

City of Morganton

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2007

City Council

**Mel L. Cohen, Mayor
John H. Cantrell, Jr.
Carl W. Evans, Sr.
Alfred W. Hamer, Jr.
J. Larry Whisnant**

City Manager

Sally W. Sandy, CPA

Finance Director

Karen B. Duncan, CPA

Prepared by the City of Morganton's Finance Department



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CITY OF MORGANTON NORTH CAROLINA

October 4, 2007

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Morganton:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements 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. Pursuant to that requirement, the comprehensive annual financial report of the City of Morganton for the fiscal year ended June 30, 2007 is hereby issued.

This report consists of management's representations concerning the finances of the City of Morganton. 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 of Morganton has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Morganton's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Morganton's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The City's management asserts that, to the best of their knowledge and belief, this financial report is complete and reliable in all material respects.

Eric Bowman, CPA, a licensed certified public accountant has audited the City of Morganton's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Morganton for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Morganton's financial statements for the fiscal year ended June 30, 2007, 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 of Morganton was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal 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 legal requirements involving the administration of federal awards. These reports are available in the City of Morganton's separately issued Single Audit Report.

GAAP requires 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 MD&A and should be read in conjunction with it. The City of Morganton's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Morganton is located in Western North Carolina in the foothills of the Blue Ridge Mountains. It is the County seat of Burke County (the "County") and was chartered in 1784 and incorporated in 1885. The City is the largest incorporated area in the County, encompasses approximately 19 square miles, and serves a population of 17,224. All of the major cultural, medical, governmental and financial activities of the County are located in the City.

The City enjoys a temperate climate with a mild four-season year. The environmental attributes of the area contribute to the continual growth of tourism and overall the City is experiencing a gradual modest growth. The proximity of the Great Smokey Mountains, lakes James, Norman, and major urban centers make the physical location of the City convenient. The cities of Charlotte, North Carolina, Atlanta, Georgia and Knoxville, Tennessee are approximately 70 miles, 250 miles and 180 miles, respectively, from the City.

The City is empowered by state statute to extend its corporate limits by annexation. It engages in continual review of areas of potential future annexation by petition and statute.

The City adopted the council-manager form of government in 1913, being the first in practice in the State. Policy formation and legislative authority are vested in the City Council which consists of a Mayor who is elected to a four-year term and four council members who are elected at large to four-year staggered terms. The City Council, among other things, passes ordinances, adopts an annual budget, appoints committees and hires the City Manager and City Attorney. The council is elected on a non-partisan basis.

The City Manager works at the pleasure of the City Council. The City Manager's responsibilities include the implementation of the City Council's policies and ordinances, hiring and supervision of the City's 13 department heads and overall maintenance of the City's day-to-day operations. The City Manager serves as the link between the elected body and the City's employees.

The City of Morganton provides a full range of governmental services, including public safety protection; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural events. The City of Morganton also provides public utilities including water, wastewater, electric and cable enterprises. The City also operates a community house. The City of Morganton also is financially accountable for the ABC Board and the Morganton Redevelopment Commission, both of which are reported separately within the City of Morganton's financial statements. Additional information on these legally separate entities can be found in the notes to the financial statements.

The annual budget serves as the foundation for the City of Morganton's financial planning and control. The City's budget is adopted by ordinance in accordance with the General Statutes of North Carolina, which requires estimated revenues and expenditures be balanced. The budget includes only expenditures and revenues expected during the fiscal year. The budget is adopted on a modified accrual basis with specifically identified outstanding encumbrances re-appropriated as part of the new budget year.

All expected operating funds are included in the Budget Ordinance and are expended in accordance with the adopted ordinance. The fiscal year budget, by State statute, begins July 1 and ends June 30.

The Local Government Budget and Fiscal Control Act establishes the dates by which each stage of the annual budget process is to be completed. Departmental requests are to be submitted to the budget officer before April 30. The recommended budget must be given to the City Council by June 1, and the Council must enact the budget ordinance by July 1.

The City of Morganton's budget process begins in November with the development of the capital improvements program (CIP). The CIP is a six-year forecasting tool that shows capital costs divided among the years of the forecast period. The CIP is usually presented in the late fall to early winter at the annual planning workshop for the City Council. The CIP consists of all expenditures for equipment/vehicles, and repair or construction for all funds. The expenditures are normally \$5,000 or higher before they are included in the CIP. City Council reviews the presented CIP and gives informal approval. The CIP is adopted as part of the annual budget ordinance that is enacted by July 1 annually.

The operating budget, consisting of segments for salaries and benefits, operating costs, and performance indicators and goals, is sent to department directors in mid February. Each segment is given a separate completion date. Final date for submission of all requests is mid March. The first review of the budget requests is by the City Manager and the Finance Director with input from the department directors. The proposed budget is then reviewed with the City Council at budget workshops. The budget is presented at the June City Council Meeting and a public hearing is called for at a specially called meeting later in June. The Council then adopts the budget ordinance for the proposed budget at that specially called June meeting (after a thirty-day public comment period).

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., finance). Department heads may request the Budget Officer make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report. Also included in the governmental fund subsection are project-length budget-to-actual comparisons for each governmental fund for which a project-length budget has been adopted (i.e. the entitlement fund).

Factors Affecting Financial Condition

This 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 of Morganton operates.

Local economy. The City serves as the retail trade and employment center for a majority of the approximately 89,000 people of the County. Additionally, many people from sections of the surrounding counties of Avery, McDowell, Rutherford and Cleveland work or shop in the City. Eight banks, one savings and loan association and three credit unions serve the City.

The principal manufacturing activities in the City include furniture and metal working with many other types of establishments providing a diversified manufacturing base. Agriculture is a large industry in the County with approximately 90,000 acres in farmland, but very little farming is done in the City. Government at local and State levels is a large employer in the City. City, County and several State-affiliated offices and facilities are located within the corporate limits.

During the last few years there have been several significant events with a positive impact on the City's economy. Most recently Viscotec, a state-of-the-art textile manufacturer, invested \$40 million in Phase 1 of a facility in the City. Phase 2, a \$15 million investment, is currently underway. Yet a third expansion has been announced which will bring approximately one hundred new jobs to the Morganton community. The expansion of Viscotec symbolizes a renewal of one of the City's economic foundations.

Long-term financial planning. The City of Morganton has to be in a continued state of planning to keep up with the ever-changing environment of local government. This is the ongoing charge to the elected officials as well as City staff.

A comprehensive Recreation Plan was designed for the City during Fiscal Year 1996/1997. This plan has been and will continue to be used, as a tool to address current and future recreational needs in the City. The creation of such a plan demonstrated the commitment of the Council and staff to enhance quality of life in the Morganton community.

The City Council has directed that a portion of the Electric Fund's net assets be designated for use as a rate stabilization fund. In short, this fund is to be used in the future to curb the rising cost of purchased power. As the City's costs rise, the rate stabilization fund can be used to fund the increase and curb the necessity of passing the cost increase along to the City's customers. The City Council feels very strongly that it must incorporate long-range plans for all City utility services in order to facilitate the needs for the ever-changing environment of the industry.

As further evidence of the Council's commitment to the future, the City staff has been directed to maintain the Cemetery Perpetual Care Permanent Fund. This fiduciary operation is designed to accumulate funds to provide ongoing care and upkeep for the City's cemetery in later years. Currently, transfers are not being made from the fund so as to allow accumulation of funds significant enough to provide perpetual care. As of June 30, 2007 the fund balance in the cemetery perpetual care permanent fund was \$363,816.

Overall, the City is meeting the demands of the present while constantly planning for the future. As always, the City of Morganton places the interest of its citizens as its number one priority. The City Council and City staff are challenged daily, and as a result, the City of Morganton continues to prosper.

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, commercial paper and the State Treasurer's investment pool. The maturities of

the investments range from 30 days to 3 years, with an average maturity of less than 12 months. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Risk management. Third-party coverage, through the North Carolina League of Municipalities, is currently maintained for individual workers' compensation claims. Additional information on the City of Morganton's risk management activity can be found in Note V of the notes to the financial statements.

Pension and other postemployment benefits. The City of Morganton offers a single-employer defined benefit pension plan, a state-sponsored separation allowance, for its public safety employees. An independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City of Morganton must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis.

The City of Morganton also provides pension benefits for its non-public-safety employees. These benefits are provided through a statewide plan managed by the State Pension Board. The City of Morganton has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to the State Pension Board.

The City of Morganton offers 401K and 457B plans for employees to participate in on an optional basis. The City does contribute funds to either of these plans for non-sworn employees.

The City of Morganton also provides postretirement health care benefits for retirees and their dependents. As of the end of the current fiscal year, there were 72 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City of Morganton's pension arrangements and postemployment benefits can be found in Note V in the notes to the financial statements.

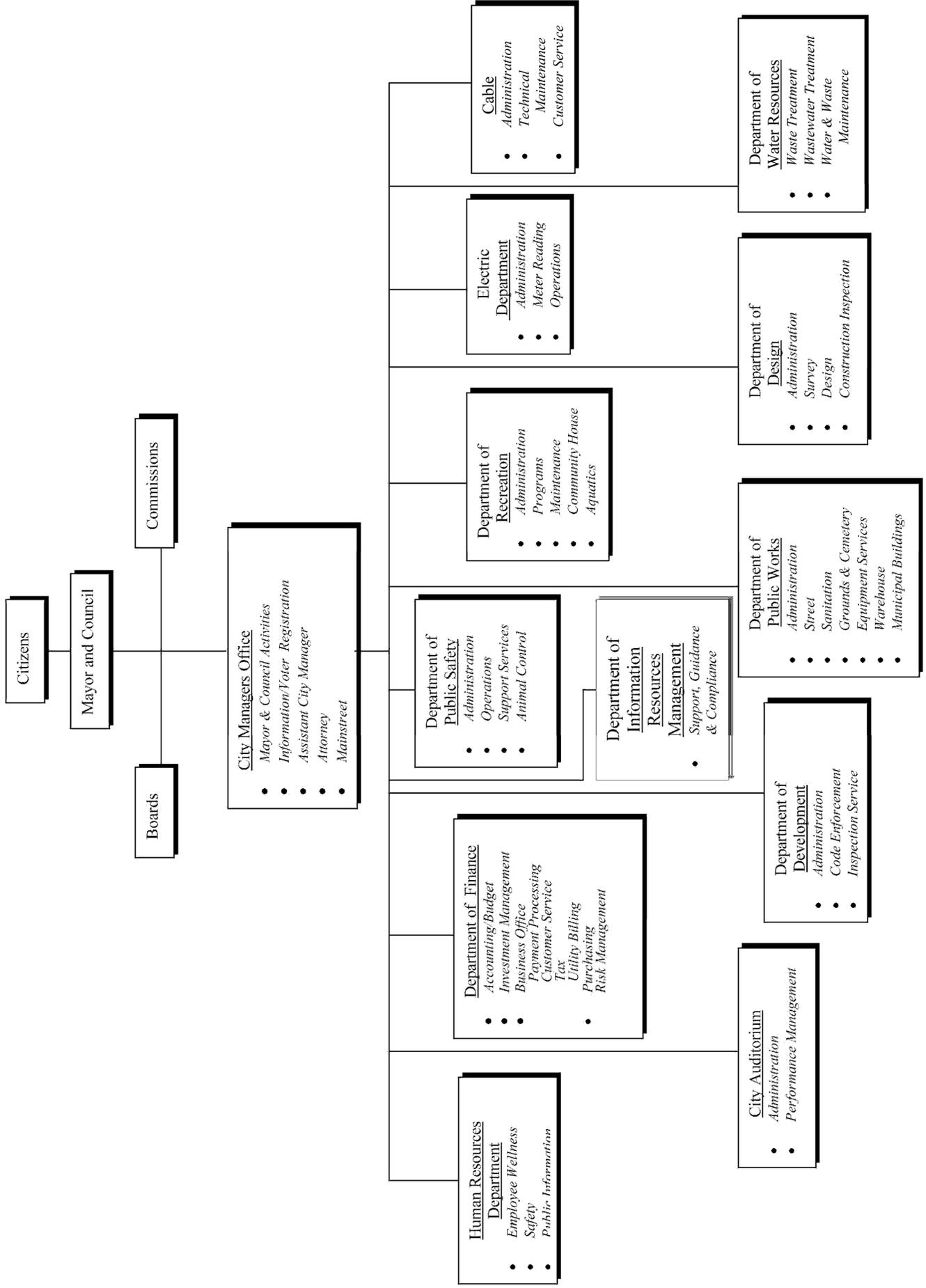
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. I would like to express my appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the City Manager, Mayor and the City Council for their support for maintaining the highest standards of professionalism in the management of the City of Morganton's finances.

Respectfully submitted,

Karen B. Duncan, CPA
Finance Director

CITY OF MORGANTON ORGANIZATION CHART



S. Eric Bowman, P.A.

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Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Morganton, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morganton's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the City of Morganton ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Morganton ABC Board, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of City of Morganton ABC Board were not audited in accordance with Government Auditing Standards. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, of the City of Morganton, North Carolina as of June 30, 2007, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General fund and the Capital Reserve Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2007 on our consideration of City of Morganton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the basic financial statements of the City of Morganton, North Carolina, taken as a whole. The individual fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and the statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


S. Eric Bowman, P.A.
Certified Public Accountant

Management's Discussion and Analysis

As management of the City of Morganton, we offer readers of the City of Morganton's financial statements this narrative overview and analysis of the financial activities of the City of Morganton for the fiscal year ended June 30, 2007. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follows this narrative.

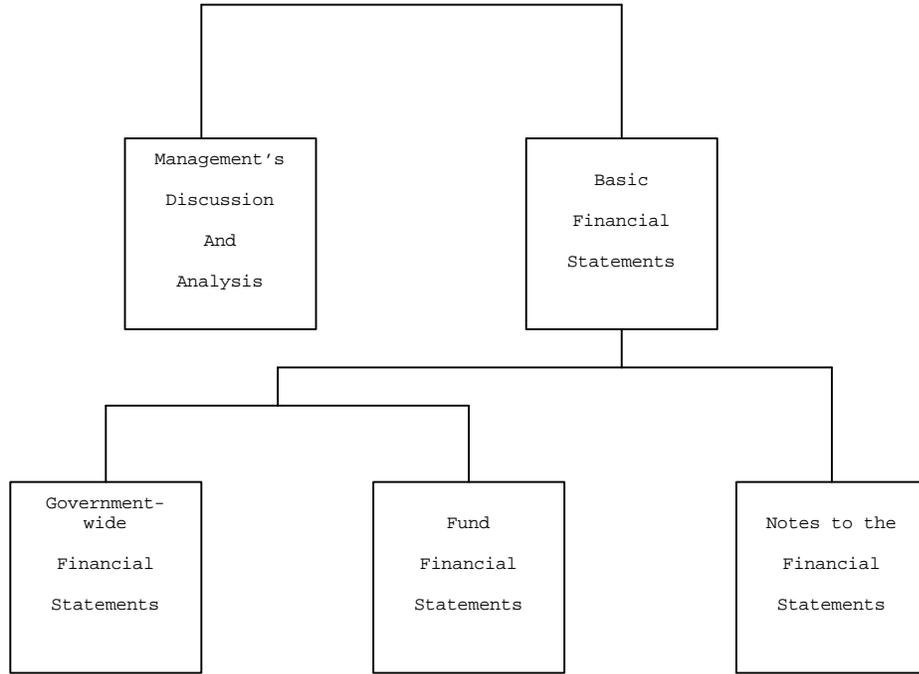
Financial Highlights

- The assets of the City of Morganton exceeded its liabilities at the close of the fiscal year by \$125,267,729 (*net assets*).
- The government's total net assets increased by \$908,016 split between increases in governmental activities and business-type activities net assets.
- As of the close of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balances of \$14,351,386, an increase of \$1,179,196 in comparison with the prior year. Approximately 63 percent of this amount, or \$9,024,120, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, undesignated fund balance for the General Fund was \$3,871,254, or 23 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt decreased by \$1,900,406 (12%) during the current fiscal year.
- Standard & Poors and Moody's Investors Service reviewed the City of Morganton bond ratings in April 2003. The City maintained its ratings of A+/A2.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Morganton's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. 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 of Morganton.

**Required Components of Annual Financial Report
Figure 1**



Summary ? Detail

Basic Financial Statements

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

The next statements (Exhibits 3 through 10) are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are 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. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statues also can be found in this part of the statements.

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 two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gage the City's financial condition.

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 public safety, culture and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities.

The business-type activities are those that the City charges customers to provide. These include water, electric, cable, wastewater and community house services offered by the City of Morganton.

The final category is the component units. Although legally separate from the City, the ABC Board and the Morganton Redevelopment Commission are important to the City because the City exercises control over the Board's by appointing their members and because in the case of the ABC Board, it is required to distribute its profits to the City.

The government-wide financial statements are on Exhibits 1 and 2 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 of Morganton, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Morganton can be divided into two categories: governmental funds and proprietary funds.

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

The City of Morganton adopts an annual budget for its General Fund and Capital Reserve Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in these funds; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds - The City of Morganton has two different kinds of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Morganton uses enterprise funds to account for its water, electric, wastewater, cable, and community house operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among City functions. The City uses an internal service fund to account for the activities of the management information systems, central warehouse and garage operations. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

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 an integral part 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 of Morganton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found after the financial statements in this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2003 were the beginning of a new era in financial reporting for the City of Morganton and many other units of government across the United States. Prior to that year, the City of Morganton maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City

of Morganton. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Morganton's financial reports as well as those of many other units of government. While the City of Morganton was required to implement these changes for the fiscal year ended June 30, 2003; other units were not required to implement until 2004.

**The City of Morganton's Net Assets
(net of depreciation)**

	Governmental-type		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and other assets	\$17,716,376	\$15,881,088	\$25,321,591	\$26,247,786	\$43,037,967	\$42,128,874
Capital assets	42,576,769	43,018,137	59,502,988	60,717,692	102,079,757	103,735,829
Total assets	<u>60,293,145</u>	<u>58,899,225</u>	<u>84,824,579</u>	<u>86,965,478</u>	<u>145,117,724</u>	<u>145,864,703</u>
L T liabilities outstanding	1,487,265	2,082,698	13,727,096	15,032,069	15,214,361	17,114,767
Other liabilities	<u>1,714,603</u>	<u>1,521,413</u>	<u>2,921,031</u>	<u>2,875,775</u>	<u>4,635,634</u>	<u>4,397,188</u>
Total liabilities	<u>3,201,868</u>	<u>3,604,111</u>	<u>16,648,127</u>	<u>17,907,844</u>	<u>19,849,995</u>	<u>21,511,955</u>
Net assets:						
Invested in capital assets, net of related debt	41,831,482	41,695,614	46,963,961	45,875,917	88,795,443	87,571,531
Restricted	745,287	1,260,371			745,287	1,260,371
Unrestricted	14,514,508	12,339,129	21,212,491	23,181,717	35,726,999	35,520,846
Total net assets	<u>\$57,091,277</u>	<u>\$55,295,114</u>	<u>\$68,176,452</u>	<u>\$69,057,634</u>	<u>\$125,267,729</u>	<u>\$124,352,748</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Morganton exceeded liabilities by \$125,267,729 as of June 30, 2007. The largest portion of the City's net assets is reflected in the City's investment in capital assets (less any related debt still outstanding that was issued to acquire those items.) The City of Morganton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Morganton's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Morganton's net assets (\$745,287) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$36,726,999 is unrestricted.

City of Morganton's Changes in Net Assets

	Governmental-type Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$2,034,227	\$1,420,095	\$35,002,657	\$34,749,996	\$37,036,884	\$36,170,090
Operating grants and Contributions	998,104	873,196	21,016	19,415	1,019,120	892,611
Capital grants and Contributions		709,313	173,500		173,500	709,313
General revenues:						
Ad valorem taxes	7,136,838	6,815,478			7,136,838	6,815,478
Other taxes	3,111,379	2,980,248			3,111,379	2,980,248
Unrestricted Intergovernmental	1,827,140	1,624,417			1,827,140	1,624,417
Investment earnings	827,704	677,091	862,651	988,043	1,690,355	1,665,134
Other	1,140,440	334,576	152,147	205,319	1,292,587	539,895
Total revenues	<u>17,075,832</u>	<u>15,434,414</u>	<u>36,211,971</u>	<u>35,962,773</u>	<u>53,287,803</u>	<u>51,397,187</u>
Expenses:						
General government	2,648,106	2,759,135			2,648,106	2,759,135
Public safety	6,551,152	6,613,948			6,551,152	6,613,948
Transportation	2,231,645	2,209,624			2,231,645	2,209,624
Economic and physical Development	50,308	121,415			50,308	121,415
Environmental protection	1,098,597	1,114,664			1,098,597	1,114,664
Culture and recreation	3,637,978	3,276,853			3,637,978	3,276,853
Interest on long-term debt	46,370	47,554			46,370	47,554
Water			3,169,593	2,864,899	3,169,593	2,864,899
Wastewater			3,380,132	3,401,640	3,380,132	3,401,640
Electric			25,241,193	24,664,921	25,241,193	24,664,921
Cable			4,001,462	3,874,683	4,001,462	3,874,683
Community House			323,251	296,857	323,251	296,857
Total expenses	<u>16,264,156</u>	<u>16,143,193</u>	<u>36,115,631</u>	<u>35,103,000</u>	<u>52,379,787</u>	<u>51,246,193</u>
Increase (decrease) in net assets before transfers						
	811,676	(708,779)	96,340	859,773	908,016	150,994
Transfers						
	744,259	706,054	(744,259)	(706,054)		
Increase(decrease) in net assets						
Net assets, July 1	55,295,114	55,149,888	<u>68,824,371</u>	<u>68,903,915</u>	124,119,485	124,053,803
Prior period adjustment	<u>240,228</u>	<u>147,951</u>			<u>240,228</u>	<u>147,951</u>
Net assets, June 30	<u>\$57,091,277</u>	<u>\$55,295,114</u>	<u>\$68,176,452</u>	<u>\$69,057,634</u>	<u>\$125,267,729</u>	<u>\$124,352,748</u>

Governmental activities: Governmental activities increased the City's net assets by \$1,555,935, thereby accounting for all of the total growth in the net assets of the City of Morganton.

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

- Property tax revenue increased by 321,360 (5 percent) during the year. Continued diminished costs of debt due to the City's bond rating and the prevailing low-interest rate environment.
- Rising interest rates allowed for an increase in interest earnings.
- The implementation of a solid waste user's fee generated an additional \$741,559 (311 percent) over the previous year.

Business-type activities: Business-type activities decreased the City of Morganton's net assets by \$647,919, accounting for a reduction in the government's overall net assets.

The most significant element of this decrease is in the electric fund which experienced an operational cost increase of \$541,654 (2 percent). This increase is due to the increase of the cost of purchasing power.

Financial Analysis of the Government's Funds: As noted earlier, the City of Morganton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Morganton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Morganton's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balance of \$14,351,386, an increase of \$1,179,196 in comparison with the prior year. Approximately 63% of this total amount (\$9,024,120) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed

- To liquidate purchase orders of the prior period
- To sustain canteen operations
- To use on streets
- For drug enforcement/DARE programs

The general fund is the chief operating fund of the City of Morganton. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,067,584, while total fund balance reached \$10,394,850. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 31 percent of total General Fund expenditures, while total fund balance represents 63 percent of that same amount.

At June 30, 2007, the governmental funds of the City of Morganton reported a combined fund balance of \$14,351,386.

General Fund Budgetary Highlights: During the fiscal year, there was a \$3,112,228 increase in appropriations between the original and final amended budget. 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.

During the year there were several increases in appropriations between the original budget and the final amended budget. Following are the main components of the increase:

- Purchase order rollover's from previous year (\$2,970,786)
- Stormwater permitting professional services (\$2,000)
- Insurance reimbursement - plant explosion (\$31,942)
- Legal expenses - Inner Basin Transfer lobbying effort (\$7,500)
- New recreation program (\$25,000)
- Refund of deposit to purchase property (\$50,000)
- Legal expenses - Local Government Fair Competition Act (\$25,000)

Significant variances between the final amended budget and actual expenses include:

- General fund revenues budgeted closely reflected revenue received. No significant variances exist.
- Human resources under budget due to a vacant position.
- Purchasing was under budget due to lower than projected liability claims.
- Main Street was under budget due to not completing capital projects which were budgeted for the 2006/07 fiscal year.
- Municipal Buildings was under budget by \$2,713,574 as the purchase of City Hall was not completed prior to year-end as it was budgeted.
- Public Safety was under budget due to not completing capital projects which were budgeted for the 2006/07 fiscal year.
- Transportation function and culture and recreation function departments were also under budget due to not completing budgeted capital projects.

Proprietary Funds. The City of Morganton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds amounted to \$21,212,491. Factors concerning the finances of these funds have already been addressed in the discussion of the City of Morganton's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City of Morganton's investment in capital assets for its governmental and business-type activities as of June 30, 2007 totals \$103,079,657 (net of accumulated depreciation). These assets include land, buildings, plant and system, equipment and infrastructure.

There were not any major capital asset transactions during the year. There were not significant demolitions or disposals.

**City of Morganton's Capital Assets
(Net of accumulated depreciation)**

	Governmental-type Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land and Buildings	\$17,459,042	\$17,262,842	\$23,980,306	\$24,368,591	41,439,348	\$41,631,433
Plant and System			33,313,272	33,225,442	33,313,272	33,225,442
Equipment	8,044,158	7,585,689	4,209,310	3,123,659	12,253,468	10,709,348
Infrastructure	<u>17,073,569</u>	<u>18,169,606</u>			<u>17,073,569</u>	<u>18,169,606</u>
Total	<u>\$42,576,769</u>	<u>\$43,018,137</u>	<u>\$60,502,888</u>	<u>\$60,717,692</u>	<u>\$103,079,657</u>	<u>\$103,735,829</u>

Additional information on the City's capital assets can be found in the notes to the Basic Financial Statements; specifically, in Section IV, Detail notes on all funds, Capital Assets section

Long-term Debt. As of June 30, 2007 the City of Morganton had total bonded debt outstanding of \$9,545,000 all of which is backed by the full faith and credit of the City.

**City of Morganton's Outstanding Debt
General Obligation Bonds**

	Governmental-type Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
G O Bonds	<u>\$49,400</u>	<u>\$117,800</u>	<u>\$9,495,600</u>	<u>\$10,782,200</u>	<u>\$9,545,000</u>	<u>\$10,900,000</u>

As mentioned in the financial highlights section of this document, the City of Morganton maintained its bond ratings after being reviewed by Standard & Poors and Moody's Investors Service in April 2003. The City's ratings of A+/A2 are a clear indication of the sound financial condition of the City of Morganton.

North Carolina general statutes limit the amount of general obligation debt a unit of government can issue to 8 percent of total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Morganton is \$116,893,613.

See the notes to the financial statements for additional information regarding the City of Morganton's long-term debt; specifically, in Section IV, Detail notes on all funds, Long-Term Obligations section.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- Viscotec, a state-of-the-art textile manufacturer, invested \$40 million in Phase 1 of a facility in the City. Phase 2, a \$15 million investment, is currently underway. The opening of Viscotec symbolized a renewal of one of the City's economic foundations. A third expansion has been announced.
- As is indicative of this part of the country, the local economic environment is experiencing some difficulties. The Hickory-

- Morganton-Lenoir MSA's unemployment rate of 6.1% is higher than the State's rate of 4.8% and the national rate of 4.5%. The MSA's labor force of 168,427 continues to remain virtually constant. Increased unemployment can be directly attributed to industry slow-downs and plant closings throughout the MSA.

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities: All revenues, for all funds, are projected based on trend analysis, estimates provided by the North Carolina League of Municipalities and assumed increases or decreases in usage. The City of Morganton responsibly and conservatively budgets its revenues. Assumptions used in budgeting major revenues are as follows:

Ad Valorem taxes are based on current valuations, as provided by the Burke County tax office, adjusted for anticipated annexations, discoveries and releases.

Other taxes and licenses such as privilege licenses are forecasted based on past trends and future predictions.

Unrestricted Intergovernmental Revenues, such as Franchise Tax and Sales Tax reimbursements are budgeted based on past amounts received, adjusted for growth and local economic influences.

Restricted Intergovernmental Revenues are primarily grant-related. Budgets are based on anticipated grant awards.

Sales and Service revenues vary in nature. The largest of these revenues, in the General Fund, are commercial solid waste user fees, City of Morganton Municipal Auditorium ticket sales and recreation program fees. The basis for budgeting these revenues is a factor of the number of participants (or users) multiplied by the appropriate rate or fee.

Overall the City of Morganton's governmental funds budget for 2007-2008 represents an increase of 2% or \$533,794 over the 2006-2007 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2007-2008 business-type activities budget overall is 3% or \$1,331,255 higher than the 2006-2007 budget.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Morganton, P O Box 3448, Morganton, NC 28655.



CITY OF MORGANTON
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
ASSETS					
Cash and cash equivalents	\$3,943,938	\$4,325,409	\$8,269,347	\$227,094	\$138,575
Investments	10,203,746	15,642,404	25,846,150		
Taxes receivable (net)	131,598		131,598		
Accrued interest receivable-taxes	6,325		6,325		
Interest receivable-investments	384,967	268,150	653,117		
Accounts receivable (net)	990,715	3,694,818	4,685,533		
Expendable restricted cash	135,718	358,604	494,322		
Nonexpendable restricted cash		11,859	11,859		
Inventories	900,715		900,715	194,308	
Notes receivable (net)	1,018,654	20,447	1,039,101		
Capital assets (net of accumulated depreciation):					
Land and buildings	17,459,042	23,980,306	41,439,348	19,665	1,081,695
Plant and system		32,313,272	32,313,272		
Equipment	8,044,158	4,209,310	12,253,468	8,298	
Infrastructure	17,073,569		17,073,569		
Total assets	60,293,145	84,824,579	145,117,724	449,365	1,220,270
LIABILITIES					
Accounts payable and current liabilities	1,650,334	2,486,938	4,137,272	221,595	
Customer deposits		422,234	422,234		11,000
Unearned revenue	57,678		57,678		
Matured bonds and coupons outstanding		11,859	11,859		
Accrued interest payable	6,591		6,591		
Noncurrent liabilities:					
Due within one year:					
Installment purchases payable	252,086	1,201,618	1,453,704		
Bonds payable	49,400	1,212,856	1,262,256		
Notes payable	40,000		40,000		134,989
Compensated absences payable	344,055	90,321	434,376		
Due in more than one year:					
Installment purchases payable	348,802	3,383,319	3,732,121		
Bonds payable		7,741,134	7,741,134		
Notes payable	55,000		55,000		
Compensated absences payable	377,878	97,848	475,726		
Net pension obligation	20,044		20,044		
Total liabilities	3,201,868	16,648,127	19,849,995	221,595	145,989
NET ASSETS					
Invested in capital assets, net of related debt	41,831,482	46,963,961	88,795,443	27,963	946,706
Restricted for:					
Public Safety	600,887		600,887	32,770	
Economic Development	95,000		95,000		
Culture and Recreation	49,400		49,400		
Unrestricted	14,514,508	21,212,491	35,726,999	167,037	127,575
Total net assets	\$57,091,277	\$68,176,452	\$125,267,729	\$227,770	\$1,074,281

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

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CITY OF MORGANTON
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$2,648,106	\$283,089	\$61,109	
Public Safety	6,551,152	24,793	307,535	
Transportation	2,231,645	4,797	530,871	
Economic and physical development	50,308		98,589	
Environmental protection	1,098,597	1,093,367		
Culture and recreation	3,637,978	628,181		
Interest on long-term debt	46,370			
Total governmental activities	<u>16,264,156</u>	<u>2,034,227</u>	<u>998,104</u>	
Business-type activities:				
Water	3,169,593	3,945,198		
Wastewater	3,380,132	4,353,978		173,500
Electric	25,241,193	23,094,949		
Cable	4,001,462	3,367,112		
Community house	323,251	241,420	21,016	
Total business-type activities	<u>36,115,631</u>	<u>35,002,657</u>	<u>21,016</u>	<u>173,500</u>
Total primary government	<u>\$52,379,787</u>	<u>\$37,036,884</u>	<u>\$1,019,120</u>	<u>\$173,500</u>
Component units:				
Morganton ABC board	741,645	744,858		
Morganton redevelopment commission	2,403			
Total component units	<u>744,048</u>	<u>744,858</u>		
General revenues:				
Ad valorem taxes				
Privilege licenses				
Carbon city fire tax				
One-half cent sales tax				
One cent sales tax				
Unrestricted intergovernmental revenues				
Investment earnings				
Other revenues				
Transfers				
Sale of capital asset				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Prior period adjustment				
Net assets - ending				

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

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Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
(\$2,303,908)		(\$2,303,908)		
(6,218,824)		(6,218,824)		
(1,695,977)		(1,695,977)		
48,281		48,281		
(5,230)		(5,230)		
(3,009,797)		(3,009,797)		
(46,370)		(46,370)		
<u>(13,231,825)</u>		<u>(13,231,825)</u>		
	775,605	775,605		
	1,147,346	1,147,346		
	(2,146,244)	(2,146,244)		
	(634,350)	(634,350)		
	(60,815)	(60,815)		
	<u>(918,458)</u>	<u>(918,458)</u>		
<u>(13,231,825)</u>	<u>(918,458)</u>	<u>(14,150,283)</u>		
			\$3,213	
				(\$2,403)
			<u>3,213</u>	<u>(2,403)</u>
7,136,838		7,136,838		
56,741		56,741		
7,639		7,639		
2,128,518		2,128,518		
918,481		918,481		
1,827,140		1,827,140		
827,704	862,651	1,690,355	5,073	4,426
557,161	152,147	709,308	1,353	46,751
744,259	(744,259)			
583,279		583,279		
<u>14,787,760</u>	<u>270,539</u>	<u>15,058,299</u>	<u>6,426</u>	<u>51,177</u>
1,555,935	(647,919)	908,016	9,639	48,774
55,295,114	68,824,371	124,119,485	218,131	1,025,507
240,228		240,228		
<u>\$57,091,277</u>	<u>\$68,176,452</u>	<u>\$125,267,729</u>	<u>\$227,770</u>	<u>\$1,074,281</u>

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CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	CDBG Entitlement Fund	Capital Reserve Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$2,759,310	\$29,163	\$450,409	\$31,191	\$3,270,073
Restricted cash	135,718				135,718
Investments	6,878,275		3,000,000	325,471	10,203,746
Taxes receivable (net)	131,598				131,598
Accounts receivable (net)	984,687	5,863			990,550
Interest receivable	270,511		107,302	7,154	384,967
Notes receivable (net)	1,018,654				1,018,654
Total assets	<u>\$12,178,753</u>	<u>\$35,026</u>	<u>\$3,557,711</u>	<u>\$363,816</u>	<u>\$16,135,306</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	1,594,627	17			1,594,644
Deferred revenue	189,276				189,276
Total liabilities	<u>1,783,903</u>	<u>17</u>			<u>1,783,920</u>
Fund Balances:					
Reserved for:					
State statute	2,273,852				2,273,852
Encumbrances	1,562,752				1,562,752
Canteen operations	2,335				2,335
Streets - Powell Bill	1,005,567				1,005,567
Drug enforcement	66,320				66,320
Economic development	377,884				377,884
DARE programs	38,556				38,556
Unreserved, reported in:					
Designated for CIP	1,196,330				1,196,330
Undesignated	3,871,254	35,009			3,906,263
Capital Reserve fund			3,557,711		3,557,711
Permanent fund				363,816	363,816
Total fund balances	<u>\$10,394,850</u>	<u>\$35,009</u>	<u>\$3,557,711</u>	<u>363,816</u>	<u>14,351,386</u>
Total liabilities and fund balances	<u>\$12,178,753</u>	<u>\$35,026</u>	<u>\$3,557,711</u>	<u>\$363,816</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	42,039,369
Other assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	131,332
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	2,022,007
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,452,817)
Net assets of governmental activities	<u>57,091,277</u>

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

CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	CDBG Entitlement Fund	Capital Reserve Fund	Permanent Fund	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$7,136,147				7,136,147
Other taxes and licenses	3,111,379				3,111,379
Unrestricted intergovernmental revenues	1,827,140				1,827,140
Restricted intergovernmental revenues	798,809	\$98,589			897,398
Other restricted revenues	61,109				61,109
Permits and fees	208,590				208,590
Sales and services	1,855,409			\$9,825	1,865,234
Investment earnings	638,223		\$176,485	12,996	827,704
Other revenues	522,151	35,009			557,160
Total revenues	<u>16,158,957</u>	<u>133,598</u>	<u>176,485</u>	<u>22,821</u>	<u>16,491,861</u>
EXPENDITURES					
Current					
General government	2,712,591				2,712,591
Public safety	6,590,915				6,590,915
Transportation	1,122,564				1,122,564
Environmental protection	1,186,814				1,186,814
Cultural and recreational	4,386,677				4,386,677
Economic and physical development		50,308			50,308
Debt service					
Principal retirement	537,235	40,000			577,235
Interest and fees	42,066	8,281			50,347
Total expenditures	<u>16,578,862</u>	<u>98,589</u>			<u>16,677,451</u>
Revenues over (under) expenditures	<u>(419,905)</u>	<u>35,009</u>	<u>176,485</u>	<u>22,821</u>	<u>(185,590)</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital asset	620,527				620,527
Transfers - in	780,959		240,000		1,020,959
Transfers - out	(276,700)				(276,700)
Total other financing sources (uses)	<u>1,124,786</u>		<u>240,000</u>		<u>1,364,786</u>
Net change in fund balances	704,881	35,009	416,485	22,821	1,179,196
Fund balances - beginning	<u>9,689,969</u>		<u>3,141,226</u>	<u>340,995</u>	<u>13,172,190</u>
Fund balances - ending	<u>\$10,394,850</u>	<u>\$35,009</u>	<u>\$3,557,711</u>	<u>\$363,816</u>	<u>\$14,351,386</u>

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

CITY OF MORGANTON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Net change in fund balances - total governmental funds	\$1,179,196
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(520,702)
The effect of the sale of a capital asset to net assets.	(37,248)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	405
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	577,235
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	22,461
The net revenue of certain activities of the internal service fund is reported with governmental activities.	<u>334,588</u>
Change in net assets of governmental activities.	<u><u>\$1,555,935</u></u>

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

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes				
Current year	\$6,928,547	\$6,954,147	\$6,991,043	\$36,896
Prior years	45,000	98,700	100,086	1,386
Special tax - Main Street	75,500	77,100	77,109	9
Interest	32,500	48,900	42,055	(6,845)
Discounts	(65,000)	(65,000)	(74,146)	(9,146)
Total	<u>7,016,547</u>	<u>7,113,847</u>	<u>7,136,147</u>	<u>22,300</u>
Other taxes and licenses				
Privilege licenses	57,400	57,400	56,741	(659)
Carbon city fire tax	15,000	15,000	7,639	(7,361)
One-half cent sales tax	2,020,568	2,020,568	2,128,518	107,950
One cent sales tax	996,428	996,428	918,481	(77,947)
Total	<u>3,089,396</u>	<u>3,089,396</u>	<u>3,111,379</u>	<u>21,983</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	22,000	22,000	24,141	2,141
Section eight in lieu of taxes	3,200	3,200	2,736	(464)
Electric in lieu of taxes	96,432	96,432	96,432	
Franchise tax	1,228,083	1,228,083	1,260,493	32,410
Cable franchise tax	145,292	145,292	102,933	(42,359)
Beer and wine	79,954	79,954	76,862	(3,092)
Alcohol Beverage Commission	233,870	246,370	263,543	17,173
Total	<u>1,808,831</u>	<u>1,821,331</u>	<u>1,827,140</u>	<u>5,809</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	99,108	99,108	99,108	
Drug restitution	2,500	2,500		(2,500)
ABC restitution	1,500	1,500		(1,500)
D O T grant	67,000	67,000	13,510	(53,490)
School resource officer	200,763	200,763	155,320	(45,443)

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES - (continued)				
Restricted intergovernmental revenues - (continued)				
League of Municipalities wellness/safety grant	\$5,000	\$5,000		(\$5,000)
Powell bill street aid allocation	560,016	560,016	530,871	(29,145)
Total	<u>935,887</u>	<u>935,887</u>	<u>798,809</u>	<u>(137,078)</u>
Other restricted revenues				
Restricted contributions	297,500	322,500	61,109	(261,391)
Shared curb & gutter	5,000	5,000		(5,000)
Total	<u>302,500</u>	<u>327,500</u>	<u>61,109</u>	<u>(266,391)</u>
Permits and fees				
Building permits	75,000	76,000	77,747	1,747
Plumbing permits	32,000	34,700	35,277	577
Electric permits	93,000	93,000	91,591	(1,409)
Variance request	1,000	1,000	1,000	
Fire inspection revenue	10,950	10,950	2,975	(7,975)
Total	<u>211,950</u>	<u>215,650</u>	<u>208,590</u>	<u>(7,060)</u>
Sales and services				
Parking revenue	20,800	20,800	17,292	(3,508)
Reimbursement for services	5,000	5,000		(5,000)
Solid waste user fees	1,005,000	1,023,300	1,093,367	70,067
Curb cuts	8,000	8,000	4,797	(3,203)
Civil citations	500	500	350	(150)
Rent	76,000	76,000	4,555	(71,445)
Fire protection	4,000	4,000	24,805	20,805
Recreation revenue	415,000	415,000	396,923	(18,077)
Bad check charges	7,000	7,000	4,319	(2,681)
Canteen sales	1,350	1,350	1,456	106
Studio revenue	2,500	2,500		(2,500)
Main street revenue	36,940	36,940	26,903	(10,037)
Façade loan program	5,675	5,675	5,062	(613)
DARE program	5,000	5,000	11,010	6,010
Municipal auditorium ticket sales	200,000	200,000	231,258	31,258

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Vision incentive program			10,500	10,500
Reimbursements				
Election - fees	120	120		(120)
Morganton/Lenoir airport			1,344	1,344
Court cost and fees	15,000	21,400	21,468	68
Total	<u>1,807,885</u>	<u>1,832,585</u>	<u>1,855,409</u>	<u>22,824</u>
Investment earnings	<u>338,945</u>	<u>645,445</u>	<u>638,223</u>	<u>(7,222)</u>
Other revenue				
Miscellaneous	85,000	203,642	146,336	(57,306)
Payment of component unit note	200,000	200,000	200,000	
Contributions	177,158	177,158	175,815	(1,343)
Total	<u>462,158</u>	<u>580,800</u>	<u>522,151</u>	<u>(58,649)</u>
Total revenue	<u>15,974,099</u>	<u>16,562,441</u>	<u>16,158,957</u>	<u>(403,484)</u>
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			51,556	
Operating expenditures			163,231	
Donations/economic development			606,543	
Elections			6,422	
Pro rata administrative services			(623,543)	
Total	<u>259,320</u>	<u>285,752</u>	<u>204,209</u>	<u>81,543</u>
Legal				
Salaries and employee benefits			171,928	
Operating expenditures			57,808	
Pro rata administrative services			(171,206)	
Total	<u>42,802</u>	<u>71,302</u>	<u>58,530</u>	<u>12,772</u>

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Executive - city manager				
Salaries and employee benefits			\$346,870	
Operating expenditures			37,054	
Pro rata administrative services			(299,854)	
Total	\$74,338	\$76,588	84,070	(\$7,482)
Executive - human resources				
Salaries and employee benefits			199,810	
Operating expenditures			503,934	
Pro rata administrative services			(332,992)	
Total	332,992	455,567	370,752	\$84,815
Purchasing				
Salaries and employee benefits			46,041	
Operating expenditures			529,587	
Pro rata administrative services			(348,716)	
Total	232,477	267,477	226,912	40,565
Main Street				
Salaries and employee benefits			\$113,296	
Operating expenditures			164,262	
Total	317,948	379,903	277,558	102,345
Canteen operations				
Operating expenditures	2,000	2,000	1,355	645
Finance				
Salaries and employee benefits			207,404	
Operating expenditures			88,821	
Pro rata administrative services			(242,043)	
Total	60,511	67,511	54,182	13,329
Business office				
Salaries and employee benefits			304,834	
Operating expenditures			141,217	
Pro rata administrative services			(429,955)	
Total	39,630	86,255	16,096	70,159

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
General government (continued)				
Development				
Salaries and employee benefits			\$456,625	
Operating expenditures			116,574	
Capital outlay			22,774	
Total	\$706,585	\$809,781	595,973	\$213,808
Municipal buildings				
Operating expenditures			472,007	
Pro rata administrative services			(380,094)	
Total	2,802,076	2,805,487	91,913	2,713,574
Design				
Salaries and employee benefits			336,073	
Operating expenditures			90,538	
Pro rata administrative services			(333,591)	
Total	179,626	278,626	93,020	185,606
Public works				
Salaries and employee benefits			125,456	
Operating expenditures			11,732	
Total	148,316	148,516	137,188	11,328
Cemetery and grounds				
Salaries and employee benefits			384,288	
Operating expenditures			64,937	
Capital outlay			51,608	
Total	554,029	554,378	500,833	53,545
Total general government	5,752,650	6,289,143	2,712,591	3,576,552
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,368,217	
Operating expenditures			899,525	
Pro rata administrative services			(240)	
Capital outlay			323,413	
Total public safety	7,219,436	7,836,250	6,590,915	1,245,335

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Transportation				
Street department				
Salaries and employee benefits			\$629,711	
Operating expenditures			122,173	
Total	\$968,428	\$1,023,553	751,884	\$271,669
Powell bill				
Salaries and employee benefits			187,757	
Operating expenditures			97,038	
Capital outlay			85,885	
Total	432,564	522,680	370,680	152,000
Total transportation	1,400,992	1,546,233	1,122,564	423,669
Environmental protection - sanitation				
Salaries and employee benefits			643,811	
Operating expenditures			319,345	
Capital outlay			223,658	
Total environmental protection	1,256,165	1,436,073	1,186,814	249,259
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			212,249	
Operating expenditures			464,822	
Capital outlay			152,130	
Total	762,816	879,884	829,201	50,683
Recreation				
Salaries and employee benefits			1,360,906	
Operating expenditures			1,219,359	
Capital outlay			977,211	
Total	3,192,952	4,709,646	3,557,476	1,152,170
Total cultural and recreational	3,955,768	5,589,530	4,386,677	1,202,853

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$537,208	\$537,208	\$537,235	(\$27)
Interest	42,083	42,083	42,066	17
Total debt service	<u>579,291</u>	<u>579,291</u>	<u>579,301</u>	<u>(10)</u>
Total expenditures	<u>20,164,302</u>	<u>23,276,520</u>	<u>16,578,862</u>	<u>6,697,658</u>
Revenues over (under) expenditures	<u>(4,190,203)</u>	<u>(6,714,079)</u>	<u>(419,905)</u>	<u>6,294,174</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	407,262	2,861,638		(2,861,638)
Installment purchase proceeds	2,899,262	2,899,262		(2,899,262)
Sale of capital asset	448,920	448,920	620,527	171,607
Transfers out	(336,700)	(276,700)	(276,700)	
Transfers in	771,459	780,959	780,959	
Total other financing sources	<u>4,190,203</u>	<u>6,714,079</u>	<u>1,124,786</u>	<u>(5,589,293)</u>
Revenues and other sources over (under) expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>704,881</u>	<u>\$704,881</u>
Net change in fund balances			704,881	
Fund balances - beginning			<u>9,689,969</u>	
Fund balances - ending			<u>\$10,394,850</u>	

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

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CITY OF MORGANTON
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Interest earned			\$176,485	\$176,485
Total revenues			176,485	176,485
OTHER FINANCING SOURCES (USES)				
Transfer from general fund		\$50,000	240,000	190,000
Transfer to general fund		(50,000)		50,000
Total other financing sources (uses)	Nil	Nil	240,000	240,000
Excess of revenues over (under) expenditures		Nil	416,485	416,485
Net change in fund balances			416,485	
Fund balances - beginning			3,141,226	
Fund balances - ending			\$3,557,711	

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

CITY OF MORGANTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-type Activities - Enterprise Funds					Totals June 30, 2007	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
<u>ASSETS</u>							
CURRENT ASSETS :							
Cash and cash equivalents	\$2,207,056	\$791,460	\$1,326,893			4,325,409	\$673,865
Investments	3,645,110	1,066,722	10,930,572			15,642,404	
Accounts receivable (net)	403,930	477,919	2,481,254	331,715		3,694,818	165
Interest receivable	72,678	29,986	165,486			268,150	
Inventories							900,715
Due from other funds			3,079,540			3,079,540	
Restricted Cash	262,776	107,687				370,463	
Total current assets	<u>6,591,550</u>	<u>2,473,774</u>	<u>17,983,745</u>	<u>331,715</u>		<u>27,380,784</u>	<u>1,574,745</u>
NONCURRENT ASSETS :							
Notes receivable		20,447				20,447	
Capital assets (net)	16,781,532	25,537,685	10,478,306	7,513,288	192,077	60,502,888	537,400
Total noncurrent assets	<u>16,781,532</u>	<u>25,558,132</u>	<u>10,478,306</u>	<u>7,513,288</u>	<u>192,077</u>	<u>60,523,335</u>	<u>537,400</u>
TOTAL ASSETS	<u>23,373,082</u>	<u>28,031,906</u>	<u>28,462,051</u>	<u>7,845,003</u>	<u>192,077</u>	<u>87,904,119</u>	<u>2,112,145</u>
<u>LIABILITIES</u>							
CURRENT LIABILITIES :							
Accounts payable and accrued liabilities	42,604	80,077	2,174,586	177,290	12,381	2,486,938	55,690
Due to other funds				2,754,185	325,355	3,079,540	
Customer deposits	51,007	35,066	324,361	11,800		422,234	
Bonds payable - current maturities	365,279	847,577				1,212,856	
Installment purchase - current maturities	113,288	41,901		1,046,429		1,201,618	
Matured bonds payable	995	10,864				11,859	
Total current liabilities	<u>573,173</u>	<u>1,015,485</u>	<u>2,498,947</u>	<u>3,989,704</u>	<u>337,736</u>	<u>8,415,045</u>	<u>55,690</u>
NONCURRENT LIABILITIES :							
Accrued vacation pay	40,299	64,473	61,462	15,565	6,370	188,169	34,448
Bonds payable - noncurrent	1,642,431	6,098,703				7,741,134	
Installment purchase - noncurrent maturities	560,091	207,157		2,616,071		3,383,319	
Total noncurrent liabilities	<u>2,242,821</u>	<u>6,370,333</u>	<u>61,462</u>	<u>2,631,636</u>	<u>6,370</u>	<u>11,312,622</u>	<u>34,448</u>
TOTAL LIABILITIES	<u>2,815,994</u>	<u>7,385,818</u>	<u>2,560,409</u>	<u>6,621,340</u>	<u>344,106</u>	<u>19,727,667</u>	<u>90,138</u>
<u>NET ASSETS</u>							
Invested in capital assets, net of related debt	13,986,703	18,342,447	20,502,366	3,850,788	192,077	56,874,381	537,400
Unrestricted	6,570,385	2,303,641	5,399,276	(2,627,125)	(344,106)	11,302,071	1,484,607
TOTAL NET ASSETS	<u>\$20,557,088</u>	<u>\$20,646,088</u>	<u>\$25,901,642</u>	<u>\$1,223,663</u>	<u>(\$152,029)</u>	<u>68,176,452</u>	<u>\$2,022,007</u>

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

CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities - Enterprise Funds					Totals June 30, 2007	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
OPERATING REVENUES :							
Charges for services	\$3,945,198	\$4,353,978	\$23,094,949	\$3,367,112	\$241,420	\$35,002,657	\$1,877,114
OPERATING EXPENSES :							
Water treatment and maintenance	2,496,372					2,496,372	
Wastewater treatment and maintenance		2,571,726				2,571,726	
Operations and construction			24,678,637			24,678,637	
Operations and maintenance				2,831,464		2,831,464	
Community House operations					311,966	311,966	
MIS, Garage and Warehouse operations							1,483,621
Depreciation	540,213	457,445	562,556	1,061,110	11,285	2,632,609	61,777
Total	3,036,585	3,029,171	25,241,193	3,892,574	323,251	35,522,774	1,545,398
OPERATING INCOME (LOSS)	908,613	1,324,807	(2,146,244)	(525,462)	(81,831)	(520,117)	331,716
NONOPERATING REVENUES (EXPENSES) :							
Interest on investments	252,027	106,063	504,561			862,651	
Private contributions					21,016	21,016	
Interest expense				(108,888)		(108,888)	
Sale of materials							2,872
Interest on bonds	(93,587)	(282,638)				(376,225)	
Amortization of deferred charge on refundings	(39,421)	(68,323)				(107,744)	
Miscellaneous	6,212	176,820	16,620	125,995		325,647	
Total	125,231	(68,078)	521,181	17,107	21,016	616,457	2,872
INCOME (LOSS) BEFORE TRANSFERS	1,033,844	1,256,729	(1,625,063)	(508,355)	(60,815)	96,340	334,588
TRANSFERS :							
In		181,913	87,118	250,000	36,700	555,731	
Out	(278,531)		(1,021,459)			(1,299,990)	
Total	(278,531)	181,913	(934,341)	250,000	36,700	(744,259)	
Change in net assets	755,313	1,438,642	(2,559,404)	(258,355)	(24,115)	(647,919)	334,588
TOTAL NET ASSETS - beginning	19,801,775	19,207,446	28,461,046	1,482,018	(127,914)		1,687,419
TOTAL NET ASSETS - ending	\$20,557,088	\$20,646,088	\$25,901,642	\$1,223,663	(\$152,029)		\$2,022,007
Change in net assets of business-type activities						(647,919)	

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

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities - Enterprise Funds					Totals June 30, 2007	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
CASH FLOWS FROM OPERATING ACTIVITIES :							
Receipts from customers	\$3,945,198	\$4,353,978	\$23,094,949	\$3,367,112	\$241,420	\$35,002,657	\$1,877,114
Payments to suppliers	(1,678,394)	(1,655,188)	(23,545,110)	(2,517,539)	(183,946)	(29,580,177)	(974,326)
Payments to employees	(902,989)	(968,358)	(1,273,773)	(302,636)	(130,937)	(3,578,693)	(519,677)
Net cash provided (used) by operating activities	<u>1,363,815</u>	<u>1,730,432</u>	<u>(1,723,934)</u>	<u>546,937</u>	<u>(73,463)</u>	<u>1,843,787</u>	<u>383,111</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES :							
Transfers - in		181,913	87,118	250,000	36,700	555,731	
Transfers - (out)	(278,531)		(1,021,459)			(1,299,990)	
Interfund borrowings			(248,132)	232,385	15,747		
Noncapital contributions received (used)	6,212	176,819	16,620	125,995	21,016	346,662	2,872
Net cash provided (used) by noncapital financing activities	<u>(272,319)</u>	<u>358,732</u>	<u>(1,165,853)</u>	<u>608,380</u>	<u>73,463</u>	<u>(397,597)</u>	<u>2,872</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from capital debt	673,379	249,058				922,437	
Acquisition and construction of capital assets	(774,544)	(653,137)	(990,125)			(2,417,806)	(\$178,358)
Principal paid on capital debt	(446,550)	(840,050)		(1,046,429)		(2,333,029)	
Interest paid on capital debt	(93,587)	(282,638)		(108,888)		(485,113)	
Net cash provided (used) by capital and related financing activities	<u>(641,302)</u>	<u>(1,526,767)</u>	<u>(990,125)</u>	<u>(1,155,317)</u>		<u>(4,313,511)</u>	<u>(178,358)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :							
Proceeds from sales and maturities of investments	4,052,497	657,800	11,118,051			15,828,348	
Purchases of investments	(3,645,110)	(1,066,722)	(10,930,572)			(15,642,404)	
Interest on investments	282,579	108,170	685,518			1,076,267	
Net cash provided (used) by investing activities	<u>689,966</u>	<u>(300,752)</u>	<u>872,997</u>			<u>1,262,211</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS							
	1,140,160	261,645	(3,006,915)	Nil	Nil	(1,605,110)	207,625
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
	<u>1,329,672</u>	<u>637,502</u>	<u>4,333,808</u>	<u>Nil</u>	<u>Nil</u>	<u>6,300,982</u>	<u>466,240</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR							
	<u>\$2,469,832</u>	<u>\$899,147</u>	<u>\$1,326,893</u>	<u>Nil</u>	<u>Nil</u>	<u>4,695,872</u>	<u>\$673,865</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities - Enterprise Funds					Totals June 30, 2007	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED)							
BY OPERATING ACTIVITIES:							
Operating income (loss)	\$908,613	\$1,324,807	(\$2,146,244)	(\$525,462)	(\$81,831)	(\$520,117)	\$331,716
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :							
Depreciation	540,213	457,445	562,556	1,061,110	11,285	2,632,609	61,777
Changes in assets and liabilities :							
(Increase) decrease in accounts receivable	(67,989)	(69,626)	(166,173)	(8,050)		(311,838)	(165)
(Increase) decrease in inventories							(37,849)
Increase (decrease) in accounts payable and accrued liabilities	(10,252)	9,453	15,726	21,693	(3,119)	33,501	20,668
Increase (decrease) in customer deposits	3,190	2,238	8,428	(2,100)		11,756	
Increase (decrease) in accrued vacation pay	(9,960)	6,115	1,773	(254)	202	(2,124)	6,964
Net cash provided (used) by operating activities	<u>\$1,363,815</u>	<u>\$1,730,432</u>	<u>(\$1,723,934)</u>	<u>\$546,937</u>	<u>(\$73,463)</u>	<u>\$1,843,787</u>	<u>\$383,111</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:							
Increase in fair value of investments	308	186	836			1,330	
Amortization of deferred charges on refunding	39,421	68,323				107,744	
Total noncash investing, capital and financing activities	<u>\$39,729</u>	<u>\$68,509</u>	<u>\$836</u>			<u>\$109,074</u>	

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies

The accounting policies of the City of Morganton and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting entity

The City of Morganton is a municipal corporation governed by an elected mayor and four-member council. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

City of Morganton ABC Board

The City appoints the members of the ABC Board's governing board. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were an enterprise fund type. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Morganton ABC Board, 228 W. Fleming Drive, Morganton, NC 28655.

City of Morganton Redevelopment Commission

The members of the Redevelopment Commission are appointed by the City Council. The purpose of the Commission is to revitalize blighted areas in the City, as designated. The City has the ability to impose its will on the commission by removing appointed board members or management at will. Also, the commission may not secure lending arrangements without the City's intervention; therefore, the commission is reported as a discrete component unit and is presented as a general governmental fund. The commission has a June 30 year-end. Complete financial statements may be obtained at 305 E. Union Street, Morganton, NC 28655.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. 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

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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 collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Ad valorem tax receivable is not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Burke County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Morganton. For motor vehicles registered under the staggered system, property taxes are 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.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

Therefore, the City's vehicle taxes for vehicles registered in Burke County from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as deferred revenues.

As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for public safety, streets and highways, sanitation, parks and recreation and general government services.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City has two special revenue funds, those being the CDBG Entitlement Fund and the Capital Reserve Fund.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

The CDBG Entitlement Fund accounts for federal funds used to benefit low and moderate-income individuals. The Capital Reserve Fund is used to record funds received from the sale of property to the State of North Carolina.

The permanent fund is used to account for transactions related to the City Cemetery.

The government reports the following major proprietary funds:

The water fund is used to account for the City's water operation.

The wastewater fund is used to account for the City's wastewater operation.

The electric fund is used to account for the City's electric distribution operation.

The cable fund is used to account for the City's cable operation.

The community house fund is used to account for the community house operation.

Additionally, the City reports the following fund type:

The internal service fund accounts for the warehouse, central garage and management information systems functions. Services are provided to City departments by this fund.

D. Budgetary data

As required by the Local Government Budget and Fiscal Control Act (G.S. 159, Article 3), the governing board must adopt by July 1 an annual balanced budget ordinance for all funds except for those funds which operate under project ordinances. The City has adopted project ordinances for the CDBG Entitlement Fund. The annual budget is prepared on the modified accrual basis of accounting to be compatible with the accounting system in recording transactions, as required by G.S. 159-26(c).

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

Appropriations are made at the departmental level and are amended as necessary by the governing board. All appropriations (other than funds with multiyear budgets) lapse at year-end. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for project ordinances. The City Manager is authorized to transfer appropriations within a fund; however the governing board must approve any revisions that alter total expenditures of any fund. Both the original and the amended budget ordinances as of June 30, 2007 are included in the financial statements.

E. Assets, liabilities, and fund equity

Deposits and investments

All deposits of the City, the ABC Board and the Redevelopment Commission are made in board-designated official depositories and are secured as required by G.S. 159-31. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the City and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law (G.S. 159-39(c)) authorizes the City, the ABC Board and the Redevelopment Commission 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, the ABC Board and the Redevelopment Commission's investments with a maturity of 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. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

In accordance with State law, the City has invested in securities, which are callable, and which provide for periodic interest rate increases in specific increments until maturity. These investments are stated at fair value as determined by quoted market prices.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

Cash and cash equivalents

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. The City, the ABC Board and the Redevelopment Commission consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Ad valorem taxes receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on July 1, the beginning of the fiscal year. The taxes are due on September 1; however, interest does not accrue until the following January 6 (the lien date). These taxes are based on the assessed values as of January 1, 2006. As allowed by State law, the City has established a schedule of discounts that apply to taxes, which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowances for doubtful accounts

Allowances for doubtful accounts are maintained on all types of receivables, which historically experience uncollectible accounts.

Inventories

The internal service fund maintains all inventories unless it has been charged out to enterprise fund trucks. All inventories are valued at the lower of average cost or market. Governmental fund type inventories are charged to expenditures when purchased. The ABC Board values inventory at the lower of FIFO cost or market. The Redevelopment Commission maintains no inventory.

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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 one year. Purchased or constructed capital assets are recorded at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the donation date.

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.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	50
Buildings	30
Land Improvements	15
Vehicles	10
Equipment	5

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Assets</u>	<u>Years</u>
Buildings	35
Improvements	15
Equipment	5

The Morganton Redevelopment Commission has capital assets consisting of land only.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance cost are reported as deferred charges and amortized over the term of the related debt.

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 debt issued is reported as other financing sources while discounts on debt issuance's are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated absences

The vacation policy of the City and the ABC Board provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary related payments are recorded as the leave is earned.

Both the City and the ABC Board's sick leave policy provide for an unlimited accumulation of earned sick leave. Sick leave does not vest but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the City nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

Net assets/fund balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent 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, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus that sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balance as follows:

RESERVED

Reserved by state statute - portion of fund balance not available for appropriation after remaining reserves not available for appropriation, such as reserves for encumbrances, have been segregated. This amount is usually comprised of receivables and due from other funds.

Reserved for encumbrances - portion of fund balance available for appropriation to pay for commitments related to unperformed contracts.

Reserved for canteen operations - portion of fund balance available for appropriation but segregated for canteen operations. It represents the balance of the total unexpended canteen funds.

Reserved for streets - portion of fund balance available for appropriation but legally segregated for street expenditures. It represents the balance of the total unexpended Powell Bill funds.

Reserved for drug enforcement - portion of fund balance available for appropriation but segregated for drug enforcement. It represents the balance of total unexpended confiscated drug money.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

I. Summary of significant accounting policies (continued)

Reserved for local law enforcement - portion of fund balance available for appropriation but segregated for law enforcement.

Reserved for dare programs - portion of fund balance available for appropriation but segregated for DARE programs.

UNRESERVED

Designated for capital improvement program - portion of total fund balance available for appropriation, which has been designated, for future capital improvements.

Designated for permanent fund - portion of total fund balance available for appropriation, which has been designated, for cemetery maintenance.

Undesignated - portion of total fund balance available for appropriation, which is uncommitted at year-end.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$520,702 difference are as follows:

Capital outlay	\$1,855,617
Depreciation expense	<u>(2,376,319)</u>

_____ Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of governmental activities \$(520,702)

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

III. Reconciliation of government-wide and fund financial statements
(continued)

Another element of that reconciliation states that "The net effect of a sale of capital assets is to increase capital assets". The details are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. This, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (\$37,248)

Another element of that reconciliation states that "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$577,235 difference are as follows:

Principal repayments:

Installment purchase/GO Bonds	537,235
HUD Loan	<u>40,000</u>

Net adjustment to net changes in fund balances - total	
Governmental funds to arrive at changes in net assets of	
Governmental activities	<u>\$577,235</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$22,461 difference are as follows:

Compensated Absences and Pension Obligation	\$18,198
Accrued Interest - Net	<u>4,263</u>

Net adjustment to net changes in fund balances - total	
Governmental funds to arrive at changes in net assets of	
Governmental activities	<u>\$22,461</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

III. Reconciliation of government-wide and fund financial statements
(continued)

Another element of that reconciliation states that revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements. The details of this \$405 are as follows:

Recording of tax receipts deferred in the fund statements	\$405
Net adjustment to revenues	<u>\$405</u>

Another element of that reconciliation states that "The net revenue of certain activities of the internal service fund is reported with governmental activities."

Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$334,588</u>
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IV. Detail notes on all funds

A. Assets

Deposits

All of the City's, the ABC Board's and the Redevelopment Commission's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's, the ABC Board's or the Redevelopment Commission's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, the ABC Board and the Redevelopment Commission, these deposits are considered to be held by the City's, the ABC Board's and the Redevelopment Commission's agents in their names. 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 Unit or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board or the Redevelopment Commission under the Pooling Method, the

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2007, the City's deposits had a carrying amount of \$18,068,746 and a bank balance of \$18,306,645. Of the bank balance, \$100,000 was insured by federal depository insurance and \$18,206,645 was collateralized with securities held by the pledging financial institution in an escrow account in the name of the State Treasurer under the Pooling method of collateralization. The carrying amount of deposits for the ABC Board was \$227,094 and the bank balance was 309,000. The bank balance was covered by an institution using the Pooling Method. The carrying amount of deposits for the Redevelopment Commission was \$138,575 and the bank balance was \$138,575. All of the bank balance was covered by Federal depository insurance.

Investments

At June 30, 2007 the City's investments were as follows:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1-3 Years
US Government Agencies	\$5,800,344	\$1,812,914	\$2,987,820	\$999,610
Commercial Paper	5,040,000	5,040,000		
NC Capital Management Trust - Cash Portfolio	5,695,437	5,695,437		
Total:	\$16,535,781	\$12,548,351	\$2,987,820	\$999,610

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy sets forth the following guidelines as part of its investment strategy.

Percent of portfolio under 270 days	up to 50%
Percent of portfolio under 1 year	up to 75%
Percent of portfolio under 3 years	up to 100%

The City's purchases securities with staggered maturity dates to compliment its cash flow strategy.

Credit Risk - The City's credit risk policy is imbedded in its investment policy. The City diversifies its investment portfolio to avoid incurring unreasonable risk inherent in over-investing in specific instruments, individual financial institutions or maturities.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Diversification by Instrument:	Percent of Portfolio
US Treasuries	up to 100%
US Government Agencies	up to 100%
Bankers Acceptances/Commercial Paper	up to 40%
Repurchase Agreements	up to 25%
Certificates of Deposit - Commercial Banks	up to 100%
Certificates of Deposit - Savings Banks	up to 25%
North Carolina Capital Management Trust	up to 50%

The investments in US Agencies are rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2005. The City is authorized to invest in obligations of the US Government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Concentration of Credit Risk - The City places the following limits on the percentage that the City may invest in any one issuer:

Bankers Acceptances - No more than 25% of the total portfolio with any one institution.

Commercial Paper - No more than 25% of the total portfolio with any one issuer.

Repurchase Agreements - No more than 15% of the total portfolio with any one institution.

Certificates of Deposit-Commercial Banks - No more than 50% of the total portfolio with one institution.

Certificates of Deposit-Savings Banks - No more than 25% of the total portfolio with one institution.

North Carolina Capital Management Trust - No more than 50% of the total portfolio.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Receivables - allowance for doubtful accounts

The amount presented in the Balance Sheet and the Statement of Net Assets are net of the following allowance for doubtful accounts:

General Fund:		
Allowance for uncollectible property taxes		\$164,583
Enterprise Funds:		
Allowance for uncollectible charges		<u>\$164,000</u>
Total		<u>\$328,583</u>

Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$11,269,583		\$37,248	\$11,232,335
Capital assets being depreciated:				
Buildings	\$18,165,895	\$ 666,026		\$18,831,921
Equipment	13,776,130	1,189,590		14,965,720
Infrastructure	44,242,622			44,242,622
Total capital assets Being depreciated	76,184,647	1,855,616		78,040,263
Less accumulated Depreciation for:				
Buildings	12,403,933	419,170		12,823,103
Equipment	6,379,962	861,112		7,241,074
Infrastructure	26,073,016	1,096,037		27,169,054
Total accumulated depreciation	44,856,911	<u>\$2,376,319</u>		<u>47,233,230</u>
Total capital assets being depreciated, net	<u>31,327,736</u>	<u>(520,703)</u>		<u>30,807,033</u>
Governmental activity Capital assets, net	<u>\$42,597,319</u>	<u>\$(520,703)</u>	<u>\$37,248</u>	<u>\$42,039,368</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Internal Service Fund:			
Capital assets not being depreciated:			
Land	\$ 33,318		\$ 33,318
Capital assets being depreciated:			
Buildings	621,212		621,212
Equipment	442,493	178,358	620,851
Total capital assets being depreciated	1,063,705	178,358	1,242,063
Less accumulated Depreciation for:			
Buildings	423,232	13,409	436,641
Equipment	252,972	48,368	301,340
Total accumulated depreciation	676,204	61,777	737,981
Total capital assets being depreciated, net	387,501	116,581	504,082
Internal Service Fund capital assets, net	\$ 420,819	\$ 116,581	\$ 537,400

Depreciation expense was charged to functions/programs of the primary government as follows:

General Government	\$221,578
Public Safety	381,714
Transportation	1,208,031
Environmental Protection	179,862
Culture and Recreational	385,134
Total depreciation expense	<u>\$2,376,319</u>

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Business-type activities:				
Water Fund				
Capital assets not being depreciated:				
Land	\$ 912,017			\$ 912,017
Capital assets being depreciated:				
Buildings	10,143,543			10,143,543
Plant and System	15,114,772	\$577,873		15,692,645
Equipment	1,217,610	196,670		1,414,280
Total capital assets being depreciated	26,475,925	774,543		27,250,468

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Less accumulated depreciation for:			
Buildings	4,770,332	195,740	4,966,072
Plant and System	5,559,661	237,249	5,796,910
Equipment	510,747	107,224	617,971
Total accumulated depreciation	<u>10,840,740</u>	<u>540,213</u>	<u>11,380,953</u>
Total capital assets being depreciated, net	<u>15,635,185</u>	<u>234,330</u>	<u>15,869,515</u>
Water Fund capital assets, net	<u>\$16,547,202</u>	<u>\$234,330</u>	<u>\$16,781,532</u>
Wastewater Fund Capital assets not being depreciated:			
Land	<u>\$14,067,068</u>		<u>\$14,067,068</u>
Capital assets being depreciated:			
Buildings	4,072,991		4,072,991
Plant and System	17,788,645	295,507	18,084,152
Equipment	1,906,717	357,631	2,264,348
Total capital assets being depreciated	<u>23,768,353</u>	<u>653,138</u>	<u>24,421,491</u>
Less accumulated Depreciation for:			
Buildings	2,273,901	76,023	2,349,924
Plant and System	8,865,842	261,100	9,126,942
Equipment	1,334,896	120,322	1,474,008
Total accumulated depreciation	<u>12,493,429</u>	<u>457,445</u>	<u>12,950,874</u>
Total capital assets being depreciated, net	<u>11,274,924</u>	<u>195,693</u>	<u>11,470,617</u>
Wastewater Fund capital assets, net	<u>\$25,341,992</u>	<u>\$195,693</u>	<u>\$25,537,685</u>
Electric Fund Capital assets not being depreciated:			
Land	<u>\$55,950</u>		<u>\$55,950</u>
Capital assets being depreciated:			
Buildings	2,731,417		2,731,417

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Plant and System	13,159,609	458,769	13,618,378
Equipment	<u>3,668,265</u>	<u>531,356</u>	<u>4,199,621</u>
Total capital assets being depreciated	<u>19,559,291</u>	<u>990,125</u>	<u>20,549,416</u>
Less accumulated Depreciation for:			
Buildings	1,306,652	81,098	1,387,750
Plant and System	6,764,095	303,480	7,067,575
Equipment	<u>1,493,757</u>	<u>177,978</u>	<u>1,671,735</u>
Total accumulated depreciation	<u>9,564,504</u>	<u>562,556</u>	<u>10,127,060</u>
Total capital assets being depreciated, net	<u>9,994,787</u>	<u>427,569</u>	<u>10,422,356</u>
Electric Fund capital assets, net	<u>\$10,050,737</u>	<u>\$427,569</u>	<u>10,478,306</u>
 Cable Fund			
Capital assets not being depreciated:			
Land	<u>5,586</u>		<u>5,586</u>
Total capital assets not being depreciated	<u>5,586</u>		<u>5,586</u>
Capital assets being depreciated:			
Buildings	793,076		793,076
Plant and System	11,277,684		11,277,684
Equipment	<u>369,774</u>		<u>369,774</u>
Total capital assets being depreciated	<u>12,440,534</u>		<u>12,440,534</u>
Less accumulated Depreciation for:			
Buildings	266,378	24,702	291,080
Plant and System	3,365,337	1,002,823	4,368,160
Equipment	<u>240,007</u>	<u>33,585</u>	<u>273,592</u>
Total accumulated depreciation	<u>3,871,722</u>	<u>1,061,110</u>	<u>4,932,832</u>
Total capital assets being depreciated, net	<u>8,568,812</u>	<u>(1,061,110)</u>	<u>7,507,702</u>
Cable Fund capital assets, net	<u>8,574,398</u>	<u>(\$1,061,110)</u>	<u>7,513,288</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

V. Detail notes on all funds (continued)

Community House Fund			
Capital assets not being depreciated:			
Land	\$25,725		\$25,725
Capital assets being depreciated:			
Buildings	410,920		410,920
Equipment	10,050		10,050
Total capital assets being depreciated	420,970		420,970
Less accumulated Depreciation for:			
Buildings	232,438	10,722	243,160
Equipment	10,895	563	11,458
Total accumulated depreciation	243,333	11,285	254,618
Total capital assets being depreciated, net	177,637	(11,285)	166,352
Community House Fund capital assets, net	203,362	(\$ 11,285)	192,077
Business-type activities capital assets, net	\$60,717,691	\$(214,803)	\$60,502,888

Depreciation expense in the amount of \$2,632,609 was charged to business type activities.

Construction commitments

The City has no active construction projects as of June 30, 2007.

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2007, was as follows:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 11,000			\$ 11,000

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Capital assets being depreciated:			
Buildings	77,980		77,980
Improvements	90,652		90,652
Equipment	105,057	(18,513)	86,544
Total capital assets being depreciated	273,689	(18,513)	255,176
Less accumulated Depreciation for:			
Buildings	77,980		77,980
Improvements	80,086	1,901	80,086
Equipment	91,625	5,134 (18,513)	78,246
Total accumulated depreciation	249,691	7,035 (18,513)	238,213
Total capital assets being depreciated, net	\$23,998	\$(7,035)	\$16,963
ABC Board capital assets, net	\$ 34,998	\$(7,035)	\$ 27,963

Activity for the Morganton Redevelopment Commission for the year ended June 30, 2007, was as follows:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
Capital assets not being depreciated:				
Land	\$1,117,452		\$(35,757)	\$1,081,695

B. Liabilities

Pension plan obligations

1. Local Government Employees' Retirement System

Plan Description - The City of Morganton and the ABC Board contribute to the statewide Local Governmental 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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are 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 4.8% and 4.78%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement and law enforcement officers is 4.95% and 4.78% of annual covered payroll. The contribution requirements of members and of the City of Morganton and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2007, 2006 and 2005 were \$508,741, \$473,165, and \$462,899, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$9,753, \$9,700, and \$9,471, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

2. Law Enforcement Officers Special Separation Allowance

Plan Description - The City of Morganton 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.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2006, the Separation Allowance's membership consisted of:

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Retirees receiving benefits	17
Terminated plan members entitled to but not yet receiving benefits	- 0 -
Active plan members	<u>65</u>
Total	<u>82</u>

As the plan is not funded, A separate report was not issued.

Summary of Significant Accounting Policies -

BASIS OF ACCOUNTING - The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

METHOD USED TO VALUE INVESTMENTS - No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions - The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement 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, 2006 was 24 years.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

ANNUAL PENSION COST AND NET PENSION OBLIGATION - The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 128,180
Interest on net pension obligation	5,914
Adjustment to annual required contribution	<u>(4,803)</u>
Annual pension cost	129,291
Contributions made for fiscal year ended 6-30-06	<u>190,814</u>
Increase (decrease) in net pension obligation	(61,523)
Net pension obligation beginning of year	<u>81,567</u>
Net pension obligation end of year	<u>\$ 20,044</u>

3 YEAR TREND INFORMATION			
<u>Fiscal</u> <u>Year Ended</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/05	\$133,772	149.83%	\$127,978
6/30/06	\$139,864	133.18%	\$ 81,567
6/30/07	\$129,291	147.58%	\$ 20,044

3. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description - The City contributes to the Supplemental Retirement Income Plan (Plan), a 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 officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$233,937, which consisted of \$131,844 from the City and \$102,093 from the law enforcement officers.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Deferred Compensation Plan

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are administered by Pebsco Securities Corp. and the International City Management Association, respectively. The Plans, available to all City employees, permit them to defer a portion of their salary until future years.

The City has complied with changes in the laws which govern the City's Deferred Compensation Plan, requiring all assets of the plan to be held in trust for the exclusive benefit of the participants and their beneficiaries. Formerly, the undistributed amounts, which had been deferred by the plan participants, were required to be reported as assets of the City. In accordance with GASB Statement No. 32, the City's deferred compensation plan is no longer reported within the City's agency funds.

Post-Employment Health Care Benefits

Per a 1998 City Council approved policy; the City will pay for basic medical insurance for all retirees that qualify based on years of service. The City's contributions are financed on a pay-as-you-go basis. The policy provides for termination of this benefit upon thirty days notice. As of year-end, there were 72 retirees receiving insurance benefits.

The following schedule became effective July 1, 1997:

<u>Years of service with the City of Morganton</u>	<u>% of Retiree Health Insurance the City Pays</u>
20 or more years of service	100%
10 to 19.99 years of service	50%
5 to 9.99 years of service	0%
Disability retirement	100%

The City's contribution will cease when the retiree reaches age 65.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Deferred/Unearned Revenue

The balance in deferred revenues in the fund financial statements and unearned revenues in the government-wide statements, at June 30, 2007 is composed of the following elements:

	<u>Deferred</u>	<u>Unearned</u>
Taxes Receivable (Net)	\$131,598	
Auditorium advance ticket sales	51,423	51,423
Prepaid taxes	<u>6,255</u>	<u>6,255</u>
Total deferred revenue	<u>\$189,276</u>	<u>\$57,678</u>

Risk Management

The City and the ABC Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits.

The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The City carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

With the recent occurrences of flooding in various parts of North Carolina, flood risk management is a concern. To mitigate this concern the City of Morganton has obtained flood insurance coverage.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

VI. Detail notes on all funds (continued)

City of Morganton ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverages. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years and there has been no significant reduction in insurance coverage in the prior year.

Long-Term Obligations

The City's general obligation bonds serviced by the governmental funds were issued to finance the construction of facilities utilized in the operations of the water and wastewater systems and which are being retired by its resources are reported as long-term debt in the Water and Wastewater Funds. All installment purchase notes payable issued are being retired by their resources and are reported as long-term debt in the Cable and General Funds. All bonds are collateralized by the faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Installment Purchase Obligations

In January 2005, the City entered into an installment purchase contract to finance the purchase of ten Public Safety Vehicles. The agreement was to borrow \$292,269 for 3 years at an interest rate of 2.82%.

The future minimum payments of the installment purchase as of June 30, 2007, including \$1,783 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	<u>100,836</u>	<u>1,783</u>
Present value of the minimum Lease payments	<u>\$100,836</u>	
Total interest payments		<u>\$ 1,783</u>

In April 2006, the City entered into an installment purchase contract to finance the purchase of ten Public Safety Vehicles. The agreement was to borrow \$306,300 for 3 years at an interest rate of 3.43%.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

The future minimum payments of the installment purchase as of June 30, 2007, including \$8,091 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	102,062	5,818
2009	105,575	2,273
Present value of the minimum Lease payments	<u>\$207,637</u>	
Total interest payments		<u>\$ 8,091</u>

In April 2006, the City entered into an installment purchase contract to finance the purchase of a fire truck. The agreement was to borrow \$334,877 for 7 years at an interest rate of 3.47%.

The future minimum payments of the installment purchase as of June 30, 2007, including \$46,255 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	49,189	9,511
2009	50,918	7,782
2010	52,708	5,992
2011	54,561	4,139
2012	56,479	2,221
2013	28,560	372
Present value of the minimum Lease payments	<u>\$292,415</u>	
Total interest payments		<u>\$ 30,017</u>

In July 2004, the City entered into an installment purchase contract to finance the rebuild of its cable system. \$7,325,000 was borrowed for seven years at an interest rate of 2.45%.

The future minimum payments of the installment purchase as of June 30, 2007, including \$179,463 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	1,046,429	83,322
2009	1,046,429	57,684
2010	1,046,429	32,047
2011	<u>523,213</u>	<u>6,410</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Present value of the minimum		
Lease payments	<u>\$3,662,500</u>	
Total interest payments		<u>\$179,463</u>

In April 2006, the City entered into an installment purchase contract to provide a new bleaching system for the water and sewer plants. \$922,437 was borrowed for five years at an interest rate of 3.97%.

The future minimum payments of the installment purchase as of June 30, 2007, including \$179,463 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	155,189	53,211
2009	180,595	27,805
2010	187,876	20,524
2011	195,449	12,951
2012	<u>203,328</u>	<u>5,072</u>

Present value of the minimum		
Lease payments	<u>\$922,437</u>	
Total interest payments		<u>\$119,563</u>

<u>Notes payable</u>	<u>Business-type Activities</u>
HUD Section 108 Loan/Note Payable	<u>\$95,000</u>

General obligation bonds

The City's general obligation bonds serviced by the governmental funds were issued for costs connected with the City's Municipal Auditorium. Those general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer systems and which are being retired by their resources are reported as long-term debt in the Water and Sewer Funds. All general obligation bonds are collateralized by the full faith, and credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2007 are comprised of the following individual issues:

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Serviced by the General Fund:

\$779,950, 1994 municipal auditorium refunding bonds due in annual installments ranging from \$28,500 to \$95,000 through April 1, 2008; interest at 4.7% to 4.8%. \$49,400

Serviced by the Water and Sewer Funds:

\$2,709,300, 1994 water refunding bonds due in annual installments ranging from \$99,000 to \$257,400 through April 1, 2008; interest at 4.7% to 4.8%. \$171,600

\$615,750, 1994 sewer refunding bonds due in annual installments ranging from \$22,500 to \$58,500 through April 1, 2008; interest at 4.7% to 4.8%. \$39,000

\$11,995,000, 2003 water and sewer refunding bonds due in annual installments ranging from \$425,000 to \$1,365,000 through June 1, 2015; interest at 2.0% to 4.0%. The amount shown is net of the amortized deferred loss on the defeasance of \$541,610. \$8,743,390

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

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	49,400	2,371	1,320,600	322,427
2009			1,365,000	279,019
2010			1,335,000	238,069
2011			1,305,000	198,019
2012			1,275,000	157,237
2013			1,245,000	115,800
2014			1,225,000	66,000
2015			425,000	17,000
Total	<u>\$ 49,400</u>	<u>\$ 2,371</u>	<u>\$9,495,600</u>	<u>\$1,393,571</u>

Debt Margin

At June 30, 2007, the City of Morganton had a legal debt margin of \$116,893,613.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Changes in long-term liabilities

	Balance			Balance	Current
	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>	<u>Portion of</u> <u>Balance</u>
Governmental activities:					
Installment purchase	\$1,069,723		\$468,835	\$600,888	\$252,086
General obligation bonds	117,800		68,400	49,400	49,400
Compensated absences	678,608	\$387,380	344,055	721,933	344,055
Net pension obligation	81,567		61,523	20,044	
HUD Loan (notes payable)	135,000		40,000	95,000	40,000
Governmental activity					
Long-term liabilities	\$2,082,698	\$387,380	\$982,813	\$1,487,265	\$685,541
Business-type activities:					
General obligation bonds	\$10,782,200		\$1,286,600	\$9,495,600	\$1,320,600
Less deferred amount					
For loss on defeasance	649,354		107,744	541,610	107,744
Net	10,132,846		1,178,856	8,953,990	1,212,856
Installment purchase	4,708,929	\$922,437	1,046,429	4,584,937	1,201,618
Compensated absences	190,294	156,144	158,269	188,169	90,321
Business-type activity					
Long-term liabilities	\$15,032,069	\$1,078,581	\$2,383,554	\$13,727,096	\$2,504,795

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$34,448 of internal service funds compensated absences are included in the above amounts. Also, for governmental activities, compensated absences are generally liquidated by the general fund.

The following table summarizes the annual requirements to amortize all long-term debt outstanding for the Morganton Redevelopment Commission:

	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 134,989</u>	<u>\$ -</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Prior Period Adjustment

During the fiscal year ended June 30, 2007, the City determined that certain unrestricted intergovernmental revenues that were subject to accrual in the General Fund as of June 30, 2006, on a modified accrual basis of accounting, had been omitted. Therefore, an adjustment to beginning net assets has been recorded to account for those accruals, the net effect of which increased beginning net assets by \$240,228.

C. Interfund Balances (Due to/Due from) and Activity

Interfund receivables and payables (due to's and due from's) in the fund financial statements at June 30, 2007 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from Cable fund	\$2,754,185	
Electric fund - receivable from Community House fund fund	325,355	
Cable fund - payable to Electric fund		\$2,754,185
Community House fund - payable to Electric Fund		<u>325,355</u>
Total interfund receivables and payables	<u>\$3,079,540</u>	<u>\$3,079,540</u>

The outstanding balances between funds result mainly from working capital loans made to other funds which are expected to be reimbursed in the subsequent year.

Transfers are used for various reasons. In the year ended June 30, 2007 transfers were used to:

- Subsidize the general fund to forestall a significant property tax increase:
- Move funds from capital reserve to the general fund to allow appropriation
- Reimburse inter-departmental costs shared by more than one enterprise

A summary of interfund transfers by fund for the year ended June 30, 2007 is as follows:

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$771,459	
From Water Fund	9,500	
To Community House		\$36,700
To Capital Reserve Fund		240,000
	<u>780,959</u>	<u>276,700</u>
Total		
Capital Reserve Fund:		
From General Fund	<u>240,000</u>	
	<u>240,000</u>	
Total		
Water Fund :		
To Electric Fund		87,118
To General Fund		9,500
To Wastewater Fund		181,913
		<u>278,531</u>
Total		
Wastewater Fund :		
From Water Fund	<u>181,913</u>	
	<u>181,913</u>	
Total		
Cable Fund :		
From Electric Fund	<u>250,000</u>	
	<u>250,000</u>	
Total		
Community House Fund :		
From General Fund	<u>36,700</u>	
	<u>36,700</u>	
Total		

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

IV. Detail notes on all funds (continued)

Electric Fund :

From Water Fund	87,118	
To General Fund		771,459
To Cable Fund	<u> </u>	<u>250,000</u>
 Total	 <u>87,118</u>	 <u>1,021,459</u>
 Grand Totals	 <u><u>\$1,576,690</u></u>	 <u><u>\$1,576,690</u></u>

V. Summary Disclosure of Significant Contingencies:

Federal and State Assisted Programs

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements.

Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

I. Jointly Governed Organization

The City, in conjunction with twenty other local governments, is a member of the North Carolina Municipal Power Agency #1 (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The twenty-one members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2007 were \$20,807,212.

The City, in conjunction with twenty-six other local governments, established the Western Piedmont Council of Governments (WPCOG). The participating governments established the WPCOG to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the WPCOG'S

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

V. Summary Disclosure of Significant Contingencies (con't):

governing board. The City paid membership fees of \$22,002 to WPCOG during the fiscal year ended June 30, 2007.

II. Joint Ventures:

The City, in conjunction with the City of Lenoir, Burke County and Caldwell County, participates in a regional airport. Each participating government appoints members to the board. The Airport is a joint venture established to facilitate economic expansion within the area and improve the quality of life for its citizens. The Airport has been in existence for fifty years, but it is not self-sustaining. The City has an ongoing financial responsibility for the Airport because it and the County are legally obligated under the intergovernmental agreement that created the Airport to honor any deficiencies in the event that proceeds from other default remedies are insufficient. The City contributed \$48,285 to the Airport during the fiscal year ended June 30, 2007. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2007. Complete financial statements for the Airport can be obtained from the Airport's administrative offices at 305 East Union Street, City of Morganton, NC. 28655.

III. Related Organization

The mayor of the City of Morganton appoints the five-member board of the City of Morganton Housing Authority. The City is accountable for the Housing Authority because it appoints the governing board; however, the City is not financially accountable for the Housing Authority. The City makes no financial contributions to the Authority. The City of Morganton is also disclosed as a related organization in the notes to the financial statements for the City of Morganton Housing Authority.

IV. Related Party Transactions

The City of Morganton loaned Colonial Mimosa Theater, LLC \$500,000 in fiscal year June 30, 2003. A shareholder in Colonial Mimosa Theater, LLC is also a board member of the Morganton Redevelopment Commission which is a component unit of the City. The note bears interest at 7.0% with the total principal balance due in seven years. The theater building is collateral for the note. Additionally the City loaned Slices Restaurant \$100,000 in the year ending June 30, 2004. A shareholder in Slices Restaurant is also a board member of the

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

V. Summary Disclosure of Significant Contingencies (con't):

Morganton Redevelopment Commission. The note bears interest at 6.5% with the total principal due in ten years.

V. Electric Deregulation

In 1997, the General Assembly appointed the Study Commission on the Future of Electric Service in North Carolina ("Study Commission") to examine the cost, adequacy, availability and pricing of electric rates in North Carolina, in order to determine whether legislation is necessary to assure an adequate and reliable source of electricity and economical, fair and equitable rates for all consumers in North Carolina.

The Study Commission submitted its report to the 2000 General Assembly on May 16, 2000. That report recommended retail choice for all customers by January 1, 2006. Specific recommendations on Municipal Power Agency debt and stranded costs were deferred. The report did state that nothing in the recommendation was intended to preclude municipalities from being able to sell or retain their distribution systems by making a payment against the municipal power agency debt equal to the appraised value of the electric system. In January 2001, the Study Commission decided not to present legislation to the General Assembly in 2001. The Study Commission is continuing to study the issue of electric deregulation.

The City and the Electric Agency are unable to predict the results of the study or the recommendations made by the Study Commission, or whether the recommendations to the General Assembly will be enacted into law.

Although the impact of retail electric competition cannot be measured at this time, if such competition becomes applicable to the City, it may cause significant changes in (i) the number of customers, (ii) the costs to the customers, (iii) revenues, (iv) financing costs, and (v) debt ratings.

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
LAW ENFORCEMENT OFFICERS SPECIAL SEPARATION ALLOWANCE
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)		Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
		Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12-31-06	\$- 0 -	\$1,530,232	\$1,530,232	0.00%	\$2,853,281	53.63%
12-31-05	- 0 -	1,370,938	1,370,938	0.00%	2,654,728	51.64%
12-31-04	- 0 -	1,517,793	1,517,793	0.00%	2,484,357	61.09%
12-31-03	- 0 -	1,480,131	1,480,131	0.00%	2,191,061	67.55%
12-31-02	- 0 -	1,470,769	1,470,769	0.00%	2,339,997	62.85%
12-31-01	- 0 -	1,531,574	1,531,574	0.00%	2,298,795	66.63%
12-31-00	- 0 -	1,493,376	1,493,376	0.00%	2,324,590	64.24%

CITY OF MORGANTON
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>June 30,</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2005	\$ 133,772	149.83%
2006	139,864	133.18%
2007	129,291	147.58%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/06
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay
Remaining amortization period	24 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5% - 12.3%
Includes inflation at	3.75%
Cost-of-living adjustments	None



CITY OF MORGANTON
CDBG ENTITLEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Project Authorization	Actual		Total To Date
		Prior Years	Current Year	
REVENUES				
Restricted intergovernmental revenues - community development block grants	\$2,506,983	\$2,230,372	\$98,589	\$2,328,961
Program income	7,006	7,006	35,009	42,015
Total revenues	<u>2,513,989</u>	<u>2,237,378</u>	<u>133,598</u>	<u>2,370,976</u>
EXPENDITURES				
Economic and physical development				
Land acquisition	305,279	171,423		171,423
Rehabilitation	525,117	525,117		525,117
Construction	122,074	207,075		207,075
Administration	371,742	371,564	27,308	398,872
Credit counseling	32,253	32,253		32,253
Deposit assistance	19,162	19,162		19,162
Grant assistance	324,350	208,196	23,000	231,196
Interest expense	103,609	102,745	8,281	111,026
Small business loan	145,785	75,045		75,045
Section 108 loan repayment	280,000	240,000	40,000	280,000
Total expenditures	<u>2,229,371</u>	<u>1,952,580</u>	<u>98,589</u>	<u>2,051,169</u>
Excess of revenues over (under) expenditures	<u>284,618</u>	<u>284,798</u>	<u>35,009</u>	<u>319,807</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds - Section 108	375,000	375,000		375,000
Transfers from general fund	3,439	3,439		3,439
Transfer to component unit				
Redevelopment commission	(663,057)	(663,237)		(663,237)
Total other financing sources (uses)	<u>(284,618)</u>	<u>(284,798)</u>		<u>(\$284,798)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	<u>\$35,009</u>	<u>\$35,009</u>
Net change in fund balances			\$35,009	
Fund balances - beginning				
Fund balances - ending			<u>\$35,009</u>	

CITY OF MORGANTON
CEMETERY PERPETUAL CARE PERMANENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Sales and services:				
New cemetery lot sales	\$12,350	\$12,350	\$9,029	(\$3,321)
Cemetery lot marker service	600	600	796	196
Total	<u>12,950</u>	<u>12,950</u>	<u>9,825</u>	<u>(3,125)</u>
Investment earnings - interest earned	<u>16,000</u>	<u>16,000</u>	<u>12,996</u>	<u>(3,004)</u>
Total revenues	<u>28,950</u>	<u>28,950</u>	<u>22,821</u>	<u>(6,129)</u>
EXPENDITURES				
Cemetery improvements	<u>28,950</u>	<u>28,950</u>		<u>28,950</u>
Excess of revenues over expenditures	<u>Nil</u>	<u>Nil</u>	<u>22,821</u>	<u>22,821</u>
Net change in fund balances		<u>Nil</u>	<u>22,821</u>	<u>\$22,821</u>
Fund balances - beginning			<u>340,995</u>	
Fund balances - ending			<u>\$363,816</u>	

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$8,800	\$16,774	\$7,974
Water rents	3,947,433	3,718,651	(228,782)
Penalties	42,500	43,720	1,220
Water taps	71,000	59,981	(11,019)
Reconnect fees	7,000	3,940	(3,060)
Rental income	102,656	102,132	(524)
Total	<u>4,179,389</u>	<u>3,945,198</u>	<u>(234,191)</u>
Nonoperating revenues (expenditures) :			
Interest on investments	243,533	252,027	8,494
Miscellaneous	4,000	6,212	2,212
Interest expenditures	(93,587)	(93,587)	
Total	<u>153,946</u>	<u>164,652</u>	<u>10,706</u>
Total revenues	<u>4,333,335</u>	<u>4,109,850</u>	<u>(223,485)</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		902,989	
Operating expenditures		1,593,861	
Total	<u>2,994,707</u>	<u>2,496,850</u>	<u>497,857</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - bonds	\$446,550	\$446,550	
Capital outlay	1,642,225	774,544	\$867,681
Total budgetary appropriations	<u>2,088,775</u>	<u>1,221,094</u>	<u>867,681</u>
Total expenditures	<u>5,083,482</u>	<u>3,717,944</u>	<u>1,365,538</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(750,147)</u>	<u>391,906</u>	<u>1,142,053</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	228,678		(228,678)
Installment purchase proceeds	800,000	\$673,379	(126,621)
Operating transfers - in (out) :			
To Electric Fund	(87,118)	(87,118)	
To General Fund	(9,500)	(9,500)	
To Wastewater Fund	(181,913)	(181,913)	
Total other financing sources (uses)	<u>750,147</u>	<u>394,848</u>	<u>(355,299)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$786,754</u>	<u>\$786,754</u>

CITY OF MORGANTON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$786,754
Add :		
Cost of expenditures which were capitalized	\$774,544	
Decrease in accrued vacation pay	\$9,962	
Payment of debt principal	<u>446,550</u>	1,231,056
Less :		
Installment purchase proceeds	(673,379)	
Depreciation	(540,213)	
Amortization of deferred charge on refunding	(39,421)	
Bad debts	<u>(9,484)</u>	<u>(1,262,497)</u>
Total Change in Net Assets		755,313
NET ASSETS - Beginning of Year		<u>19,801,775</u>
NET ASSETS - End of Year		<u>\$20,557,088</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$5,000	\$1,116	(\$3,884)
Sewer rents	3,962,098	4,288,622	326,524
Late payment penalties	45,000	43,462	(1,538)
Sewer taps	15,000	18,984	3,984
Sale of sludge	3,225	1,794	(1,431)
Total	<u>4,030,323</u>	<u>4,353,978</u>	<u>323,655</u>
Nonoperating revenues (expenditures) :			
Interest earned	117,086	106,063	(11,023)
EPA grant		173,500	173,500
Miscellaneous	11,000	3,320	(7,680)
Interest expenditures	<u>(282,637)</u>	<u>(282,638)</u>	(1)
Total	<u>(154,551)</u>	<u>245</u>	<u>154,796</u>
Total revenues	<u>3,875,772</u>	<u>4,354,223</u>	<u>478,451</u>
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		968,358	
Operating expenditures		<u>1,582,297</u>	
Total wastewater treatment	<u>2,953,854</u>	<u>2,550,655</u>	<u>403,199</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - bonds	\$840,050	\$840,050	
Capital outlay	<u>1,786,801</u>	<u>653,137</u>	<u>\$1,133,664</u>
Total budgetary appropriations	<u>2,626,851</u>	<u>1,493,187</u>	<u>1,133,664</u>
Total expenditures	<u>5,580,705</u>	<u>4,043,842</u>	<u>1,536,863</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,704,933)</u>	<u>310,381</u>	<u>2,015,314</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	643,020		(643,020)
Installment purchase proceeds	880,000	249,058	(630,942)
Operating transfers - in (out) :			
From Water Fund	<u>181,913</u>	<u>181,913</u>	
Total other financing sources (uses)	<u>1,704,933</u>	<u>430,971</u>	<u>(1,273,962)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$741,352</u>	<u>\$741,352</u>

CITY OF MORGANTON
WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$741,352
Add :		
Cost of expenditures which were capitalized	\$653,137	
Payment of debt principal	<u>840,050</u>	1,493,187
Less :		
Installment purchase proceeds	(249,058)	
Depreciation	(457,445)	
Amortization of deferred charge on refunding	(68,323)	
Increase in accrued vacation pay	(6,116)	
Bad debts	<u>(14,955)</u>	<u>(795,897)</u>
Total Change in Net Assets		1,438,642
NET ASSETS - Beginning of Year		<u>19,207,446</u>
NET ASSETS - End of Year		<u>\$20,646,088</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$115,000	\$103,094	(\$11,906)
Sale of current	5,500,000	6,145,816	645,816
Sale of power	16,600,000	16,097,560	(502,440)
Late payment penalties	250,000	266,661	16,661
Security light rental	373,000	387,443	14,443
Street lighting	74,000	74,000	
Reconnection fees	20,000	14,820	(5,180)
Pole rental	13,000	5,555	(7,445)
Total	<u>22,945,000</u>	<u>23,094,949</u>	<u>149,949</u>
Nonoperating revenues (expenditures) :			
Interest earned	566,833	504,561	(62,272)
Cash over (short)		(196)	(196)
Miscellaneous	17,000	16,816	(184)
Total	<u>583,833</u>	<u>521,181</u>	<u>(62,652)</u>
Total revenues	<u>23,528,833</u>	<u>23,616,130</u>	<u>87,297</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,273,773	
Operating expenditures		2,459,108	
Purchases of power		<u>20,807,212</u>	
Total	<u>25,609,991</u>	<u>24,540,093</u>	<u>1,069,898</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Capital outlay	<u>2,585,440</u>	<u>990,125</u>	<u>1,595,315</u>
Total budgetary appropriations	<u>2,585,440</u>	<u>990,125</u>	<u>1,595,315</u>
Total expenditures	<u>28,195,431</u>	<u>25,530,218</u>	<u>2,665,213</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(4,666,598)</u>	<u>(1,914,088)</u>	<u>2,752,510</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	3,975,939		(3,975,939)
Installment purchase proceeds	1,625,000		(1,625,000)
Operating transfers - in (out) :			
To General Fund	(771,459)	(771,459)	
To Cable Fund	(250,000)	(250,000)	
From Water Fund	<u>87,118</u>	<u>87,118</u>	
Total other financing sources (uses)	<u>4,666,598</u>	<u>(934,341)</u>	<u>(5,600,939)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$2,848,429)</u>	<u>(\$2,848,429)</u>

CITY OF MORGANTON
ELECTRIC FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$2,848,429)
Add :		
Cost of expenditures which were capitalized		990,125
Less :		
Bad debts	(136,771)	
Depreciation	(562,556)	
Increase in accrued vacation payable	<u>(1,773)</u>	<u>(701,100)</u>
Total Change in Net Assets		(2,559,404)
NET ASSETS - Beginning of Year		<u>28,461,046</u>
NET ASSETS - End of Year		<u>\$25,901,642</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$135,500	\$19,793	(\$115,707)
Studio revenues		175	175
Internet revenues	630,400	547,687	(82,713)
Cable rents	<u>3,747,037</u>	<u>2,799,457</u>	<u>(947,580)</u>
Total	<u>4,512,937</u>	<u>3,367,112</u>	<u>(1,145,825)</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(108,960)	(108,888)	72
Bad check charges	2,500	1,739	(761)
Franchise tax	145,292	102,891	(42,401)
Miscellaneous revenue	<u>60,000</u>	<u>21,365</u>	<u>(38,635)</u>
Total	<u>98,832</u>	<u>17,107</u>	<u>(81,725)</u>
Total revenues	<u>4,611,769</u>	<u>3,384,219</u>	<u>(1,227,550)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		302,636	
Operating expenditures		<u>2,480,354</u>	
Total cable operations and maintenance	<u>3,815,340</u>	<u>2,782,990</u>	<u>1,032,350</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	<u>\$1,046,429</u>	<u>\$1,046,429</u>	<u> </u>
Total budgetary appropriations	<u>1,046,429</u>	<u>1,046,429</u>	<u> </u>
Total expenditures	<u>4,861,769</u>	<u>3,829,419</u>	<u>\$1,032,350</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(250,000)</u>	<u>(445,200)</u>	<u>(195,200)</u>
OTHER FINANCING SOURCES (USES) :			
Operating transfer in - Electric Fund	<u>250,000</u>	<u>250,000</u>	<u> </u>
Total other financing sources (uses)	<u>250,000</u>	<u>250,000</u>	<u> </u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$195,200)</u>	<u>(\$195,200)</u>

CITY OF MORGANTON
CABLE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$195,200)
Add :		
Decrease in accrued vacation payable	255	
Payment of debt principal	<u>1,046,429</u>	1,046,684
Less :		
Depreciation	(1,061,110)	
Bad debts	<u>(48,729)</u>	<u>(1,109,839)</u>
Total Change in Net Assets		(258,355)
NET ASSETS - Beginning of Year		<u>1,482,018</u>
NET ASSETS - End of Year		<u>\$1,223,663</u>

CITY OF MORGANTON
COMMUNITY HOUSE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Food sales and room rent	\$263,451	241,420	(22,031)
Nonoperating revenues :			
Fund Raising	5,000	1,151	(3,849)
Contribution - Cobb estate	25,000	19,865	(5,135)
Total	30,000	21,016	(8,984)
Total revenues	293,451	262,436	(31,015)
EXPENDITURES :			
Community House operations :			
Salaries and employee benefits		130,937	
Operating expenditures		180,826	
Total operations	330,598	311,763	18,835
Total expenditures	330,598	311,763	18,835
REVENUES OVER (UNDER) EXPENDITURES	(\$37,147)	(\$49,327)	(\$12,180)
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	447		(447)
Operating transfers - in (out) :			
From General Fund	36,700	36,700	
Total other financing sources (uses)	37,147	36,700	(447)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	(\$12,627)	(\$12,627)

CITY OF MORGANTON
COMMUNITY HOUSE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$12,627)
Less :		
Increase in accrued vacation pay	(203)	
Depreciation	<u>(11,285)</u>	<u>(11,488)</u>
Total Change in Net Assets		(24,115)
NET ASSETS - Beginning of Year		<u>(127,914)</u>
NET ASSETS - End of Year		<u>(\$152,029)</u>

CITY OF MORGANTON
IRMS, WAREHOUSE AND GARAGE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	535,406	535,406	
Electric Fund	93,590	93,590	
Water Fund	36,486	36,486	
Wastewater Fund	40,416	40,416	
Cable Fund	45,771	45,771	
Community House Fund	2,450	2,450	
Warehouse/Garage	5,492	5,492	
Total	<u>759,611</u>	<u>759,611</u>	
Warehouse :			
General Fund sales	26,120	28,817	2,697
Electric Fund sales	399,780	424,454	24,674
Water Fund sales	65,300	73,538	8,238
Wastewater Fund sales	32,650	2,424	(30,226)
Cable Fund sales	32,650	39,276	6,626
Garage Fund sales	20,290	20,290	
Total	<u>576,790</u>	<u>588,799</u>	<u>12,009</u>
Garage :			
General Fund sales	204,016	164,235	(39,781)
Electric Fund sales	17,000	11,148	(5,852)
Water Fund sales	17,000	6,302	(10,698)
Wastewater Fund sales	17,000	6,544	(10,456)
Cable Fund sales	3,400	2,791	(609)
IRMS sales	3,400		(3,400)
Sale of fuel	400,000	337,684	(62,316)
Total	<u>661,816</u>	<u>528,704</u>	<u>(133,112)</u>
Total operating revenues	<u>1,998,217</u>	<u>1,877,114</u>	<u>(121,103)</u>
Nonoperating revenues :			
Sale of materials		2,872	2,872
Total revenues	<u>1,998,217</u>	<u>1,879,986</u>	<u>(118,231)</u>

CITY OF MORGANTON
IRMS, WAREHOUSE AND GARAGE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$248,855	
Operating expenditures		264,217	
Total IRMS	<u>589,119</u>	<u>513,072</u>	<u>76,047</u>
Warehouse :			
Salaries and employee benefits		84,844	
Operating expenditures		28,250	
Purchases of inventory		498,505	
Pro rata administrative services		(118,907)	
Total warehouse	<u>574,214</u>	<u>492,692</u>	<u>81,522</u>
Garage :			
Salaries and employee benefits		185,978	
Operating expenditures		79,018	
Purchases of inventory		185,228	
Purchases of fuel		349,558	
Pro rata administrative services		(291,041)	
Total garage	<u>571,495</u>	<u>508,741</u>	<u>62,754</u>
Budgetary appropriations :			
Capital outlay	<u>263,389</u>	<u>178,358</u>	<u>85,031</u>
Total expenditures	<u>1,998,217</u>	<u>1,692,863</u>	<u>305,354</u>

CITY OF MORGANTON
IRMS, WAREHOUSE AND GARAGE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>Nil</u>	<u>\$187,123</u>	<u>\$187,123</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS :			
Revenues and Other Sources Over (Under)			
Expenditures and Other Uses			\$187,123
Add :			
Cost of expenditures which were capitalized		\$178,358	
Increase in inventory		<u>37,848</u>	\$216,206
Less :			
Depreciation		(61,777)	
Increase in accrued vacation pay		<u>(6,964)</u>	<u>(68,741)</u>
Total Change in Net Assets			334,588
NET ASSETS - Beginning of Year			<u>1,687,419</u>
NET ASSETS - End of Year			<u>\$2,022,007</u>

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2007

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2006</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2007</u>
2006-2007		\$7,123,752	\$7,003,027	\$120,725
2005-2006	\$135,249		97,143	38,106
2004-2005	39,972		12,492	27,480
2003-2004	57,480		33,405	24,075
2002-2003	53,965		28,829	25,136
2001-2002	24,478		1,261	23,217
2000-2001	18,548		6,599	11,949
1999-2000	9,702		495	9,207
1998-1999	8,903		379	8,524
1997-1998	7,930		168	7,762
1996-1997	6,658		6,658	
TOTAL	<u>\$362,885</u>	<u>\$7,123,752</u>	<u>\$7,190,456</u>	\$296,181
Less Allowance for Doubtful Accounts				<u>164,583</u>
Net Property Tax Receivable (Exhibit 1)				<u>\$131,598</u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$7,136,147		
Less interest collected		<u>(42,055)</u>	\$ 7,094,092	
Discounts			74,146	
Releases - Prior years			15,560	
Amount written off for tax year 1996-1997 per statute of limitations			<u>6,658</u>	
TOTAL COLLECTIONS AND CREDITS			<u>\$ 7,190,456</u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2007

	<u>Total Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Excluding Vehicles</u>	<u>Motor Vehicles</u>
TAX LEVY :					
City-wide	\$1,280,619,600	0.50	\$6,403,098	\$6,403,098	
Special district	55,071,429	0.14	77,100	77,100	
Vehicle Taxes	102,654,600	0.50	513,273		\$513,273
 PENALTIES			12,986	12,986	
 ADD DISCOVERIES :					
Current year	25,397,400	0.50	126,987	125,347	1,640
Prior year	2,137,200	0.50	10,686	10,686	
 LESS RELEASES	<u>(4,092,571)</u>		<u>(20,378)</u>	<u>(7,975)</u>	<u>(12,403)</u>
 TOTAL	<u>\$1,461,787,658</u>		<u>\$7,123,752</u>	<u>\$6,621,242</u>	<u>\$502,510</u>
 LESS UNCOLLECTED TAXES AT June 30, 2007			<u>120,725</u>	<u>54,418</u>	<u>66,307</u>
 CURRENT YEAR'S TAXES COLLECTED			<u>\$7,003,027</u>	<u>\$6,566,824</u>	<u>\$436,203</u>
 PERCENT CURRENT YEAR COLLECTED			<u>98.31%</u>	<u>99.18%</u>	<u>86.80%</u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$771,459	
From Water Fund	9,500	
To Community House Fund		\$36,700
To Capital Reserve Fund		240,000
Total	<u>780,959</u>	<u>276,700</u>
Capital Reserve Fund:		
From General Fund	<u>240,000</u>	
Total	<u>240,000</u>	
Water Fund :		
To Electric Fund		87,118
To General Fund		9,500
To Wastewater Fund		181,913
Total		<u>278,531</u>
Wastewater Fund :		
From Water Fund	<u>181,913</u>	
Total	<u>181,913</u>	
Cable Fund :		
From Electric Fund	<u>250,000</u>	
Total	<u>250,000</u>	
Community House Fund :		
From General Fund	<u>36,700</u>	
Total	<u>36,700</u>	
Electric Fund :		
From Water Fund	87,118	
To General Fund		771,459
To Cable Fund		250,000
Total	<u>87,118</u>	<u>1,021,459</u>
Grand Totals	<u>\$1,576,690</u>	<u>\$1,576,690</u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2007

	Carrying Value	Cost Value	Fair Value
CASH :			
On hand	\$2,495	\$2,495	\$2,495
In demand deposits	2,911,752	2,911,752	2,911,752
In time deposits - NOW, SuperNOW, money market and certificates of deposit	15,156,994	15,156,994	15,156,994
Total cash	18,071,241	18,071,241	18,071,241
INVESTMENTS :			
North Carolina Capital Management Trust	5,695,437	5,695,437	5,695,437
Commercial Paper:			
GE Cap Corporation (3)	3,040,000	3,040,000	3,040,000
Merrill Lynch (2)	2,000,000	2,000,000	2,000,000
Government Agencies :			
Federal Home Loan Bank Bonds (3)	1,815,000	1,815,000	1,811,664
Federal Home Loan Mortgage Corporation Bonds (1)	1,000,000	1,000,000	999,610
Federal National Mortgage Association Bonds (3)	3,000,000	3,000,000	2,989,070
Total investments (including cash equivalents)	16,550,437	16,550,437	16,535,781
 TOTAL CASH AND INVESTMENTS	 \$34,621,678	 16,550,437	 \$34,607,022



CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2007

This part of the City of Morganton's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the government's overall financial health

Contents	Pages
Financial Trends	92-101
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	
Revenue Capacity	102-105
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	106-109
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	110-111
These schedules offer demographic and economic indicators to Help the reader understand the environment within which the Government's financial activities take place.	
Operating Information	112-114
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Morganton
Net Assets by Component,
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year	
	2003	2004
Governmental activities		
Invested in capital assets, net of related debt	\$42,517,541	\$42,270,377
Restricted	1,402,102	1,428,875
Unrestricted	<u>11,487,466</u>	<u>12,219,489</u>
Total governmental activities net assets	<u>\$55,407,109</u>	<u>\$55,918,741</u>
Business-type activities		
Invested in capital assets, net of related debt	\$42,567,661	42,251,982
Unrestricted	<u>26,266,393</u>	<u>26,916,570</u>
Total business-type activities net assets	<u>\$68,834,054</u>	<u>\$69,168,552</u>
Primary government		
Invested in capital assets, net of related debt	\$85,085,202	\$84,522,359
Restricted	1,402,102	1,428,875
Unrestricted	<u>37,753,859</u>	<u>39,136,059</u>
Total primary government net assets	<u>\$124,241,163</u>	<u>\$125,087,293</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

Fiscal Year		
2005	2006	2007
\$42,225,042	\$41,695,614	\$41,831,482
716,926	1,260,371	745,287
<u>12,207,920</u>	<u>12,339,129</u>	<u>14,704,160</u>
<u>\$55,149,888</u>	<u>\$55,295,114</u>	<u>\$57,280,929</u>
46,132,330	45,875,917	56,874,381
<u>22,771,585</u>	<u>23,181,717</u>	<u>11,302,071</u>
<u>\$68,903,915</u>	<u>\$69,057,634</u>	<u>\$68,176,452</u>
\$88,357,372	\$87,571,531	\$98,705,863
716,926	1,260,371	745,287
<u>34,979,505</u>	<u>35,520,846</u>	<u>26,006,231</u>
<u>\$124,053,803</u>	<u>\$124,352,748</u>	<u>\$125,457,381</u>

City of Morganton
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year	
	2003	2004
Expenses		
Governmental activities:		
General government	\$2,255,413	\$2,783,081
Public Safety	5,110,138	5,445,610
Transportation	1,906,654	2,058,883
Economic and physical development	138,229	161,712
Environmental protection	1,096,914	938,734
Culture and recreation	2,288,112	2,481,282
Interest on long-term debt	90,423	71,323
Total governmental activities expenses	<u>12,885,883</u>	<u>13,940,625</u>
Business-type activities:		
Water	2,638,295	2,627,701
Wastewater	3,424,896	3,466,183
Electric	21,566,422	22,175,865
Cable	2,312,224	2,886,460
Community house	273,248	278,758
Total business-type activities expenses	<u>30,215,085</u>	<u>31,434,967</u>
Total primary government expenses	<u>43,100,968</u>	<u>45,375,592</u>
Program Revenues		
Governmental activities:		
Charges for services:		
General government	\$225,184	\$346,075
Public Safety	42,491	46,307
Transportation	8,432	348,430
Environmental protection	385,593	133,820
Culture and recreation	578,545	498,904
Operating Grants and Contributions	954,015	819,867
Capital Grants and Contributions	167,341	1,468,175
Total governmental activities program revenues	<u>2,361,601</u>	<u>3,661,578</u>
Business-type activities:		
Charges for services:		
Water	3,384,344	3,276,066
Wastewater	3,472,733	3,347,854
Electric	22,212,562	22,549,633
Cable	2,620,155	2,438,572
Community house	202,335	208,498
Operating Grants and Contributions	95,328	31,437
Total business-type activities program revenues	<u>31,987,457</u>	<u>31,852,060</u>
Total primary government program revenues	<u>\$34,349,058</u>	<u>\$35,513,638</u>

Fiscal Year		
2005	2006	2007
\$3,391,972	\$2,759,135	\$2,742,806
6,448,234	6,613,948	6,590,390
2,375,152	2,209,624	2,244,130
146,743	121,415	10,308
1,075,471	1,114,664	1,123,568
2,826,391	3,276,853	3,637,977
58,467	47,554	44,385
<u>16,322,430</u>	<u>16,143,193</u>	<u>16,393,564</u>
2,739,467	2,864,899	3,169,593
3,307,399	3,401,640	3,380,132
22,871,668	24,664,921	25,241,193
3,511,824	3,874,683	4,001,462
312,556	296,857	323,251
<u>32,742,914</u>	<u>35,103,000</u>	<u>36,115,631</u>
<u>49,065,344</u>	<u>51,246,193</u>	<u>52,509,195</u>
\$193,064	\$387,459	\$283,089
53,167	37,253	24,793
340,468	4,796	4,797
200,736	351,808	1,093,367
577,595	638,779	628,181
654,103	873,196	998,104
983,972	709,313	
<u>3,003,105</u>	<u>3,002,604</u>	<u>3,032,331</u>
3,616,616	4,078,099	3,945,198
3,889,286	4,309,576	4,353,978
22,227,843	23,116,052	23,094,949
2,691,868	3,046,581	3,367,112
211,852	199,688	241,420
22,202	19,415	21,016
<u>32,659,667</u>	<u>34,769,411</u>	<u>35,023,673</u>
<u>\$35,662,772</u>	<u>\$37,772,015</u>	<u>\$38,056,004</u>

Net (Expense)/Revenue

Governmental activities	(\$10,524,282)	(\$10,279,047)
Business-type activities	1,772,372	417,093
Total primary government net expense	<u>(\$8,751,910)</u>	<u>(\$9,861,954)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:		
Ad valorem taxes	\$6,096,559	\$6,045,738
Other taxes and licenses	2,371,323	2,765,497
Unrestricted intergovernmental revenues	2,432,232	1,534,419
Investment earnings	286,171	218,499
Other revenues	39,210	9,786
Transfers	564,000	503,750
Total governmental activities	<u>11,789,495</u>	<u>11,077,689</u>
Business-type activities:		
Investment earnings	430,203	319,671
Other revenues	33,838	101,484
Transfers	(564,000)	(503,750)
Total business-type activities	<u>(99,959)</u>	<u>(82,595)</u>
Total primary government	<u>\$11,689,536</u>	<u>\$10,995,094</u>

Change in Net Assets

Governmental activities	\$1,265,213	\$798,642
Business-type activities	1,672,413	334,498
Total primary government	<u>2,937,626</u>	<u>1,133,140</u>

(\$13,319,325)	(\$13,140,589)	(\$13,361,233)
<u>(83,247)</u>	<u>(333,589)</u>	<u>(1,091,958)</u>
<u>(\$13,402,572)</u>	<u>(\$13,474,178)</u>	<u>(\$14,453,191)</u>

\$6,628,096	\$6,815,478	\$7,298,421
2,898,950	2,980,248	4,938,519
1,554,802	1,624,417	827,704
314,002	677,091	519,912
251,180	334,576	744,259
<u>903,442</u>	<u>706,054</u>	<u>620,527</u>
<u>12,550,472</u>	<u>13,137,864</u>	<u>14,949,342</u>

530,398	988,043	862,651
191,654	205,319	325,647
<u>(903,442)</u>	<u>(706,054)</u>	<u>(744,259)</u>
<u>(181,390)</u>	<u>487,308</u>	<u>444,039</u>
<u>\$12,369,082</u>	<u>\$13,625,172</u>	<u>\$15,393,381</u>

(\$768,853)	(\$2,725)	\$1,588,109
<u>(264,637)</u>	<u>153,719</u>	<u>(647,919)</u>
<u>(1,033,490)</u>	<u>150,994</u>	<u>940,190</u>

City of Morganton
Fund Balances, Governmental Funds,
Last Five Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year	
	2003	2004
General Fund		
Reserved	\$5,079,308	\$5,998,550
Unreserved	<u>3,764,811</u>	<u>3,765,739</u>
Total general fund	<u>\$8,844,119</u>	<u>\$9,764,289</u>
All Other Governmental Funds		
Unreserved, reported in:		
Special revenue funds	\$3,366,742	\$3,402,321
Permanent fund	<u>284,695</u>	<u>305,451</u>
Total all other governmental funds	<u>\$3,651,437</u>	<u>\$3,707,772</u>

Fiscal Year		
2005	2006	2007
\$4,756,325	\$5,910,316	\$5,327,266
<u>4,434,814</u>	<u>3,779,653</u>	<u>5,067,584</u>
<u>\$9,191,139</u>	<u>\$9,689,969</u>	<u>\$10,394,850</u>
\$3,254,095	3,141,226	3,592,720
<u>320,799</u>	<u>340,995</u>	<u>363,816</u>
<u>\$3,574,894</u>	<u>\$3,482,221</u>	<u>\$3,956,536</u>

City of Morganton
Changes in Fund Balances, Governmental Funds,
Last Five Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year	
	2003	2004
Revenues		
Ad valorem taxes	\$6,048,001	\$6,040,286
Other taxes and licenses	2,377,453	2,775,661
Unrestricted intergovernmental revenues	1,537,227	1,534,419
Restricted intergovernmental revenues	1,312,634	2,284,280
Other restricted revenues	17,612	126,584
Permits and fees	230,810	224,614
Sales and services	1,915,634	1,015,936
Investment earnings	286,171	218,499
Other revenues	39,210	9,786
Total revenues	<u>13,764,752</u>	<u>14,230,065</u>
Expenditures		
General government	2,228,024	3,040,850
Public safety	5,134,812	5,513,212
Transportation	892,680	1,026,053
Environmental protection	952,116	1,123,085
Cultural and recreational	2,723,914	2,547,194
Economic and physical development	178,229	116,972
Interest expense	19,687	16,848
Debt service		
Principal	411,851	505,267
Interest	75,431	61,441
Total expenditures	<u>12,616,744</u>	<u>13,950,922</u>
Other Financing Sources (Uses)		
Installment purchase proceeds	240,000	278,352
Transfers in	954,780	603,750
Transfers out	<u>(390,780)</u>	<u>(184,740)</u>
Total other financing sources (uses)	<u>804,000</u>	<u>697,362</u>
Net change in fund balances	<u>\$1,952,008</u>	<u>\$976,505</u>
Debt service as a percentage of noncapital expenditures	4.30%	4.60%

Fiscal Year		
2005	2006	2007
\$6,663,201	\$6,797,506	\$7,136,147
2,906,817	2,988,551	3,111,379
1,554,802	1,624,417	1,827,140
1,780,311	1,532,197	897,398
52,415	42,009	61,109
139,672	267,267	208,590
1,022,840	1,152,828	1,865,234
314,002	677,091	827,704
251,180	334,576	557,160
<u>14,685,240</u>	<u>15,416,442</u>	<u>16,491,861</u>
4,069,987	2,892,163	2,712,591
6,589,215	6,857,152	6,590,915
1,194,636	1,068,305	1,122,564
1,110,305	962,287	1,186,814
2,852,031	3,805,386	4,386,677
186,743	121,415	50,308
13,993		
521,106	603,254	577,181
48,963	47,554	50,401
<u>16,586,979</u>	<u>16,357,516</u>	<u>16,677,451</u>
292,269	641,177	620,527
1,243,442	987,754	1,020,959
<u>(340,000)</u>	<u>(281,700)</u>	<u>(276,700)</u>
<u>1,195,711</u>	<u>1,347,231</u>	<u>1,364,786</u>
<u>(\$706,028)</u>	<u>\$406,157</u>	<u>\$1,179,196</u>
3.87%	4.48%	4.48%

**City of Morganton
Assessed Value of Taxable Property,
Last Ten Fiscal Years**

<u>Fiscal</u> <u>Year</u>	<u>Real</u> <u>Property</u>	<u>Personal</u> <u>Property</u>	<u>Utilities</u>	<u>Taxable</u> <u>Value</u>	<u>Tax Rate</u>
1997-98	594,085,740	288,503,504	24,256,666	906,845,910	0.44
1998-99	607,460,641	308,480,675	21,556,867	937,498,183	0.46
1999-00	615,543,915	338,210,223	22,046,315	975,800,453	0.46
2000-01	646,390,212	413,945,569	21,876,880	1,082,212,661	0.50
2001-02	887,200,094	422,064,942	26,791,327	1,336,056,363	0.46
2002-03	897,247,348	418,468,674	26,455,745	1,342,171,767	0.46
2003-04	912,047,348	375,130,039	26,160,554	1,313,337,941	0.46
2004-05	923,771,236	378,698,392	25,680,434	1,328,150,062	0.50
2005-06	932,615,658	408,756,364	22,733,688	1,364,105,710	0.50
2006-07	941,205,056	442,488,854	24,582,696	1,408,276,606	0.50

Notes: Revenue is not broken into different types of rate payers as the information is not available from Burke County in that format.

**City of Morganton
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$100 dollar valuation)**

<u>Fiscal Year</u>	<u>City Direct Rates</u>	<u>Overlapping Rates (*)</u>	
	<u>Basic Tax Rate</u>	<u>Special Tax District</u>	<u>Burke County</u>
1997-98	0.44	0.14	0.59
1998-99	0.46	0.14	0.59
1999-00	0.46	0.14	0.59
2000-01	0.50	0.14	0.59
2001-02	0.46	0.14	0.59
2002-03	0.46	0.14	0.59
2003-04	0.46	0.14	0.59
2004-05	0.50	0.14	0.59
2005-06	0.50	0.14	0.59
2006-07	0.50	0.14	0.59

Notes: *Overlapping rates are those of local and county governments that apply to property owners within the City of Morganton. Not all overlapping rates apply to all Morganton property owners; for example, although Burke County property tax rates apply to all Morganton property owners, Morganton Downtown District rates apply only to the Morganton property owners whose property is located within that district's geographical boundaries.

**City of Morganton
Principal Property Tax Payers,
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>Fiscal Year 2006 - 2007</u>			<u>Fiscal Year 1997 -1998</u>		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Continental Teves Inc.	\$94,131,850	1	6.68%			
Viscotec	37,471,190	2	2.66%			
SGL Carbon	37,415,671	3	2.66%	36,865,682	1	4.07%
HDM Furniture	35,085,615	4	2.49%	18,169,975	5	2.00%
Sypris	29,666,263	5	2.11%			
Leviton	16,577,954	6	1.18%	11,683,300	8	1.29%
Caterpillar	14,190,360	7	1.01%			
Grace Properties Inc.	13,661,317	8	0.97%	10,279,714	10	1.13%
Fiddlers Run LLC	13,121,096	9	0.93%			
VPI Inc.	10,714,163	10	0.76%			
Dana Corp.				25,549,970	2	2.82%
Drexel Heritage				23,097,984	3	2.55%
Collins & Aikman				18,882,307	4	2.08%
Sara Lee Corp.				17,726,345	6	1.95%
Bellsouth Telephone				12,899,982	7	1.42%
Owens Illinois Inc.				10,430,857	9	1.15%
Total	\$302,035,479		21.45%	\$184,118,069		20.46%

Source: City of Morganton Tax Division

**City of Morganton
Property Tax Levies and Collections,
Last Ten Fiscal Years**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997-98	4,074,564	3,947,670	96.89%	119,132	4,066,802	99.81%
1998-99	4,364,413	4,102,622	94.00%	253,267	4,355,889	99.80%
1999-00	4,471,664	4,366,584	97.65%	95,873	4,462,457	99.79%
2000-01	5,279,323	5,179,975	98.12%	87,399	5,267,374	99.77%
2001-02	6,128,460	5,981,901	97.61%	123,342	6,105,243	99.62%
2002-03	6,178,474	5,958,757	96.44%	194,581	6,153,338	99.59%
2003-04	6,084,089	5,925,246	97.39%	134,768	6,060,014	99.60%
2004-05	6,713,167	6,583,691	98.07%	101,996	6,685,687	99.59%
2005-06	6,838,043	6,702,794	98.02%	97,143	6,799,937	99.15%
2006-07	7,123,752	7,003,027	98.31%	N/A	7,003,027	98.31%

Source: City of Morganton Tax Division

Notes: Taxes levied include general taxes, special district taxes, and motor vehicle taxes.

City of Morganton
Ratios of Outstanding Debt by Type,
Last Five Fiscal Years

Fiscal Year	Governmental Activities		Business-type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Installment Purchases	General Obligation Bonds	Installment Purchases			
2002-03	\$330,600	\$1,233,790	\$14,769,400	\$1,159,016	\$17,492,806	4.01%	\$1,011
2003-04	258,400	1,080,037	13,431,600	6,994,023	21,764,060	4.99%	1,274
2004-05	187,150	922,450	12,102,850	5,872,652	19,085,102	4.43%	1,117
2005-06	117,800	1,069,723	10,782,200	4,708,929	16,678,652	3.72%	978
2006-07	49,400	575,819	9,495,600	4,584,937	14,705,756	3.25%	854

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

**City of Morganton
Ratios of General Bonded Debt Outstanding,
Last Five Fiscal Years**

Fiscal Year	General Bonded Debt Outstanding	Percentage of Assessed Value	Per Capita
2002-03	\$15,100,000	1.13%	\$873
2003-04	13,690,000	1.04%	802
2004-05	12,290,000	0.93%	720
2005-06	10,900,000	0.80%	640
2006-07	9,545,000	0.07%	554

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

**City of Morganton
Direct and Overlapping Debt
As of June 30, 2007**

Governmental Unit	Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$68,488,665	20.78%	\$14,231,945
City of Morganton	<u>144,400</u>	100.00%	<u>144,400</u>
Total direct and overlapping debt	\$68,633,065		\$14,376,345

Sources: Assessed value data used to estimate applicable percentages provided by the Burke County assessor. Debt outstanding provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Morganton. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident - and, therefore, responsible for repaying the debt - of each overlapping government. For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

**City of Morganton
Direct and Overlapping Debt
As of June 30, 2007**

Legal Debt Margin Calculation for Fiscal Year 2006-07	
Assessed Value	\$1,461,787,658
Debt Limit 8% of Assessed Value	116,943,013
Debt Applicable to Debt Limit:	
Total bonded debt and notes payable	9,003,390
Less: Other Deductions Allowed by Law (Water and Wastewater bonds)	<u>(8,953,990)</u>
Total Amount of Debt Applicable to Debt Limit	<u>49,400</u>
Legal Debt Margin	<u><u>116,893,613</u></u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2002-03	\$107,373,741	\$630,880	\$106,742,861	0.59%
2003-04	105,067,035	544,694	104,522,341	0.52%
2004-05	110,378,644	362,150	110,016,494	0.33%
2005-06	112,174,107	252,800	111,921,307	0.23%
2006-07	116,943,013	49,400	116,893,613	0.04%

**City of Morganton
Demographic and Economic Statistics,
Last Five Calendar Years**

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
2003	17,298	435,529,044	25,178	9.3%
2004	17,080	435,659,560	25,507	7.6%
2005	17,080	430,757,600	25,220	8.3%
2006	17,041	429,774,020	25,220	5.9%
2007	17,224	453,060,096	26,304	6.1%

Sources: Population, median age, and education level information provided by the

Notes: 2007 personal income and per capita income are estimates as actual amounts are not available.

**City of Morganton
Principal Employers,
Current Year**

Fiscal Year 2006 - 2007

Employer			Percentage of Total Burke County Employment
	Employees	Rank	
State of North Carolina	2,500	1	5.95%
Burke Public Schools	2,300	2	5.47%
Blue Ridge Healthcare / Grace Hospital	1,709	3	4.07%
Turning Point Services	800	4	1.90%
Case Farms	740	5	1.76%
Leviton Manufacturing Co.	617	6	1.47%
Burke County	615	7	1.46%
Western Piedmont College	550	8	1.31%
City of Morganton	464	9	1.10%
Continental Teves Inc.	457	10	1.09%
Total	<u>10,752</u>		<u>25.58%</u>

Notes: 2006 Burke County Labor Force numbers 42,036.
Information about principal employers for the period nine years prior to the current period is not available and is therefore not presented.

City of Morganton
Full-time-Equivalent City Government Employees by Function
Last five years

Full-time Equivalent Employees as of June 30

	2003	2004	2005	2006	2007
General Government	63	62	62	62	62
Public Safety	101.5	102.5	101.5	102	103
Transportation	31	31	31	31	31
Environmental Protection	16	13	13	13	13
Cultural & Recreation	20	20	22.25	23.25	23.25
Electric	26	26	26	26	26
Cable	8	8	8	8	8
Water	21	21	22	22	22
Wastewater	27	27	27	27	27
Community House	3	3	3	3	3
Total	316.5	313.5	315.75	317.25	318.25

Source: City Budget Office

Notes: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick).
Full-time-equivalent employment is calculated by dividing total labor hours by 2,080.

City of Morganton
Operating Indicators by Function / Program
Fiscal Year Ended June 30, 2007

Fiscal Year 2006-07	
General Government	
Building Permits Issued	285
Building Inspections Conducted	5,844
Total City Employees - Full-time	290
Total City Employees - Part-time	174
Police	
Physical Arrests (18 years and over) (annual)	2,232
Parking Violations	2,251
Number of Police Employees - Officers	63
Number of Police Employees - Civilians	17
Number of Police Employees - Reserves	2
Number of Calls Responded	28,374
Number of Traffic Accidents	1,140
Fire Protection	
Fire Calls	462
Number of Fire Personnel - Paid	17
Number of Fire Personnel - Volunteer	15
Fire Inspections	1,313
Electric	
Customers	8,157
Public Works	
Refuse Collection (tons per day)	32
Recyclables Collected (tons per day)	2
Residential Collection Trucks	3
Water Treatment Facility	
Customers	10,144
Consumptions	3,241,000,000
Wastewater	
Customers	6,595
Average Daily Sewage Treatment (thousands of gallons)	4,907
Cable Television	
Subscribers / Customers	5,109
Basic Channels	77
Pay Channels	68

Sources: Various City Departments.

City of Morganton
Capital Asset Statistics by Function / Program
Fiscal Year Ended June 30, 2007

Public safety (police)	
Stations	1
Patrol units	74
Public safety (fire)	
Fire stations	3
Parks and recreation	
Acreage	680
Playgrounds	9
Baseball fields	16
Soccer fields	4
Community centers	2
Aquatic facilities	2
Public works	
Miles of streets	87.88
Primary streets	86.79
Secondary streets	1.09
Streetlights	3,408
Traffic signals	57
Water	
Plants	17
Miles of distribution lines	311
Fire hydrants	1,200
Storage capacity (millions of gallons)	8.85
Wastewater	
Plants	1
Miles of collection lines	198
Electric	
Miles of service	267
Cable television	
Miles of plant	160

Sources: Various city departments.

S. Eric Bowman, P.A.

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Report On Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed In Accordance With
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
City of Morganton, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregated remaining fund information of the City of Morganton, North Carolina, as of and for the year ended June 30, 2007, which collectively comprises the City of Morganton's basic financial statements dated October 15, 2007. We did not audit the financial statements of the City of Morganton ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the City of Morganton ABC Board, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The financial statements of the City of Morganton ABC Board were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Morganton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morganton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Morganton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Honorable Mayor and
Members of the City Council
City of Morganton, North Carolina

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Morganton's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Morganton's financial statements that is more than inconsequential will not be prevented or detected by the City of Morganton's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2007-1, 2007-2 and 2007-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Morganton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morganton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we did not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

City of Morganton's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Morganton's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the City Council, and Federal and State awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specific parties.


S. Eric Bowman, P.A.
Certified Public Accountant

Morganton, North Carolina
October 15, 2007

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

403 South Green Street
P.O. Box 1476
Morganton, NC 28680-1476
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Fax (828) 438-9117

Report On Compliance With Requirements Applicable
To Its Major Federal Program And Internal Control
Over Compliance In Accordance With OMB Circular A-133
and the State Single Audit Implementation Act

To the Honorable Mayor and
Members of the City Council
City of Morganton, North Carolina

Compliance

We have audited the compliance of the City of Morganton, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to its major federal program for the year ended June 30, 2007. The City of Morganton's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Morganton's management. Our responsibility is to express an opinion on the City of Morganton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Morganton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Morganton's compliance with those requirements.

In our opinion, the City of Morganton complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

To the Honorable Mayor and
Members of the City Council
City of Morganton, North Carolina

Internal Control Over Compliance

The management of the City of Morganton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Morganton's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act. Accordingly, we do not express an opinion on the effectiveness of the City of Morganton's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of Morganton's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Morganton's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of City Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



S. Eric Bowman, P.A.
Certified Public Accountant

Morganton, North Carolina
October 15, 2007

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Report On Compliance With Requirements Applicable
To Its Major State Program And Internal Control
Over Compliance In Accordance With Applicable
Sections of OMB Circular A-133 and the
State Single Audit Implementation Act

To the Honorable Mayor and
Members of the City Council
City of Morganton, North Carolina

Compliance

We have audited the compliance of the City of Morganton, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2007. The City of Morganton's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program is the responsibility of the City of Morganton's management. Our responsibility is to express an opinion on the City of Morganton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Morganton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Morganton's compliance with those requirements.

In our opinion, the City of Morganton complied, in all material respects, with the requirements referred to above that are applicable to its major State program for the year ended June 30, 2007.

To the Honorable Mayor and
Members of the City Council
City of Morganton, North Carolina

Internal Control Over Compliance

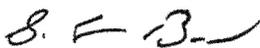
The management of the City of Morganton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Morganton's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act. Accordingly, we do not express an opinion on the effectiveness of the City of Morganton's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the City of Morganton's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the City of Morganton's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of City Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


S. Eric Bowman, P.A.
Certified Public Accountant

Morganton, North Carolina
October 15, 2007

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- * Material weakness(es) identified? yes X no
- * Significant deficiencies identified
that are not considered to be
material weaknesses X yes none reported
- Noncompliance material to financial
statements noted yes X no

Federal Awards

Internal control over major federal programs:

- * Material weakness(es) identified? yes X no
- * Reportable condition(s) identified
that are not considered to be
material weaknesses yes X none reported

Type of auditor's report issued on compliance
for major federal programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of Circular A-133 yes X no

Identification of major federal program:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
66.202	U.S. Environmental Protection Agency - Construction Grant for Wastewater Treatment Works

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section I. Summary of Auditor's Results

Dollar threshold used to distinguish between
Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? X yes no

State Awards

Internal control over major State programs:

* Material weakness(es) identified? yes X no

* Reportable condition(s) identified
that are not considered to be
material weaknesses yes X none reported

Type of auditor's report issued on compliance
for major State programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with the State
Single Audit Implementation Act yes X no

Identification of major State program:

Program Name

Powell Bill Program

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section II.

Findings Related to the Audit of the Basic
Financial Statements of City of Morganton:

2007-1

Condition: The City does not incorporate an internal audit function (person).

Criteria: Due to the complexity and diverse type of financial transactions an internal audit function is needed.

Effect: Internal controls are less effective without an internal audit function.

Cause: Due to the size of the municipality it has not been considered cost effective.

Recommendation: Hire an additional employee familiar with governmental accounting transactions to provide this service.

Management Response: It is not economically feasible to hire additional staff at this time.

2007-2

Condition: Ad valorem tax receivables are only reconciled to the subsidiary records at year end.

Criteria: Ad valorem revenue per the detail subsidiary records should be reconciled to the general ledger control account.

Effect: Any potential misappropriation of assets can not readily be detected without reconciliation procedures.

Cause: The City has not properly implemented adequate internal controls in this area.

Recommendation: We recommend the finance director reconcile the ad valorem tax subsidiary records on a monthly basis to the general ledger control account.

Management Response: We agree with this finding.

2007-3

Condition: Controls over revenues collected at the City Auditorium are not adequate.

Criteria: Controls should be adequate to match tickets sold with funds collected.

Effect: Any potential misappropriation of assets can not be readily detected in the normal course of business.

Cause: The City has not properly implemented established controls.

Recommendation: We recommend installing cash registers and possibly better software to adequately account for revenue collected, particularly presale tickets.

Management Response: We agree with this finding.

Section III. Findings and Questioned Costs Related to Federal Awards:

None Reported.

Section IV. Findings and Questioned Costs Related to State Awards:

None Reported.



CITY OF MORGANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

<u>Grantor</u> <u>Pass-Through Grantor</u> <u>Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>State</u> <u>Pass-Through</u> <u>Grantor's Number</u>
Federal Awards: Cash Programs:		
<u>U.S. Department of Housing and</u> <u>Urban Development</u> Direct Program: CDBG Grant	14.219	
<u>U.S. Environmental Protection Agency</u> Direct Program: Construction Grant for Wastewater Treatment Works	66.202	
<u>U.S. Department of Transportation</u> Passed Through N.C. Department of Transportation Bridge Inspections Highway Safety Equipment Total U.S. Department of Transportation	20.205 20.600	
Total Federal Cash Awards		

<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
\$ <u>98 588</u>	\$ _____	\$ _____
<u>173 500</u>	_____	<u>166 907</u>
4 173	1 027	
<u>8 310</u>	_____	<u>8 310</u>
<u>12 483</u>	<u>1 027</u>	<u>8 310</u>
\$ <u>284 571</u>	\$ <u>1 027</u>	\$ <u>175 217</u>

CITY OF MORGANTON

SCHEDULE OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

State Awards:

Cash Programs:

N.C. Department of Transportation

Powell Bill

N.C. Department of Public Instruction

Intervention/Prevention Program

Total State Cash Awards

Total Federal and State Awards

Note 1 – Basis of Presentation:

The accompanying schedule of Federal and State awards includes the Federal and State grant activity of the City of Morganton and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Loans Outstanding:

The City of Morganton had the following loan balance outstanding at June 30, 2007.

<u>Program Title</u>	<u>Federal CFDA</u>	<u>Amount Outstanding</u>
Section 108 HUD Loan	14.219	\$ 95 000

<u>Federal</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Local</u> <u>Expenditures</u>
\$	\$ 370 680	\$
<u> </u>	<u>155 320</u>	<u> </u>
<u> </u>	<u>526 000</u>	<u> </u>
<u>\$ 284 571</u>	<u>\$ 527 027</u>	<u>\$ 175 217</u>