

October 22, 2013



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

It is our pleasure to submit the Comprehensive Annual Financial Report of the City of Raleigh, North Carolina for the fiscal year ended June 30, 2013. State law requires that all general-purpose local governments annually publish a complete set of financial statements. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report complies with these requirements.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect City assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. The City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

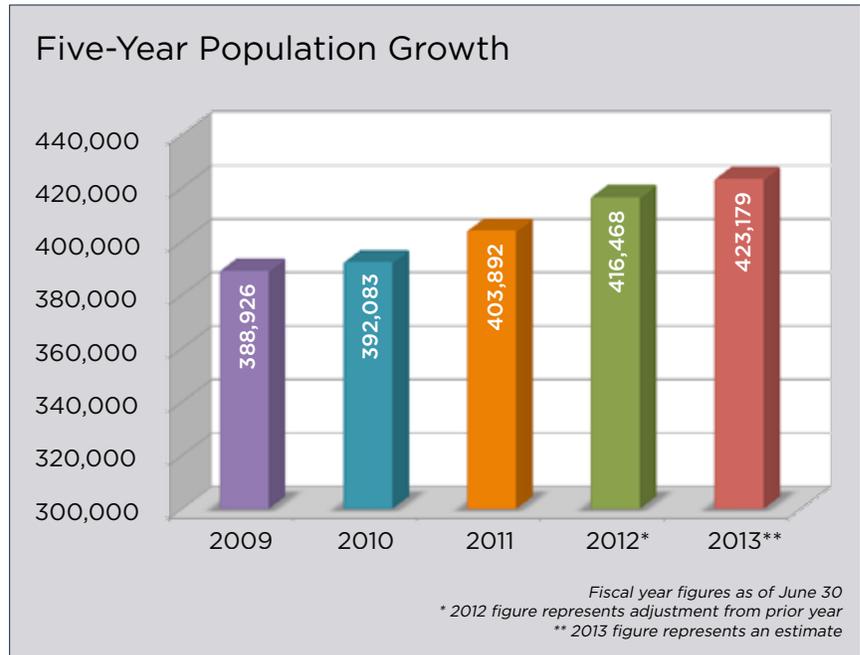
The City's financial statements have been audited by Cherry Bekaert LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2013, are free of material misstatement. The independent auditor concluded, based upon their audit, that the City's financial statements for the fiscal year ended June 30, 2013 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federal and state mandated "Single Audit" designed to meet the special needs of grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These auditor reports are available in the Single Audit section of this report.

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

Profile of City of Raleigh

Raleigh is situated in the heart of the State of North Carolina, in a section called the Piedmont region, 150 miles from the Atlantic Ocean and 190 miles from the Great Smoky Mountains. The City, the county seat of Wake County and the capital of North Carolina, covers an area of more than 180 square miles and has an estimated population of 423,179. The City forms one point of the Research Triangle Park developed in 1959 for industrial, governmental and scientific research, with Chapel Hill and Durham at the other two points. The City is located in a metropolitan area consisting of Wake, Durham, Orange, Franklin, Chatham and Johnston counties. The population for this area is estimated to be 1,670,000, which reflects a 31.8% increase over the past decade.



The North Carolina General Assembly purchased land for the original site of the City for the specific purpose of being the Capital of North Carolina. The City was established in 1792 by an act of the General Assembly and has utilized a council-manager form of government since 1947. The Mayor and two Council members are elected at-large, and the remaining five Council members are elected from five districts within the City. The Mayor and Council members serve two-year terms and all have an equal vote. The City Council sets policies, enacts ordinances and appoints the City Manager. The City Manager administers the daily operations and programs of the City through the department heads, other staff members and employees.

The City provides the full range of governmental services, including police and fire protection, street construction and maintenance, a comprehensive solid waste program, water and sanitary sewer services, parks, recreation and cultural services, a variety of transportation and public works programs, and other traditional support activities.

The City is empowered to levy a property tax on real and certain personal properties located within its boundaries. Subject to various stipulations set by the North Carolina General Assembly, it is also empowered to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The Annual Budget serves as the foundation of the City's financial planning and control. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than each June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may approve transfers of appropriations within a fund up to \$10,000, while transfers between \$10,000 and \$50,000 require approval from the City Manager. Transfers greater than \$50,000 and transfers of appropriations between funds require approval of the City Council.

Economic Conditions and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Raleigh continues to be widely recognized by independent sources as one of the nation's most attractive metropolitan areas. Recent accolades include:

- 1st on list of “Fastest-Growing Cities in the U.S.” (March, 2013 – Forbes)
- 2nd on list of “Next Biggest Boom Towns in the U.S.” (February, 2013 – Forbes)
- 2nd on list of “Best Cities to Start a Business” (February, 2013 – National Federation of Independent Businesses)
- “Most Family Friendly City” (January, 2013 – Human Life Project)

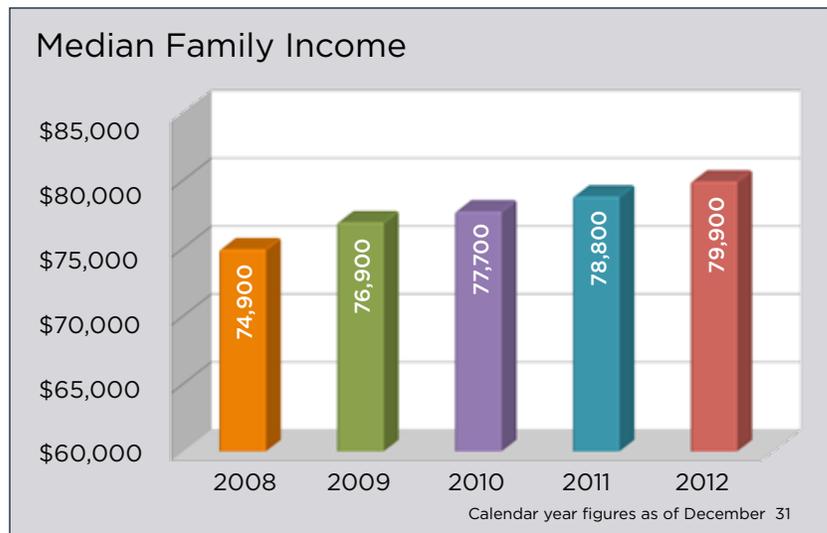
The Raleigh area's excellent business environment, its nationally ranked universities, and the outstanding health care facilities are some of the many attributes that attract people to the area. The mild climate, diverse work force and proximity to Research Triangle Park, a nationally recognized epicenter of innovation in more than a dozen industries, combine to make the City a great place to live. The City has experienced moderate growth in population, land area and commercial activity over the past several years, becoming the 42nd largest city in the United States. As the Capital of the State, the City derives its economic profile from a diverse combination of business and employment centers, including Federal and State government, higher education, information technology and retail trade. The City is the home of the principal executive, judicial and regulatory offices of State government, as well as six public and private institutions of higher education, including North Carolina State University, the largest university in North Carolina.

As reported to Council during the fiscal year 2014 budget process, financial projections for fiscal year 2014 show continued signs of positive revenue growth, specifically in sales tax and development-related revenues. Locally, the unemployment rate at June 30, 2013 was 6.9%, which represents a decrease from the June 2012 rate of 7.5%. Median family incomes have stayed relatively flat, increasing in 2012 to \$79,900 from \$78,800 in 2011.

County-wide retail sales have increased approximately 5.2% from 2012 to 2013, increasing sales tax receipts of the City by 4.8% over that period. Construction activity from 2012 to 2013 has increased,

while the value of construction permits decreased 18.3% from \$1.3 billion in 2012 to \$1.1 billion in 2013. During this period, the City's taxable property base has remained stable and represents a balanced tax base of commercial and industrial property complementing our residential base. Going forward, property tax revenues are projected to increase 1.8% over fiscal year 2013 projections. Sales tax revenues are projected to increase 4% over fiscal year 2013 projections, and development revenues are projected to increase 8% based on increasing permits and economic development activities. These improving economic conditions, combined with diligent management of both revenues and expenses have allowed Raleigh to maintain an excellent financial position and exceed fund balance objectives for 2013.

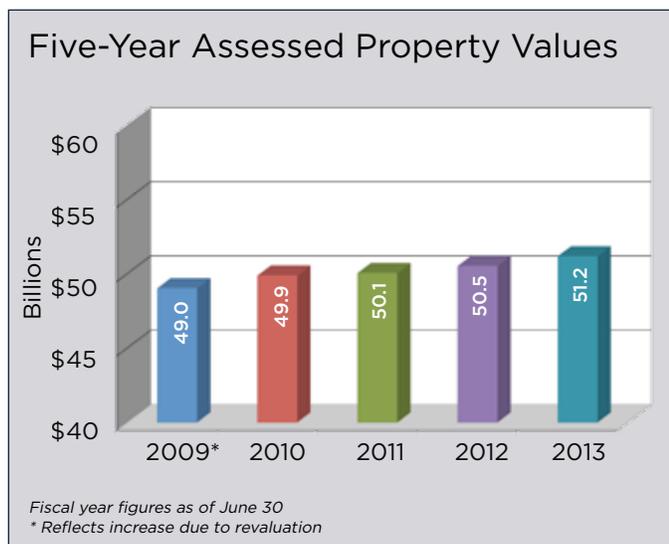
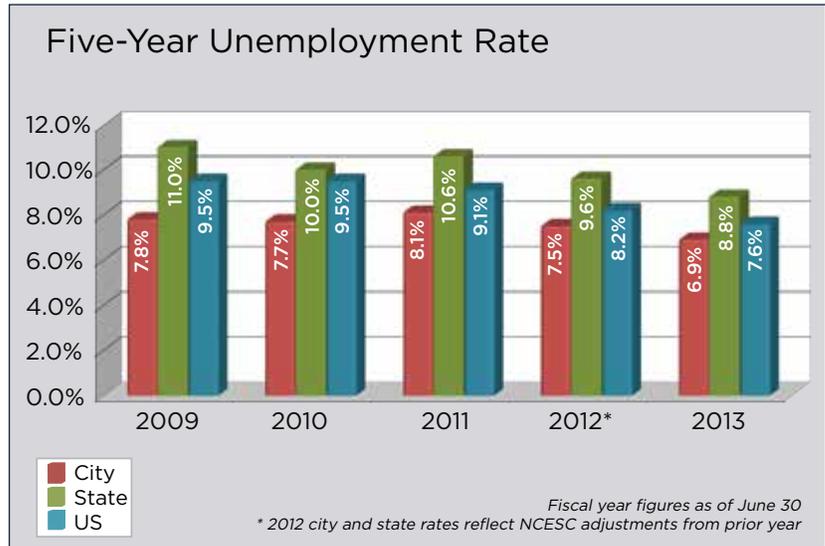
The nearby Research Triangle Park (RTP) was developed in 1959 for industrial, governmental and scientific research. Its primary objective is to attract research related institutions to the area, and currently consists of



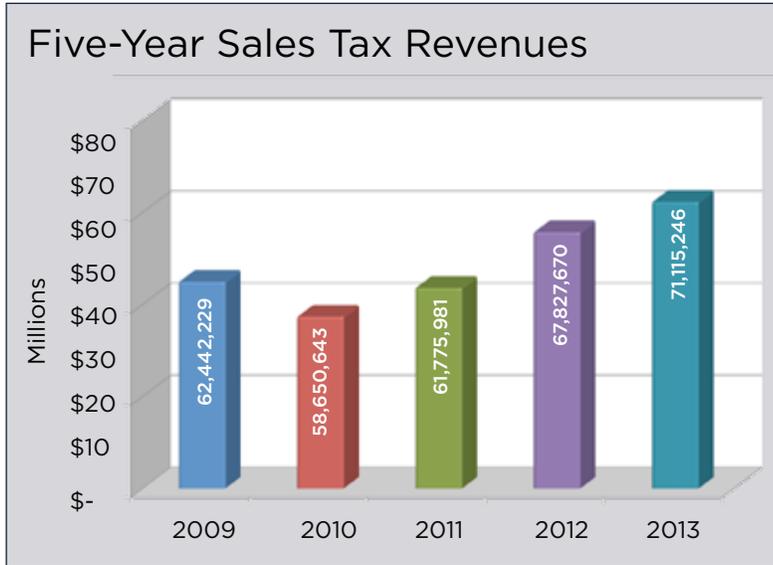
more than 180 organizations including those of International Business Machines, Cisco Systems, GlaxoSmithKline, Fidelity Investments and RTI International. Industry clusters such as biotechnology, information technology and emerging industries such as advanced gaming, green and nanotechnology located in RTP reflect the research strengths of the region's renowned universities. The research institutions in RTP employ more than 39,000 full-time equivalent employees, and an estimated 10,000 contract workers.

Raleigh annually attracts over 10 million visitors for conferences, special events, shopping and other attractions. This experience is enhanced by facilities such as the Raleigh Convention Center, Red Hat Amphitheater and Festival Site, PNC Arena, Walnut Creek Amphitheater, the Duke Energy Center for the Performing Arts, Marbles Museum and IMAX Theater, numerous state museums, and several major retail shopping malls. The PNC Arena is the home of the National Hockey League 2006 Stanley Cup champion Carolina Hurricanes, and North Carolina State University's Wolfpack basketball team. Memorial Auditorium, at the Progress Energy Center for the Performing Arts, hosts a diversified slate of plays and performances including productions of the NC Theatre and the Broadway Series South. The Progress Energy Center for the Performing Arts is the home of the North Carolina Symphony and the Carolina Ballet, and provides four performing arts theaters.

The City continues to recognize the economic benefits from its investment in downtown and other areas of the City. The Raleigh Convention Center has been met with outstanding bookings by regional, national and international conference groups, and continues to experience positive momentum. The Center held 265 events with approximately 350,000 attendees during the twelve month period ending June 30, 2013. The events during fiscal year 2013 included 50 conventions and tradeshow which had an estimated \$38.4 million economic impact on Wake County. The City's focus on transparency and innovation was apparent with the launch of Open Raleigh in March 2013. Through the Open Raleigh initiative, the City seeks to develop opportunities for economic development, commerce, increased investment and civic engagement. The City of Raleigh's Open Data portal was recently recognized by the Public Technology Institute (PTI) with the 2013 Web 2.0 award. This award recognizes local governments which use Web 2.0 technologies civic and social media to further citizen engagement and increase government accountability. The City opened the Buffalo Road Aquatic Center in September 2012 and the Chavis Park carousel was reopened in April 2013 as examples of the City's continued investment in park and recreational activities. The Capital Area Greenway was expanded in April when twenty additional miles opened along the Neuse River Trail.



Long-term Financial Planning



The City seeks to consistently maintain a strong financial position as evidenced by its AAA/Aaa ratings from the three major credit rating agencies. This objective requires regular long-term planning of operating and capital requirements for its major general government and enterprise programs. In doing so, the City relies on key financial policies and procedures for dealing with future events in financially responsible ways.

Annually the City adopts a 10-year Capital Improvement Program (CIP) that looks ahead to project and plan for capital needs. Phase I encompasses the first 5 years of the CIP and addresses both project needs and financial strategy for this period. Phase II of the program, spanning the second 5-year period, includes longer range projects identified as

necessary for the continuation of existing service levels to the citizens of the City.

Phase I of the CIP spans fiscal years 2012-13 through 2016-17. The major areas included in Phase I are transportation, public utilities, parks, housing, stormwater utility, technology and general public improvements. The public utilities and transportation programs represent the largest portions of the CIP due to the strong growth of our area and the large amount of utility and transportation needs.

A key financial goal of the City for many years has been the maintenance of a 14.0% unassigned fund balance level in the general fund. In addition, the City has desired to appropriate a consistent level of fund balance each year resulting from positive budget variances. These goals are met in the fiscal year 2013 results that are built into the 2013-14 operating budgets. A number of financial models are also used in the budget process and provide a means of projecting long-term resource requirements. These include general and enterprise debt models, rate sensitivity analyses and financing proformas. Other financial practices followed are designed to avoid the meeting of recurring expense needs with one-time revenue resources and to ensure an ongoing mix of pay-as-you-go funding of capital needs with long-term debt.

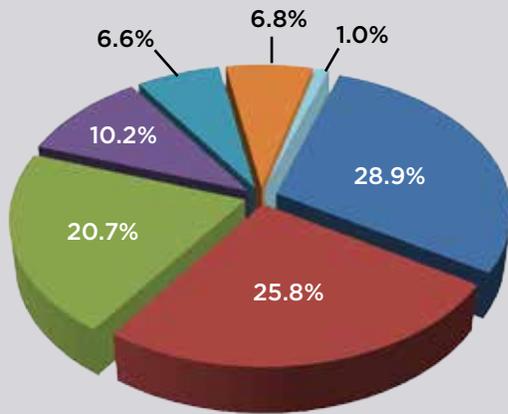
Major Initiatives

For the Year 2012-13

The City's Annual Budget for 2012-13, inclusive of operating and capital programs, increased by 1.3% from the prior year. The budget reflects signs of positive growth in property and sales tax revenues, as well as increasing service demands as the Raleigh community grows. The fiscal year 2012-13 budget reflected a 3.5% increase in property tax revenues from the prior year and a 6.7% increase in sales tax over fiscal year 2011-12 revenues. The budget also reflected a 27% increase in capital funding for facility maintenance and technology projects, as well as a \$1 increase in the residential waste collection fee. Cost reductions to existing operations were due to the cyclical election cycle, as well as savings due to contract renegotiations and cost reductions in workers' compensation claims through improvements in worker safety training.

Capital improvement budgets in fiscal year 2012-13 included new and/or continuing projects totaling \$170.8 million, including traditional project funding for transportation, utilities, parks, stormwater, housing and general public improvements. The budget increases represented an increase of \$4.1 million over fiscal year 2011-12.

Adopted Budget 2013

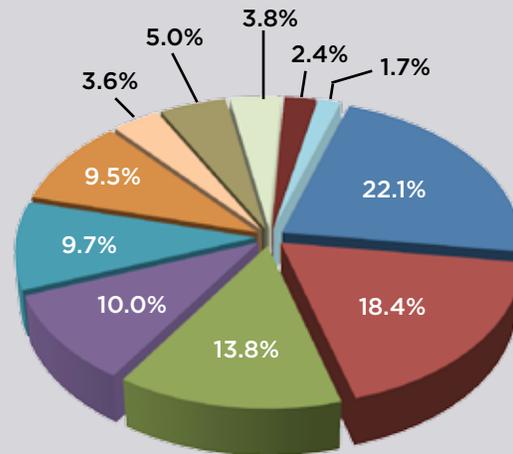


Revenues \$672,053,702

- Property tax - \$194.2 m
- Water/sewer charges - \$173.1 m
- Interest, fees, miscellaneous - \$139.4 m
- Sales tax - \$68.7 m
- Intergovernmental - \$44.4 m
- Debt and program reserves - \$45.3 m
- Federal and state grants - \$7.0 m

Expenditures \$672,053,702

- Public safety - \$148.6 m
- Capital debt service - \$123.4 m
- Public utilities - \$93.1 m
- Leisure services - \$67.1 m
- Capital improvements - \$65.2 m
- Public Works & Public Transit - \$64.1 m
- Community development services - \$23.9 m
- General government and external agencies - \$33.9 m
- Solid waste services - \$25.3 m
- Information technology - \$16.3 m
- Financial management - \$11.2 m



Amount in millions

For the Future

The fiscal year 2013-14 Annual Budget was adopted by the City Council on June 18, 2013. The combined capital and operating budget for the fiscal year beginning July 1, 2013 totals \$707.8 million, representing a 5.3% increase from the fiscal year 2012-13 Annual Budget. The fiscal year 2013-14 budget reflects a projected 1.8% increase in property tax revenues over projected fiscal year 2013 results, an increase in development revenues of 8% due to increasing permits and economic development activities, as well as a 4% increase in sales tax over projected fiscal year 2013 results. Budgeted water and sewer revenues were increased to incorporate a 14% sewer rate increase and a redesign of the water and sewer administrative fee. The 2013-14 operating budget funds the continuation of current operations and provides additional funding for structural and service-demand driven operational costs and reinvestment in capital equipment and maintenance.

The 2013-14 capital budget includes new and/or continuing projects totaling \$149.1 million. This budget includes traditional project funding for transportation, utilities, parks, stormwater, housing and general public improvements. Fiscal year 2014 capital funding sources include traditional capital revenues such as Powell Bill funds, facility fees, capital reserves, parking operations, and other pay-as-you-go funds. The capital budget is also funded by the appropriation of previously issued bond proceeds as well as new planned long-term debt issues.

Awards and Acknowledgments

The City has participated in the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program since 1980. GFOA recognizes governmental units that issue their comprehensive annual financial report (CAFR) substantially in conformity with GAAP and all legal requirements. The City has received this award for its comprehensive annual financial report since 1980.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report has been accomplished by the City's Finance Department staff. The contributions of all are invaluable and clearly reflect the high standards we have set for ourselves.

It is also appropriate to thank the Mayor and members of the City Council for making possible the excellent financial position of the City through their interest and support in planning and conducting the financial affairs of the City.

Respectfully submitted,



Perry E. James III
Interim City Manager



Robin E. Rose
Acting Chief Financial Officer

