CITY OF RALEIGH, NORTH CAROLINA

CITIZENS' ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2014 CITIZENS' ANNUAL FINANCIAL REPORT

OVERVIEW OF THIS REPORT

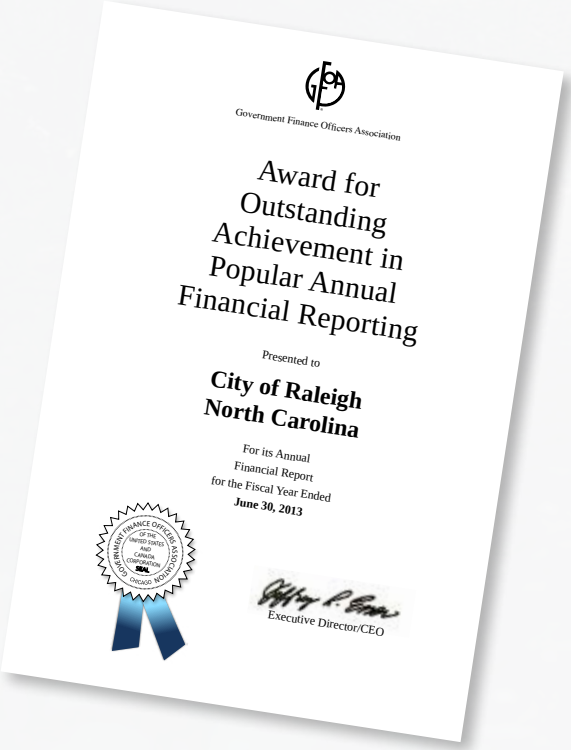
The 2014 **Citizens' Annual Financial Report** provides citizens and other interested parties with an overview of the City's financial results. This report is prepared to increase awareness throughout the community of the City's financial operations. Therefore, it is written in a user-friendly manner. The financial information is obtained from the audited financial statements in the City's 2014 Comprehensive Annual Financial Report (CAFR), or formal annual report. The Citizens' Annual Financial Report is not required to present the same level of detail as the CAFR and, therefore, may not fully conform to generally accepted accounting principles (GAAP). This report, in a summarized version, highlights the overall financial condition and trends of the City. The 2014 CAFR is audited by Cherry Bekaert LLP and has received an unmodified or "clean" audit opinion. This report may be viewed by searching 'Finance Reports' on the City's website, located at www.raleighnc.gov.

ABOUT THE THEME

This year, the Raleigh Police Department was chosen to be the featured department in this report. Pictured on the cover is the Fallen Officer Memorial which features 21 granite stone structures representing the community. Flowing out of the stone structures is a 60-foot water table reflecting the sky. The water table features eight holes, or voids, representing the eight officers who have died in the line of duty serving the citizens of Raleigh. For more information, please visit rpdmemorial.wordpress.com.

GFOA AWARD

The City of Raleigh participates in the Government Finance Officers Association (GFOA) Award Program for Outstanding Achievement in Popular Annual Financial Reporting. The award below is for last year's report.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

City of Raleigh North Carolina

For its Annual Financial Report for the Fiscal Year Ended **June 30, 2013**

Executive Director/CEO

CITY COUNCIL 2013-2014

First row:
Eugene Weeks - District C
Nancy McFarlane - Mayor
Wayne Maiorano - District A

Second row:
Mary-Ann Baldwin - At Large
Russ Stephenson - At Large

Third Row:
Bonner Gaylord - District E
Thomas Crowder - Mayor Pro Tem, District D
John Odom - District B

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The City of Raleigh

Dear Readers:

Raleigh prides itself on its comprehensive and quality services, all provided while maintaining a sound financial position. The City's budget for fiscal year 2014 was developed to ensure the long-term financial sustainability at standards consistent with our AAA credit rating. We achieved this goal and are pleased to report to you that the City's fiscal health remains strong.

During 2014, our financial position was positively impacted by improving economic conditions. As a result, the City was able to reinvest in its infrastructure as well as enhance business processes to improve service efficiencies and effectiveness. In this report, you will see that we remain a City that highly values the service quality that you receive while continuously maintaining overall City costs that are among the very lowest in North Carolina. We also strive to maintain the equity of cost for future generations, having moderate debt levels and by actuarially funding key future costs related to our pension and healthcare obligations.

On pages 13-14 of this year's Citizens' Annual Financial Report, we are highlighting the City of Raleigh Police Department and the work it does to protect the more than 431,000 people who live in the capital city, as well as the thousands who work in and visit our city. The Police Department's use of innovative and progressive policing techniques illustrates our City objective of being effective and efficient in keeping Raleigh a safe city. An example of these efforts is the detective division's intelligence center which routinely provides crime information and analysis to the patrol officers in the Police districts. The ability to have such information at the use of the officers has been credited with declines in reported violent and property crimes in Raleigh.

I certainly hope that you enjoy and find useful the 2014 Citizens' Annual Financial Report.

Sincerely,

Ruffin L. Hall
City Manager

LETTER FROM THE CHIEF FINANCIAL OFFICER

The City of Raleigh

To Our Citizens:

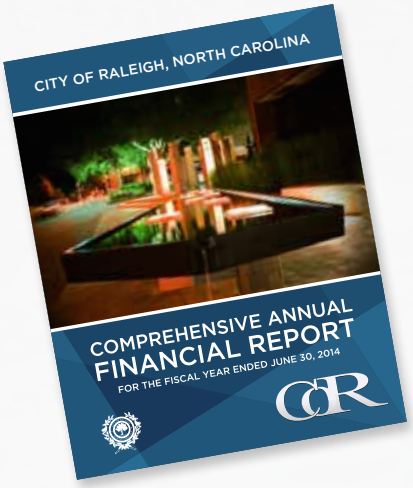
It is an important part of our financial mission at the City of Raleigh to be transparent in providing you with complete information on the finances of all our programs. The City's operations are audited each year and the resulting Comprehensive Annual Financial Report (CAFR) is available to you on the City's website, www.raleighnc.gov. Depicted below is a layout of the components of the CAFR. In addition to the CAFR, we want to provide you a summary overview of the results in this Citizens' Annual Financial Report.

Raleigh's City government includes over 3,900 employees operating in many diverse roles. Even as a large municipality, however, the City shares with every household the need to manage our resources with the same commitment to proper planning, balanced budgets and a sustainable financial position. This report is intended to provide our financial results so you can understand them in a similar context to your own finances.

Moody's Investors Service recently published a report, "The Anatomy of Successful U.S. Cities", with the City being named as one of 34 cities in the nation meeting this criteria. A strong financial management program was cited as one of the keys in this important distinction. Thank you for your support as we seek to maintain that standard.

Perry E. James, III
Chief Financial Officer

LAYOUT OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):



- The Introductory Section provides an Executive Summary of the City finances. City management provides discussion and analysis of the results.
- The Financial Statements can be viewed in a consolidated or individual format. All statements conform to generally accepted accounting principles. Government-wide statements provide a long-term and short-term perspective of financial position and results of operations.
- Unique Fund Statements focus on individual operations, such as Solid Waste Services or capital projects.
- The Single Audit Section provides a schedule of all of the City's grants.
- Statistical Schedules provide various trends and detailed demographic and financial information.

THE CITY OF RALEIGH: EVERYONE'S HOUSEHOLD

The City applies the same financial fundamentals that apply to individual households. In protecting citizens from crime and fire hazards, regulating quality of housing and other construction, providing parks and recreational facilities, picking up garbage, making water and sewer available, paving roads, managing the transit system, and providing convention and performing arts events, the City of Raleigh is the level of government that touches your daily lives the most. Highlighted below are some of the ways the City's financial management practices ensure a strong financial position.

BUDGET AND PLANNING

Much like the average citizen, the City uses a balanced budget to ensure that it maintains a healthy financial position. North Carolina law requires local governments to approve a balanced budget each year. The City plans for its financial needs of the future through various ways, including budget analyses, a 10-year capital improvement plan, long range studies and multiple business models.

FINANCIAL STANDARDS

Similar to your household's need to borrow for a house or car, the City has to take on moderate debt levels in order to provide infrastructure such as parks and roads. The City's general credit ratings from the three national credit rating firms – Moody's, Standard & Poors and Fitch – are all AAA/Aaa. This represents the highest credit ratings available and allows the City to access the debt markets at the lowest interest rates available.

SAVING AND INVESTING FOR THE FUTURE

Similar to your household's personal budget, ensuring savings for the future is an important aspect of our financial stewardship. The Raleigh City Council has approved a policy that the City maintain a "savings" in its General Fund of 14% of the subsequent year's budget. The City ensures an adequate level of savings while continuing to grow and make appropriate investments within the community.

SOURCES OF CITY FUNDS

38%
property taxes and sales taxes

27%
water and sewer charges

16%
service charges

13%
grants

6%
other

FISCAL ADOPTED

Fiscal year 14 (FY14) City-wide Adopted Operating and Capital budgets total $707 million. The categories shown highlight the sources (revenues) and uses (expenses) as a percentage of the total for ease of understanding. Key priorities used as a basis to build the budget are shown on the right.

The largest tax revenues of the City are property taxes and sales taxes. These taxes predominately fund basic government services; examples include Parks, Recreation and Cultural Resources and Public Safety. FY14 property and sales taxes were budgeted to be higher than FY13 as our local economy continues to rebound. Water and Sewer charges are the second largest category of revenue and reflect revenues consistent with the approved rate model for the utility system. There are service charges, such as solid waste pickup and transit passenger fees that are collected specifically from those who directly benefit. The City receives federal and state grants as well as allocations to support specific initiatives such as street repair and maintenance. Additional revenue sources, listed as “other” include interest income and prior year savings.

27%
water and sewer operations

24%
public services

22%
public safety

15%
leisure services

12%
other

YEAR 14 BUDGET

Budget priorities for FY14:

- Ensure long-term financial stability
- Balance increasing service delivery demands
- Address deferred capital maintenance
- Continued investment in employee workforce

The City provides many services to our citizens. The largest budgeted item for the City is the Water and Sewer operations. These operations provide clean drinking water and waste water services while also protecting the environment and public health. This operation is funded solely from user charges rather than tax revenues. Public Services includes a wide variety of work efforts including Inspections, Planning, and Solid Waste, some of which are funded by user charges. Public Safety, which includes Fire, Police and Emergency Communications, is the third largest budgeted general governmental expenditure for the City, and is predominately funded by taxes. The fourth largest operation is leisure services which includes Parks, Recreation and Cultural Resources as well as the Convention Center Complex. Other uses include general internal support organizations such as Human Resources and various community initiatives.

FY14 GOVERNMENTAL RESULTS

The Governmental activities section in the City's financial statements includes programs normally supported by taxes and allocations/grants from federal and state governments. In contrast, the City's Enterprise activities are funded by user charges as described on pages 9-10. Governmental revenue sources cover various services including: public safety (for example – Fire, Police, and Emergency Communications), public infrastructure (for example – planning, inspections, and roadways) and the Parks, Recreation and Cultural Resources Department as well as general government administration (for example – human resources, information technology, and finance). Governmental activities also include special revenue activities, such as grants, and capital project activities, such as road resurfacing, that support general infrastructure activities across the City.

BALANCE SHEET

	FY14	FY13	Change
Total Assets	$ 1,554	$ 1,494	$ 60
Total Liabilities	598	570	(28)
Total Net Position	$ 956	$ 924	$ 32

Amounts in millions

A **balance sheet** provides a snapshot of what the City owns (assets) and owes (liabilities). **Net position** represents the City's investment in the assets it uses in providing services to its citizens.

Increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or declining. The City's net position increased $32 million which is in line with expectations. The majority (or 59%) of the City's net position is capital infrastructure, representing land, buildings and equipment which the City uses to provide services to citizens.

INCOME STATEMENT

An **income statement** provides a summary of amounts received (revenues) and amounts spent (expenditures). The difference between revenue and expenditures shows the City's net position. A positive change in net position indicates the City had enough revenues to cover its obligations and has the ability to save for the future.

	FY14	FY13	Change
Revenues	$ 435	$ 431	$ 4
(Expenditures)	(364)	(330)	(34)
Transfers In (Out)	(39)	(42)	3
Change in Net Position	$ 32	$ 59	$ (27)

Amounts in millions

The City's revenue increased slightly over the prior year. Increases in operating expenditures year over year are due to continued investment in our employee workforce. Overall, results were consistent with expectations.

This information highlights the FY14 actual results specifically for the General Fund, which is the main operating fund of the City. The revenues and expenditures are displayed in cents to provide an easy to understand summary. Property taxes and sales taxes are the two largest sources of revenue totaling 73 cents of every dollar received. Public Safety (fire, police, and emergency communications) accounts for the largest area of General Fund spending at 41 cents, followed by leisure services at 21 cents.

REVENUES

53 cents from property taxes

17 cents from grants and other taxes

5 cents from other sources

20 cents from sales taxes

5 cents from charges for services

EXPENDITURES

21 cents for leisure services

10 cents as a subsidy to enterprise funds

41 cents for public safety

2 cents for community services

9 cents for general administration

17 cents for public infrastructure

FY14 ENTERPRISE RESULTS

Enterprise activities rely heavily on fees charged to customers for services rendered, with subsidies often being covered by General Governmental funds. The City operates six operations as Enterprise activities: Water and Sewer, Solid Waste Services, Stormwater, Transit, Convention Center Complex and Parking.

BALANCE SHEET

	FY14	FY13	Change
Total Assets	$ 2,216	$ 2,152	$ 64
Total Liabilities	1,224	1,221	3
Total Net Position	$ 992	$ 931	$ 61

Amounts in millions

A **balance sheet** provides a snapshot of what the City owns (assets) and owes (liabilities). **Net position** represents the City's investment in the assets it uses in providing services to its citizens.

Over 74% of the net position of $992 million is capital infrastructure. The largest types are water and sewer lines and water and sewer plants. An increase in net position of $61 million reflects continued growth of the City.

INCOME STATEMENT

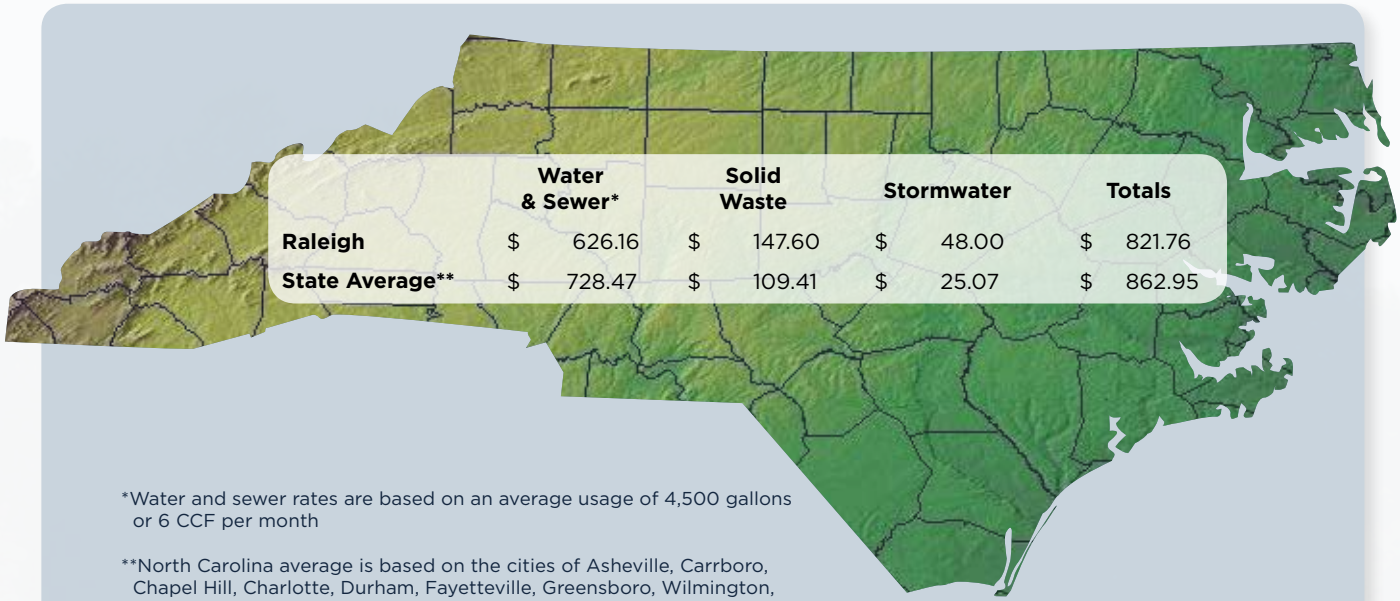
An **income statement** provides a summary of amounts received (revenues) and amounts spent (expenses). The difference between revenue and expenses shows the City's net position. A positive change in net position indicates the City had enough revenues to cover its obligations and has the ability to save for the future.

	FY14	FY13	Change
Revenues	$ 282	$ 267	$ 15
(Expenses)	(267)	(254)	(13)
Transfers In (Out)	46	39	7
Change in Net Position	$ 61	$ 52	$ 9

Amounts in millions

The revenue increases shown year over year are largely the result of approved rate increases within the Water and Sewer Enterprise fund. Revenue sufficiency models are used in Enterprise funds to ensure charges are adequate to cover current and future costs associated with growth and ongoing replacement of infrastructure. The increases in Enterprise expenses are mainly due to the continued investment in our employee workforce. Overall, results were consistent with expectations.

A portion of the annual cost of municipal services is paid monthly through your utility bill. This monthly bill includes charges for Water and Sewer, Solid Waste and Stormwater services. The City operates these activities like a business. The City consistently offers one of the lowest costs for these municipal services in the state. The following chart displays the average customer cost* of annual services for Water and Sewer, Solid Waste and Stormwater operations.



	Water & Sewer*	Solid Waste	Stormwater	Totals
Raleigh	$ 626.16	$ 147.60	$ 48.00	$ 821.76
State Average**	$ 728.47	$ 109.41	$ 25.07	$ 862.95

*Water and sewer rates are based on an average usage of 4,500 gallons or 6 CCF per month

**North Carolina average is based on the cities of Asheville, Carrboro, Chapel Hill, Charlotte, Durham, Fayetteville, Greensboro, Wilmington, and Winston-Salem

ANNUAL COSTS

Additionally, the City has three other enterprise funds that operate as business-type activities:

- **The Convention Center Complex** includes the Raleigh Convention Center, Duke Energy Center for the Performing Arts and the Red Hat Amphitheater.

- **Parking or *ParkLink*** is responsible for parking enforcement, collections, parking meters, permits and maintenance/improvement of all City-owned parking decks and lots.

- **Transit** includes Capital Area Transit (CAT) and Accessible Raleigh Transportation (ART), which provides transportation services for people with disabilities.

UNDERSTANDING CITY DEBT

The City continues to benefit from its outstanding credit ratings. A priority of the City is to maintain the long-term financial sustainability of our General Governmental and business-type operations. This strong commitment has resulted in the City receiving AAA credit ratings, the highest rating for general credit, since 1973.

The City issues debt to fund major General Governmental and business-type capital needs. As noted below, debt in the Enterprise funds exceeds General Government debt due to the capital intensive nature of these activities. Approximately 69% of the City's total debt is paid for by business-type user charges while 31% of the City's debt is paid for by General Governmental revenue.

GOVERNMENTAL

General Government debt totals $506 million and is used to support projects such as parks, recreation centers, streets and sidewalks.

Fiscal year 2014 debt issues included:

- **$51.7 million** to finance the construction of the downtown remote operations site.
- **$15.0 million** to fund future Moore Square capital improvements and a fire station.

10% - Fiscal year 2014 actual debt payments compared to General Fund budget. City policy allows for a maximum of 15%.

DEBT REFINANCING

During 2014, the City refinanced $14.7 million in existing debt obligations to reduce future debt service payments by $1.8 million over the next twelve years.

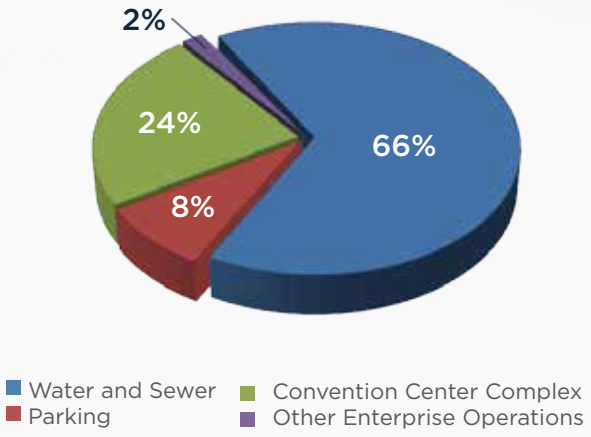
BUSINESS-TYPE ACTIVITIES

The majority of City debt is associated with our Enterprise funds, specifically Water and Sewer, Convention Center and Parking. In total, debt for business-type activities is $1.1 billion.

This debt supports capital infrastructure needs and helps to build new facilities. For the 2014 fiscal year, there were no new debt issuances or refinancing for the business-type activities.

An important point about business-type debt is that the debt is repaid from business related charges, not from general revenue sources.

Business Type Debt



RALEIGH ACCOLADES AND DEMOGRAPHICS

Raleigh continues to be ranked among the best places in the United States to live, work, play and more. Here are a few accolades the City has received:

5th on list of
"Emerging Tech Hubs to Pay Attention To"
TransferWise, February 2014

2nd on list of
"Fastest-Growing Cities in the U.S."
Forbes, February 2014

5th on list of
"Best Run Cities in the U.S."
24/7 Wall St., January 2014

Among the
"Top Ten Up and Coming Cities for Entrepreneurs"
Forbes, October 2013

Among the
"Top Five Places to Retire in the U.S."
Money Magazine, October 2013

Raleigh population:
431,746

SECOND
largest city in North Carolina

43rd
largest city in the U.S.

145 square miles

5.2%
unemployment rate

106,823 permits issued (all trade types)

In the spirit of service, the Raleigh Police Department exists to preserve and improve the quality of life, instill peace, and protect property through unwavering attention to our duties in partnership with the community.

During the 2014 fiscal year, the Raleigh Police Department was allocated 782 sworn officers and 99 non-sworn employees to carry out its mission. Raleigh Police Officers were dispatched to 206,454 calls for service by the 911 Center. Officers also proactively initiated another 225,500 calls for service (i.e. security checks, traffic stops, investigating suspicious activity, etc.).

The budget allocated for the Police Department during the 2014 fiscal year was $90,528,382. Of that, $86,518,783 was for salaries, benefits, and operating expenditures. The total cost to hire and equip a new officer for patrol during the 2014 fiscal year was $107,721 per officer. This cost includes salary/benefits, vehicle, uniforms, duty weapon, ballistic vest, handcuffs and other tools.

The Raleigh Police Department has over 760 vehicles in its fleet. During the 2014 fiscal year, police officers drove 7,830,069 miles which required 674,464 gallons of fuel. In order to provide more fuel efficiency to its fleet and reduce its carbon footprint, the Police Department has utilized alternative fuel vehicles. The Department has 43 hybrid electric and 49 hybrid propane vehicles in its fleet. During the last fiscal year, the Police Department drove 1,383,187 miles on vehicles using these hybrid technologies. That is over 18% of the Department's total miles!

Even though much of the Police Department's budget is for fixed costs, the Department uses remaining budget resources effectively to prevent crime and disorder. One of the greatest ways to achieve this goal is by investing in and engaging with our City's youth. During the 2014 fiscal year, the Police Department teamed up with dozens of public and private partners to provide several programs and services to over 350 youth.

One of the programs which generated a lot of excitement was the Raleigh Mentoring Baseball League. This developmental baseball league is for 12-14 year old youth who reside in Raleigh and who have limited experience playing baseball. The league consisted of a total of six teams with 11 to 15 players per team. Each team had police officers, parents and volunteers who served as coaches. This league is a continued partnership with the Raleigh Parks, Recreation and Cultural Resources Department. The Raleigh Police Department provided the uniforms, baseball caps, gloves, cleats, and baseballs for the youth in the league.

Another very impactful program was Charm School which was presented to the participants in two phases. Charm School I was a two week program dedicated to teaching and mentoring young women. The program focused on developing self-worth, poise, proper communication skills, anger management, forgiveness, etiquette and hygiene. During this phase of Charm School, participants interacted with speakers who presented ideas and discussed topics such as suicide awareness, dating and the family, bullying, health and wellness, human trafficking,

etiquette and basic manners as well as other informative activities. The young ladies were visited by the Chief of Police and had an opportunity to listen and ask questions about her role as a leader.

Charm School II compelled the students to take a more in-depth look at themselves and their future aspirations. The students received direction on the importance of having a positive attitude, anger management, image, etiquette, and stress management. The students spent two days at IBM participating in the Science, Technology, Engineering and Mathematics (STEM) program discovering the importance of technology through robotics. The students attended a formal dinner at the Brier Creek Country Club and concluded Charm School II by volunteering at the Salvation Army.

While some may not immediately recognize the need for a police department to invest in and engage with its youth through such programs, the Raleigh Police Department believes that these activities are vital in achieving its mission and agree with Sir Robert Peel, the father of modern policing, when he said, "the test of police efficiency is the absence of crime and disorder, not the visible evidence of police action in dealing with it."

The Raleigh Police Department would like to thank all of the individuals and organizations that partnered with the Police Department during the 2014 fiscal year in order to preserve and improve the quality of life, instill peace, and protect the property of those who live, work, and play in our great City.

RALEIGH POLICE DEPARTMENT BY THE NUMBERS

1.76 sworn officers per 1,000 citizens

431,954 officer responses

6 police districts across the city

760 vehicles in police fleet

CITY OF RALEIGH'S MISSION STATEMENT

"We are a 21st century city of innovation focusing on environmental, cultural, and economic sustainability.

We conserve and protect our environmental resources through best practices and cutting-edge conservation and stewardship, land use, infrastructure and building technologies.

We welcome growth and diversity through policies and programs that will protect, preserve and enhance Raleigh's existing neighborhoods, natural amenities, rich history, and cultural and human resources for future generations.

We lead to develop an improved neighborhood quality of life and standard of living for all our citizens.

We work with our universities, colleges, citizens and regional partners to promote emerging technologies, create new job opportunities and cultivate local businesses and entrepreneurs.

We recruit and train a 21st century staff with the knowledge and skill sets to carry out this mission, through transparent civic engagement and providing the very best customer service to our current citizens in the most efficient and cost-effective manner."

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www.raleighnc.gov