

CITY OF WILSON, NORTH CAROLINA

Management's Discussion and Analysis

As management of the City of Wilson (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with the transmittal letter located at the front of this report, and the City's financial statements which follow this narrative that provide more specific detail.

Financial Highlights

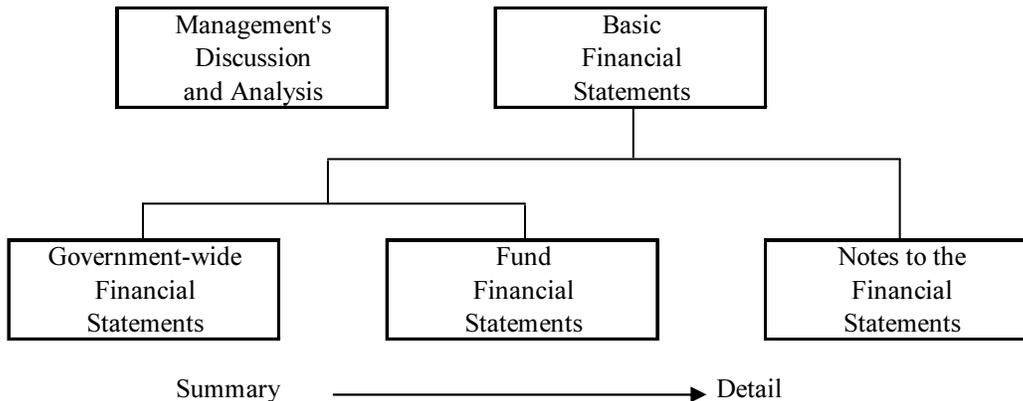
- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$359,649,664 (*net position*). Of this amount, \$92,322,885 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$14,740,005, consisting of a \$846,978 increase in net position of governmental activities and a \$13,893,027 increase in net position of business-type activities. The governmental increase is due to a number of factors: Increases in property and sales taxes during the current year, and funding contributions from business-type activities to support upcoming economic community investment projects. The increase in business-type activities was driven by operations of three of the City's utilities; electric, water resources, and broadband.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$29,571,206, an increase of \$334,176 in comparison with the prior year. Approximately 28.9 percent of this total amount, or \$8,551,014, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$13,770,544, or 28.6 percent of total general fund expenditures for the fiscal year.
- The City's total debt increased by \$9,697,178 (9.5 percent) during the current fiscal year. The key factors in this increase (resulting from new reporting requirements) is the recognition of net pension liability for the LEOSA plan of \$4,612,672, an increase of \$11,358,495 in the net pension liability for OPEB and the LGERS plan, and reductions related to regularly scheduled principal reduction on existing outstanding debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

Required Components of Annual Financial Report

Figure 1



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Basic Financial Statements

The first two statements in the basic financial statements are the government-wide financial statements. They provide both short and long-term information about the City's financial status.

The next statements are fund financial statements. These statements focus on the activities of the various funds and provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. In addition, supplemental information is provided to show details about the City's individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements. Also, following the notes is the required supplementary information. This section contains funding information about the City's pension plans.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as general administration, public safety, parks and recreation, and sanitation services. Property taxes, sales taxes, state-collected revenues and charges for services finance most of these activities. The business-type activities are those that the City charges a fee for the service provided. These include electric, gas, water and wastewater, mass transit, industrial air center, broadband, and stormwater management. The final category consists of the component units, whose financial information is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 15 and 16 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the state statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a

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result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate comparison to governmental activities in the government-wide financial statements.

The City maintains thirty-one individual governmental funds (27 of these are capital or grant project related). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its General Fund as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens, management, and the City Council of the City about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns related to the General Fund: 1) the original budget as adopted by the City Council; 2) the final budget as amended by the City Council; 3) the actual resources, charges to appropriations, and ending balances; and 4) the difference or variance between the final budget and the actual resources and charges.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and wastewater utilities, stormwater activities and its electric, gas, mass transit, broadband, and municipal airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for risk management activities, group insurance benefits, and costs of the City's operations center. The services of the Risk Management and Group Insurance Benefits Funds predominately benefit governmental rather than business-type activities, and have been included with governmental activities in the government-wide financial statements. The services of the Operations Center Fund predominately benefits business-type activities and has been included with business-type activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 23-28 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 29-30 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 31-65 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its law enforcement employees and other post employment benefits. Required supplementary information can be found on pages 66-71.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 72-219 of this report.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$359,649,664 as of June 30, 2017.

By far the largest portion of the City's net position (72.1 percent) reflects its net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table # 1
Statement of Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 54,140,655	\$ 52,681,527	\$ 92,003,510	\$ 92,735,087	\$ 146,144,165	\$ 145,416,614
Capital assets	59,316,973	57,997,582	275,508,746	268,477,701	334,825,719	326,475,283
Total assets	113,457,628	110,679,109	367,512,256	361,212,788	480,969,884	471,891,897
Deferred outflows of resources	8,335,428	1,718,966	3,995,500	927,247	12,330,928	2,646,213
Current and other liabilities	6,390,828	5,518,350	14,176,011	14,672,645	20,566,839	20,190,995
Long-term liabilities outstanding	28,220,268	14,938,648	83,737,899	87,459,951	111,958,167	102,398,599
Total liabilities	34,611,096	20,456,998	97,913,910	102,132,596	132,525,006	122,589,594
Deferred inflows of resources	691,585	1,240,109	434,557	741,177	1,126,142	1,981,286
Net position:						
Net investment in capital assets	58,052,520	56,372,034	201,123,545	186,315,101	259,176,065	242,687,135
Restricted	8,150,714	5,212,739			8,150,714	5,212,739
Unrestricted	20,287,141	29,116,195	72,035,744	72,951,161	92,322,885	102,067,356
Total net position	<u>\$ 86,490,375</u>	<u>\$ 90,700,968</u>	<u>\$ 273,159,289</u>	<u>\$ 259,266,262</u>	<u>\$ 359,649,664</u>	<u>\$ 349,967,230</u>

A portion of the City's net position (2.27 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$92,322,885 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

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There was a net increase of \$2,937,975 in restricted net position reported. The amount for governmental-type activities increased primarily due to changes in the stabilization reserve (\$2,836,462) whereby funds contractually committed have been restricted.

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 7,361,937	\$ 6,984,166	\$ 184,331,957	\$ 184,087,240	\$ 191,693,894	\$ 191,071,406
Operating grants and contributions	1,719,861	2,715,218	978,982	701,032	2,698,843	3,416,250
Capital grants and contributions	777,396	807,973	3,659,901	727,732	4,437,297	1,535,705
General revenues:						
Property taxes	22,949,347	22,389,796			22,949,347	22,389,796
Other taxes	13,615,651	12,386,001			13,615,651	12,386,001
Grants and contributions not restricted to specific programs	770,014	222,745	285,375		1,055,389	222,745
Investment income	28,886	279,245	14,332	517,623	43,218	796,868
Other general revenues	271,787	281,042	273,886	72,155	545,673	353,197
Total revenues	47,494,879	46,066,186	189,544,433	186,105,782	237,039,312	232,171,968
Expenses						
Program Activities						
Governmental Activities:						
General government	6,134,474	5,197,499			6,134,474	5,197,499
Public safety	23,222,455	22,361,129			23,222,455	22,361,129
Public services	6,167,534	6,163,279			6,167,534	6,163,279
Environmental services	5,654,752	5,227,689			5,654,752	5,227,689
Planning and development	3,678,604	2,076,702			3,678,604	2,076,702
Human services	250,003	235,644			250,003	235,644
Culture and recreation	6,195,136	6,245,259			6,195,136	6,245,259
Interest on long-term debt	38,942	43,643			38,942	43,643
Business-type Activities:						
Electric			116,998,496	117,526,795	116,998,496	117,526,795
Gas			14,264,237	14,391,883	14,264,237	14,391,883
Water Resources			21,585,549	20,385,571	21,585,549	20,385,571
Mass Transit			1,304,691	1,295,941	1,304,691	1,295,941
Industrial Air Center			148,704	164,866	148,704	164,866
Broadband			13,901,264	12,431,507	13,901,264	12,431,507
Stormwater Management			2,754,466	2,893,274	2,754,466	2,893,274
Total expenses	51,341,900	47,550,844	170,957,407	169,089,837	222,299,307	216,640,681
Increase (Decrease) in Net Position before transfers	(3,847,021)	(1,484,658)	18,587,026	17,015,945	14,740,005	15,531,287
Transfers	4,693,999	5,610,220	(4,693,999)	(5,610,220)		
Increase (Decrease) in Net Position	846,978	4,125,562	13,893,027	11,405,725	14,740,005	15,531,287
Net Position-Beg., as previously reported	90,700,968	85,486,403	259,266,262	247,860,537	349,967,230	333,346,940
Restatement	(5,057,571)	1,089,003			(5,057,571)	1,089,003
Net Position-Beginning, as restated	85,643,397	86,575,406	259,266,262	247,860,537	344,909,659	334,435,943
Net Position-Ending	\$ 86,490,375	\$ 90,700,968	\$ 273,159,289	\$ 259,266,262	\$ 359,649,664	\$ 349,967,230

Overall, the City's net position increased by \$14,740,005 during the current fiscal year. There are various factors that influenced this increase both positively and negatively. (Note: The City implemented Governmental Accounting Standards Board (GASB) Statement 73 in the fiscal year ending June 30, 2017. The implementation required the City to record beginning total pension liability and a corresponding reduction of beginning net position. As a result of this new standard, net position for the governmental activities decreased by \$5,071,571).

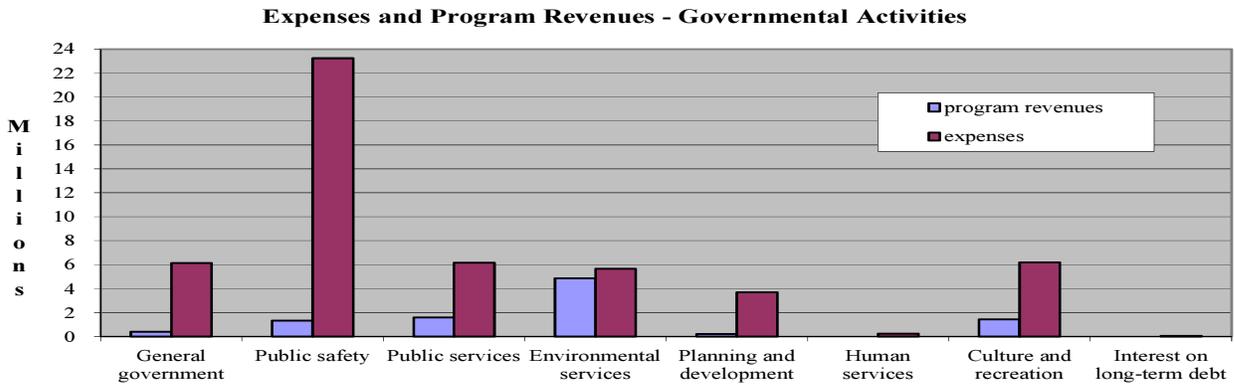
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For FY 2017, the City experienced one of the warmest winters in years impacting our major utilities, along with a hotter summer period for FY 2017 compared to FY 2016. Our utilities are sensitive to several factors, with weather conditions being a significant influence. There was a slight increase in electricity sales volume of 0.5 percent, a decrease in gas sales volume of 2.0 percent, and a decrease of 0.8 percent in water volume sales. Adjustments were made to base rates for services (water, sewer, gas and stormwater). Broadband subscribers increased during the year by 7.7 percent. The overall effect was an increase in net position for electric of \$5,384,972, water resources of \$6,457,912, stormwater of \$411,460 and broadband of \$1,674,420, while gas experienced a decrease in net position of \$795,579.

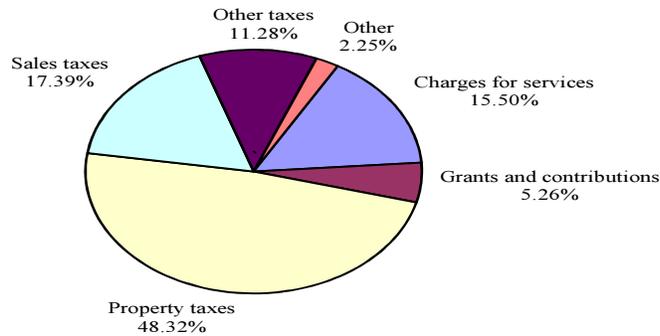
Governmental Activities. Governmental activities increased the City’s net position by \$846,988 due to a number of factors, both positive and negative, during the current fiscal year. Key elements of this increase are as follows:

- Property tax revenues increased by \$559,551 (2.5 percent) over the prior year.
- Capital grants and contributions decreased \$19,581 compared to the prior year, while operating grant and contributions decreased slightly by \$13,178.
- The City recognized a liability increase of \$1,185,903 during the year related to governmental activities for other post employment benefits (OPEB).
- Charges for services increased approximately \$377,771, or 5.4 percent, due to a 7.9 percent increase in the number of building inspections coupled with increased commercial building permit fees implemented in fiscal year 2017.
- Contribution of land and vacated property to City totaled \$183,207 for the year.

Figure 2



Revenues by Source - Governmental Activities



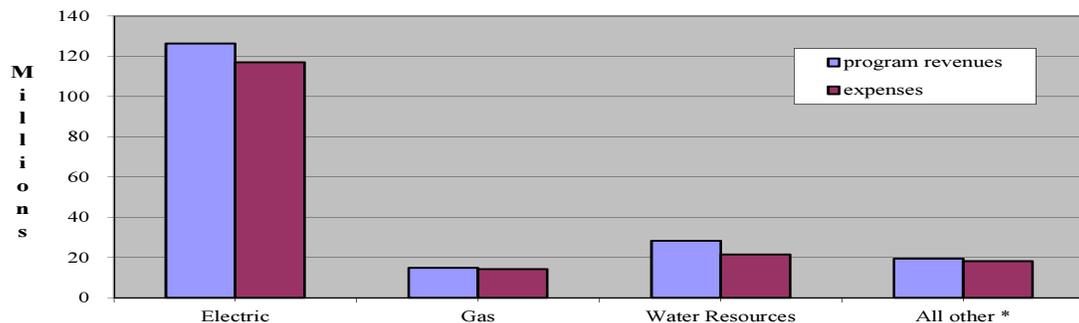
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Business-type Activities. Business-type activities increased the City’s net position by \$13,893,027. Key elements of this increase are as follows:

- The City recognized a liability increase of \$412,051 during the year related to business-type activities for other post employment benefits (OPEB).
- Capital grants and contributions increased by 2,932,169 over the prior year as land and a warehouse were donated to the City from a former industrial customer. The capital contribution to Water Resources totaled \$2,924,827.
- For Electric, while sales volume increased slightly by 0.5 percent, operating revenues were less than the previous year by \$2,716,883, as FY 2017 marks the first full year of reduced electric rates following last year’s sale of NCEMPA’s generating assets to Duke Progress Energy. Operating expenditures decreased by 594,181 or 0.51 percent, as another wholesale cost reduction was received in the fourth quarter.
- For Water Resources, metered water sales to consumer and sewer services revenues increased \$1,021,489, buoyed by 1.0 percent increase in volume sales and base rate increases for both water and sewer. Also, land and warehouse were donated to the City from a former industrial customer valued at \$2,924,827.
- Gas sales volume for 2017 decreased 2.0 percent from the prior year, which was down about 18.4 percent from 2015. Still, operating revenue remained steady as adjustments were made to rates during the year to stabilize the fund. Operating expenditures for Gas decreased \$333,359 (2.3 percent) along with the decrease in gas purchases from the supplier.
- Operating expenditures for Water Resources were \$1,456,153 (7.4 percent) higher for 2017 in comparison to 2016 as the City purchased new automated meters to deploy in the system.
- During 2017, operating revenues for Broadband increased \$1,394,689, or 9.9 percent over the prior year offset with an increase in operating costs of 1,617,067 or 14.2 percent increase over prior year, spurred by contractual work and services provided to other units.

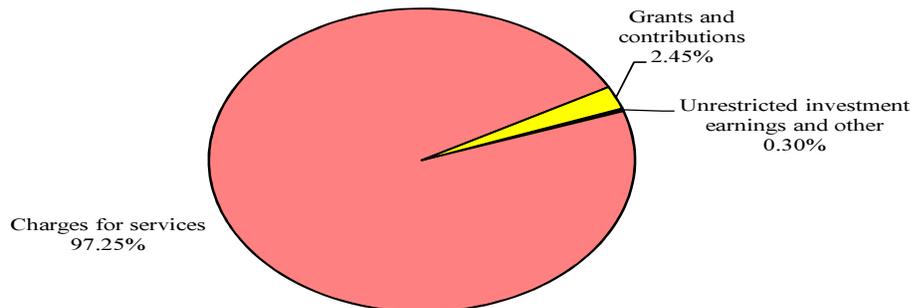
Figure 3

Expenses and Program Revenues - Business-type Activities



* All other includes (Mass Transit, Industrial Air Center, Broadband and Stormwater Management)

Revenues by Source - Business-type Activities



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Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The General Fund is one of the major operating funds of the City. At the end of the current fiscal year, available fund balance in the General Fund was \$18,723,084, while total fund balance was \$23,565,459. Wilson's City Council has determined that the City should maintain an available fund balance of 25% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the City. The City currently has an available fund balance of 38.9 percent of general fund expenditures, while total fund balance represents 48.9 percent of the same amount. Given the current state of the economy, Council and management recognize that sustaining this level during uncertain times may be difficult. Steps have been taken to mitigate the draw on this resource and future corrective actions are anticipated should the economy worsen.

At June 30, 2017 the governmental funds of the City reported a combined fund balance of \$29,571,206, a 1.14 percent increase from last year. Included in this change in fund balances is a decrease in the General Fund and increases in the Special Revenue Funds and Capital Project Funds.

The net change in fund balance of the General Fund was a decrease of \$1,372,972 due to a number of factors, some of which have been previously discussed. Fluctuations in the economy can affect the City's revenue from year to year and such occurrences can be found in privilege licenses, investment income and sales tax revenues. Sales tax revenues increased by \$1,120,542 or 15.7 percent due to taxable sales in Wilson County increasing by 9.5 percent and the addition of a three percent occupancy tax shared with the City. Motor Vehicle licenses revenue increased by \$544,318 as a result of the \$25 increase in the municipal vehicle license fee per vehicle. The main element of the decrease in fund balance is the transfer of \$2,016,070 for site improvements at the City's athletic complex. Expenditures overall for the year were higher, increasing by \$4,040,099 or 8.48 percent, compared to the prior year.

The increase in fund balance for the capital project funds is due to the receipt of contribution from the General Fund to fund site improvements at the athletic complex, while the increase in special revenue funds is due to Urgent Repair Program funds received but yet to be expended for program expenditures.

General Fund Budgetary Highlights: During the year, the city revised the budget on five occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Amendments were made to increase appropriations for street resurfacing, equipment and vehicles, maintenance of vehicles, and maintenance of buildings and land purchases. Also, appropriations using forfeiture proceeds, grants and transfers to fund capital projects were made. The above changes accounted for \$5,213,660 of the \$5,410,215 added to the General Fund budget. Encumbrances totaling \$771,159 were automatically added at the outset of the fiscal year as authorized in the original budget ordinance.

Of the aforementioned items, appropriations increased in relation to: general government expenditures for renovation of office buildings (\$330,000) and land purchases (\$275,000); police expenditures for video storage server (\$28,360) and forfeiture funded purchase of police vehicles and equipment (\$172,680); fire expenditures for vehicle replacements (\$1,115,145) and maintenance of vehicles (\$50,000); planning and development services expenditures for lot maintenance (\$15,000); parks and recreation expenditures for maintenance of buildings, fishing pier and parks equipment (\$155,420) and expanded programs and events (\$255,000); public services and engineering expenditures for street resurfacing (\$300,000), replacement of a garbage truck (\$260,000) and other

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vehicles (\$72,000); transfers to J. Burt Gillette Athletic Complex projects (\$2,116,730), Fleming Stadium Project (\$20,825), 2016 Urgent Repair Project (\$5,000) and Building Reuse Project (“217 Brew Works”) (\$2,500).

Overall, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates. Some of the more significant variances between budget and actual results were the following:

- Sales tax revenue is highly sensitive to fluctuations in the economy and taxable sales increased compared to 2016; and sales tax revenues were above the budget estimate for 2017 by approximately \$2,095,922.
- Intergovernmental revenues are well beyond the budget projection estimates overall by \$1,420,423 due to utility sales taxes exceeding budget expectations for 2017 and FEMA reimbursement revenues for hurricane damage.
- Motor vehicle property taxes exceeded budget expectations (\$583,343). Changes were made to the statewide vehicle tax system a couple of years ago and collections have risen beyond normal collection levels but are expected to stabilize and allow for more predictable patterns.
- Police department experienced significant savings compared to the budget due to lapse salaries and benefits for vacancies the past year (\$485,760).
- Street maintenance experienced significant savings compared to the amended budget due to contractual street improvements yet to be initiated by year’s end. Still, some \$360,159 is encumbered for activities to be completed the following year.

Proprietary Funds. The City’s proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of each fund is as follows: Electric at \$43,539,089; Gas at \$7,984,969; Water Resources at \$15,175,331; Mass Transit at \$395,565; Industrial Air Center at \$294,947; Broadband at \$1,731,657 and Stormwater Management at \$2,208,704. The total increase or decrease in net position for each fund was as follows: Electric increased \$5,384,972; Gas decreased \$795,579; Water Resources increased \$6,478,112; Mass Transit decreased \$175,222; Industrial Air Center decreased \$3,850; Broadband increased \$1,674,420 and Stormwater Management increased \$411,460. Other factors concerning the finances of these funds have already been addressed in the discussion of the City’s business-type activities.

Capital Asset and Debt Administration

Capital Assets. The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$334,825,719 (net of accumulated depreciation). These assets include buildings, streets and sidewalks, land, machinery and equipment, and vehicles. The total increase in the City’s investment in capital assets for the current fiscal year was 2.56 percent (a 2.27 percent increase for governmental activities and a 2.62 percent increase for business-type activities).

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

- Various electric distribution system improvements were made during the year at a cost of \$1,666,830 and improvements of \$502,248 were also made to the gas distribution system.
- Another phase has been completed in the Electric, Gas, and Water utilities as they upgrade to more advanced metering infrastructure technology. Current year costs total \$4,087,284.
- Construction continues on the fiber to the premise system which provides broadband services for residents, business, governmental and other institutions. Costs for the current year total \$653,861.
- Additional site improvements totaling \$3.2 million are underway at the J. Burt Gillette Athletic Complex and will include adding two artificial turf soccer fields, a pavilion and field surface replacement at the baseball stadium. Costs for the current year total \$548,806.
- The Fire department replaced two pumper trucks in the current year at cost of \$ 1,066,688.
- Land and a warehouse valued at \$2,924,827 were donated to Water Resources from a former industrial customer.
- Work has begun on Merrimont Park Drainage improvement project with costs of \$683,753 incurred in the current year.

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Table 3
Capital Assets at Year-end
(Net of Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 20,392,115	\$ 19,942,909	\$ 28,776,711	\$ 25,791,884	\$ 49,168,826	\$ 45,734,793
Land improvements	5,589,873	5,301,985	3,578,369	3,728,191	9,168,242	9,030,176
Buildings	10,407,969	10,581,448	11,927,948	11,806,959	22,335,917	22,388,407
Distribution system			211,950,171	210,767,784	211,950,171	210,767,784
Rolling stock	5,196,272	4,202,274	4,429,595	3,107,463	9,625,867	7,309,737
Furniture, Fixtures, and equipment	4,092,629	3,541,570	14,845,952	13,254,075	18,938,581	16,795,645
Infrastructure	13,638,115	14,427,396			13,638,115	14,427,396
Construction in progress				21,345		21,345
Total	<u>\$ 59,316,973</u>	<u>\$ 57,997,582</u>	<u>\$ 275,508,746</u>	<u>\$ 268,477,701</u>	<u>\$ 334,825,719</u>	<u>\$ 326,475,283</u>

Additional information on the City's capital assets can be found in Note 5 on pages 44-46 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2017, the City had total debt outstanding of \$110,936,425. Of this amount, \$59,473,000 represents bonded debt. The City has \$6,120,000 in debt backed by the full faith and credit of the City and \$10,533,000 in bonds secured solely by revenues of the Combined Enterprise System (water, wastewater, and natural gas). In addition, the City has \$42,820,000 of certificates of participation outstanding. The remainder of the City's long-term obligations comprises pension related debt and compensated absences.

Table 4
Outstanding Liabilities

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$	\$	\$ 6,120,000	\$ 7,325,000	\$ 6,120,000	\$ 7,325,000
Revenue bonds			10,533,000	11,267,000	10,533,000	11,267,000
Certificates of participation			42,820,000	46,405,000	42,820,000	46,405,000
State Revolving Loans			11,880,133	13,553,708	11,880,133	13,553,708
Notes payable	1,264,453	1,625,548	2,071,510	2,523,922	3,335,963	4,149,470
Compensated absences	2,511,982	2,379,219	1,182,755	1,176,379	3,694,737	3,555,598
OPEB	9,976,032	8,790,129	3,503,980	3,091,929	13,480,012	11,882,058
Pension related debt (LGERS)	9,855,129	2,143,752	4,604,779	957,661	14,459,908	3,101,413
Pension related debt (LEOSSA)	4,612,672				4,612,672	
Total	<u>\$ 28,220,268</u>	<u>\$ 14,938,648</u>	<u>\$ 82,716,157</u>	<u>\$ 86,300,599</u>	<u>\$ 110,936,425</u>	<u>\$ 101,239,247</u>

The City of Wilson's total debt increased by \$ 9,697,178, or (9.58 percent). The key factors in this increase were the recognition of net pension liability for the LEOSSA plan of \$4,612,672, an increase of \$12,956,449 in the net pension liability for OPEB and the LGERS plan, and reductions related to regularly scheduled principal reduction on existing outstanding debt.

The City maintains an "Aa2" rating from Moody's Investor Services, an "AA" rating from Standard and Poor's Rating Service, and an "AA" rating from Fitch Ratings on its general obligation debt.

CITY OF WILSON, NORTH CAROLINA

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The City is currently at 1.4 percent. The legal debt margin for the City is \$267,296,054.

Additional information regarding the City's long-term debt can be found in note 7 on pages 46-52 of this report.

Economic Factors

The average unemployment rate for Wilson County is currently 7.91 percent. The statewide and the national average unemployment rates for fiscal year 2017 are 4.86 percent and 4.65 percent respectively. Taxable sales within Wilson County increased by 9.5 percent from \$909,128,016 in 2016 to \$995,644,509 in 2017.

Budget Highlights for the Fiscal Year Ending June 30, 2018

For the City as a whole, the adopted budget for FY 2018 is 1.9 percent less than the FY 2017 budget. All departments worked diligently examining ways to improve efficiencies and contain costs. The costs of health care benefits for employees increased 3.0 percent and will be absorbed by the City. While health care costs have risen more rapidly than the general economic growth and continue to do so, the City continues to explore strategies that will reduce costs and to implement options to curtail future health care plan cost increases.

Governmental Activities: During the current fiscal year, unassigned fund balance in the General Fund decreased to \$13,770,544. The City has appropriated \$4,404,100 for spending in the 2018 fiscal year budget. Property tax receipts are conservatively projected to increase by a modest 1.0 percent for 2018. Sales tax revenues are projected increase 1.8 percent over the 2017 budget but are still lower than the 2016 levels.

Business-type Activities: The City will implement an electric rate reduction of 4.0 percent for residential and commercial customers for FY 2018. Water and sewer volume is projected to remain relatively steady for FY 2018, while gas volume is expected to have a slightly higher demand with a more traditional winter weather conditions. The City will implement base rate increases for gas, water and sewer on July 1, 2017. Also, effective for 2018, the stormwater fee will increase from \$3.80 to \$4.20 per equivalent unit.

Requests for Information

This report is designed to provide an overview of the City's finances. Questions concerning any of the information found in this report or requests for additional financial information should be directed to the Chief Financial Officer, City of Wilson, P.O. Box 10, Wilson, NC 27894, khands@wilsonnc.org.