plan membership consisted of:

Law enforcement officers	743
Firefighters	528
General employees	2,288
Retirees	1,469
Total	5,028

Summary of significant accounting policies:

Funding policy. The City pays the full cost or almost full cost of coverage, depending on coverage plan selected, for health care and life insurance benefits, and a $100 monthly Medicare supplement for eligible retirees. The City has chosen to fund the plan benefits based on an actuarially determined annual required contribution. For the current year the City contributed $15,213,810 or 8.2% of the annual covered payroll. Contributions made by retirees for dependent coverage and Medicare supplement premiums were $1,954,778.

Basis of accounting. Financial statements for the plan are prepared using the accrual basis of accounting. Employer contributions are recognized when due and when the City has made a formal commitment to provide contributions. Benefits are recognized when due and payable in accordance with the plan terms.

Method used to value investments. The City pools money from several funds, including the OPEB trust fund. All such pooled cash and investments are considered cash and cash equivalents, which approximates fair value.

The City's annual pension cost and net OPEB obligation for the current year were as follows:

Employer annual required contribution	$	13,242,037
Interest paid on OPEB obligation		201,229
Adjustment to annual required contribution		(167,254)
Annual OPEB cost		13,276,012
Employer contributions made for current fiscal year		(15,213,810)
Increase in net OPEB obligation		(1,937,798)
Net OPEB (asset) obligation beginning of fiscal year		2,874,694
Net OPEB (asset) obligation end of fiscal year	$	936,896

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return and (b) projected medical cost trend rates of 9.5% to 5.0%, including an inflation component of 3.0%. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as level percentage of pay on a closed basis. The remaining amortization period was 27 years.

The trend information is as follows:

Fiscal Year Ending	Annual Plan Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation End of Year
June 30, 2011	$ 11,594,778	97.0%	$ 1,119,652
June 30, 2012	13,419,845	86.9%	2,874,694
June 30, 2013	13,276,012	114.6%	936,896

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was 11.7% funded. The actuarial accrued liability for benefits was $159,349,708, and the actuarial value of assets was $18,679,039, resulting in an unfunded actuarial accrued liability (UAAL) of $140,670,669. The covered payroll (annual payroll of active employees covered by the plan) was $184,795,621, and the ratio of UAAL to the covered payroll was 76.1%.

The schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. Other required supplementary information is included in the required supplementary financial data.

Supplemental Retirement Plan – Section 401a

Plan description. The City contributes to a Section 401a Money Purchase Pension Plan for the purpose of providing supplemental retirement benefits to general employees. This plan is a defined contribution plan and is reported as a pension trust fund. The City is a trustee of all plan resources. The plan is managed by the City and administered by Branch Banking and Trust Company with investment options being exercised by employees.

Funding policy. For each eligible employee who contributes a minimum of 1.0% of salary to a Section 457 Supplemental Retirement Plan, the City contributes double this percentage (to a maximum of 2.0%) into the 401a plan. During fiscal year 2012-13, the City contributed $2,211,130 to the plan.

The FY 2012-13 combining financial statements for the City's pension trust funds are as follows:

	Supplemental Money Purchase Pension Plan	Law Enforcement Officers' Special Separation Allowance	Other Post Employment Benefits Trust	Total
ASSETS				
Cash and cash equivalents	$ 41,263,030	$ 2,079,131	$ 21,474,094	$ 64,816,255
Accrued interest receivable	-	16,754	42,820	59,574
Total assets	41,263,030	2,095,885	21,516,914	64,875,829
LIABILITIES				
Claims payable	-	-	660,000	660,000
Due to other funds	-	-	99	99
Accounts payable	-	-	2,616	2,616
Total liabilities	-	-	662,715	662,715
NET POSITION				
Held in trust for employees' retirement and other post-employment benefits	$ 41,263,030	$ 2,095,885	$ 20,854,199	$ 64,213,114

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION

	Supplemental Money Purchase Pension Plan	Law Enforcement Officers' Special Separation Allowance	Other Post Employment Benefits Trust	Total
ADDITIONS				
Employer contributions	$ 2,211,130	$ 2,712,850	$ 13,408,076	$ 18,332,056
Retiree contributions	-	-	1,954,778	1,954,778
Interest	948,973	83,725	353,139	1,385,837
Net increase (decrease) in the fair value of investments	3,987,637	(7,224)	223,487	4,203,900
Less investment expense	(68,855)	-	-	(68,855)
Total additions	7,078,885	2,789,351	15,939,480	25,807,716
DEDUCTIONS				
Benefits	1,647,747	2,635,758	10,906,378	15,189,883
Withdrawals and forfeitures	202,934	-	-	202,934
Professional services	-	-	8,853	8,853
Total deductions	1,850,681	2,635,758	10,915,231	15,401,670
Change in net position restricted for: Employees' retirement and other post-employment benefits	5,228,204	153,593	5,024,249	10,406,046
Net position, beginning of year	36,034,826	1,942,292	15,829,950	53,807,068
Net position, end of year	$ 41,263,030	$ 2,095,885	$ 20,854,199	$ 64,213,114

F. New Pronouncements

The GASB has issued pronouncements which are effective for the fiscal year ended June 30, 2013.

GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements. The statement addresses how to account for and report service concession arrangements (SCA's), a type of public-private partnership between state and local governments. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management has determined that the impacts of this Statement are not applicable to the City.

GASB Statement No. 61 – The Financial Reporting Entity: Omnibus-an amendment of GASB Statements 14 and 34. This is a result of a reexamination of the previous reporting entity guidance contained in Statement No. 14. The most significant effect is the increased emphasis on a financial benefit or burden between the primary government and component units. The provisions of this Statement are effective for financial statements for period beginning after June 15, 2012. Management has determined that the impacts of this Statement are not applicable to the City.

GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. With this Statement, government entities that are required to follow GASB standards can choose to follow accounting and financial guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. Management has determined that the impacts of this Statement did not have a material effect on the City.

GASB Statement No. 63 – Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides guidance for reporting deferred outflows of resources and deferred inflows of resources within the financial statements of governmental entities. Additionally, it renames the statement of net assets, deferred outflows of resources, liabilities, deferred inflows of recourses and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The City implemented this Statement effective for fiscal year ending June 30, 2013.

GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. This Statement provides guidance and establishes the accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of recourses, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The City early implemented this Statement effective for fiscal year ending June 30, 2013.

The GASB has issued pronouncements prior to June 30, 2013 which have an effective date that may impact future presentations.

GASB Statement No. 66 Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No 62. This Statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67 Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. This Statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 68 Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This Statement is effective for periods beginning after June 15, 2014.

Management has not currently determined what impact the implementation of the above statements may have on the financial statements of the City.

G. Subsequent Events

The City has evaluated events through October 22, 2013 in connection with the preparation of these financial statements which is the date the financials were available to be issued.

H. Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.