

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2011**

**City of Morganton
North Carolina**

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2011

City Council

**Mel L. Cohen, Mayor
John H. Cantrell, Jr.
Forrest A. Fleming
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



CITY OF MORGANTON

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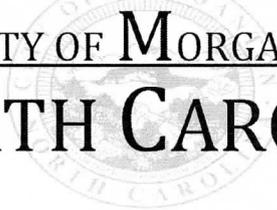
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CITY OF MORGANTON
NORTH CAROLINA



September 26, 2011

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 audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2011.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Eric Bowman, CPA, a licensed certified public accountant has issue an unqualified ("clean") opinion on the City of Morganton's financial statements for the year ended June 30,2011. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Morganton, incorporated in 1885, is located in the western part of the state. It currently occupies 19 square miles and serves a population of 16,935. The City of Morganton is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The City of Morganton has operated under the council-manager form of government since 1913, having been the first in the state to adopt this form of government. Policy-making and legislative authority are vested in the City Council consisting of the mayor and four other members, all elected on a non-partisan basis. The City Council appoints the city manager, who in turn appoints the heads of the various departments. Council members serve four-year terms, with two members elected every two years. The mayor is elected for a four-year term. The mayor and council members are elected at large; each of the council members represents one of the four-districts within the City limits.

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 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 City Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Morganton's financial planning and control. The budget is prepared by fund, function and department. Department directors may transfer resources within a department as they see fit. Transfers between departments, however need special approval from the governing council.

Local economy

The City serves as the retail trade and employment center for a majority of the 90,912 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. Several 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.

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 has been designed for the City. 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.

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.

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.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morganton for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated service 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

Karen B. Duncan, CPA
Finance Director

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Morganton
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

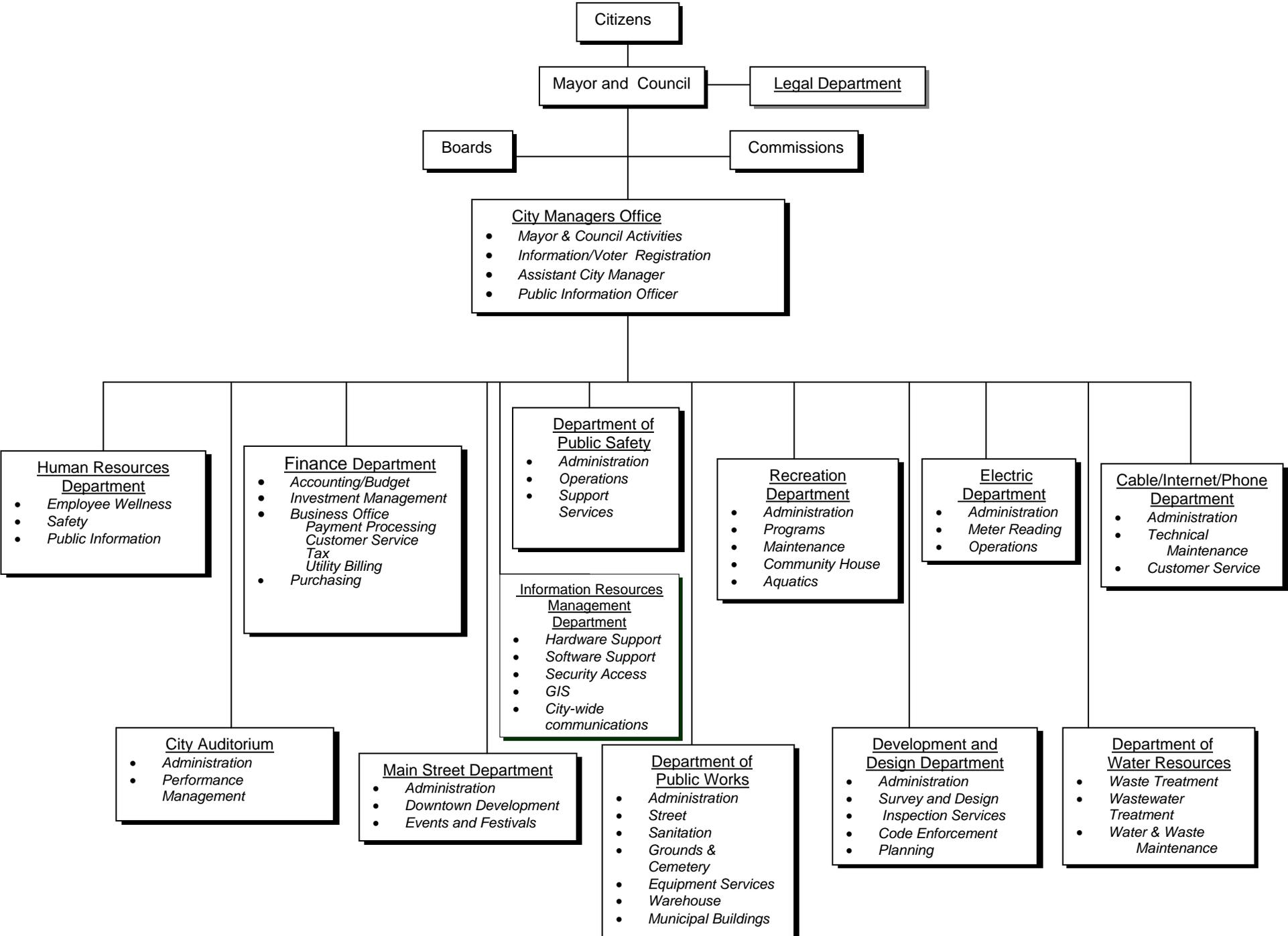


President

Executive Director

CITY OF MORGANTON

ORGANIZATION CHART



S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

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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, 2011 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 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, 2011, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and the Economic Development Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2011 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance and Other Post Employment Benefits (OPEB) Schedule of Funding Progress and Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morganton's financial statements as a whole. The introductory section, combining and individual fund financial statements, budgetary schedules, other schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis 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 is also not a required part of the financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


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

Morganton, North Carolina
August 12, 2011

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, 2011. 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.

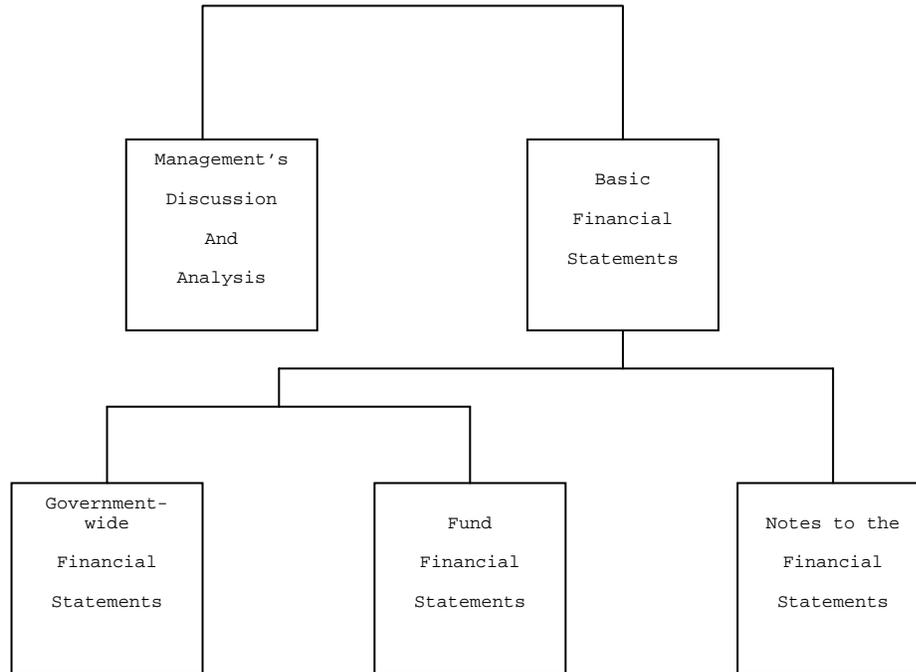
Financial Highlights

- The assets of the City of Morganton exceeded its liabilities at the close of the fiscal year by \$111,869,410 (*net assets*).
- The government's total net assets decreased by \$1,947,330 split between a decrease in governmental activities and an increase in 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 \$10,756,670 a decrease of \$1,648,736 in comparison with the prior year. Approximately 77 percent of this amount, or \$8,273,123, is available for spending at the government's discretion (*committed and unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,203,732, or 30 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt decreased by \$2,580,876 (27%) during the current fiscal year.
- Moody's Investors Service reviewed the City of Morganton bond ratings in 2003, Standard and Poors in 2011. The City maintained its ratings of A2/A+.

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 Statutes 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, and wastewater 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 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, and cable 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			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$14,513,403	\$16,069,632	\$18,369,142	\$16,915,071	\$32,882,545	\$32,984,703
Capital assets	40,857,803	42,916,989	55,668,450	56,914,960	96,526,253	99,831,949
Total assets	55,371,206	58,986,621	74,037,592	73,830,031	129,408,798	132,816,652
L T liabilities outstanding	6,244,153	5,944,269	4,872,635	4,952,440	11,116,788	10,896,709
Other liabilities	3,010,710	2,557,168	3,411,890	5,546,035	6,422,600	8,103,203
Total liabilities	9,254,863	8,501,437	8,284,525	10,498,475	17,539,388	18,999,912
Net assets:						
Invested in capital assets, net of related debt	36,335,474	37,897,550	51,016,008	50,256,119	87,351,482	88,153,669
Restricted	5,549,775	6,207,987			5,549,775	6,207,987
Unrestricted	4,231,094	6,379,647	14,737,059	13,075,437	18,968,153	19,455,084
Total net assets	\$46,116,343	\$50,485,184	\$65,753,067	\$63,331,556	\$111,869,410	\$113,816,740

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 \$111,869,410 as of June 30, 2011. 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 (\$2,104,203) represents resources that are subject to external restrictions on how they may be used. \$379,344 is considered non-spendable for perpetual maintenance at the City Cemetery. \$3,066,228 is subject to City Council restrictions and the remaining balance of \$18,968,153 is unrestricted/unassigned.

City of Morganton's Changes in Net Assets

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$2,983,501	\$2,454,273	\$42,578,599	\$39,511,318	\$45,562,100	\$41,965,591
Operating grants and						
Contributions	425,492	724,637		19,392	425,492	744,029
Capital grants and						
Contributions	934,725	323,177			934,725	323,177
General revenues:						
Ad valorem taxes	7,708,574	7,820,692			7,708,574	7,820,692
Other taxes	3,064,831	2,641,496			3,064,831	2,641,496
Unrestricted Intergovernmental	1,719,297	1,713,894			1,719,297	1,713,894
Unrestricted Intergovernmental	24,701				24,701	
Investment earnings	37,993	137,801	32,730	105,723	70,723	243,524
Other	74,362	64,690	206,554	237,886	280,916	302,576
Total revenues	16,973,476	15,880,660	42,817,883	39,874,319	59,791,359	55,754,979
Expenses:						
General government	3,609,198	3,630,766			3,609,198	3,630,766
Public safety	8,020,152	7,408,112			8,020,152	7,408,112
Transportation	2,275,232	2,412,047			2,275,232	2,412,047
Economic and physical development	216,413	218,656			216,413	218,656
Environmental protection	1,210,998	1,176,135			1,210,998	1,176,135
Culture and recreation	4,765,491	4,183,063			4,765,491	4,183,063
Interest on long-term debt	177,894	201,570			177,894	201,570
Water			4,428,054	3,719,723	4,428,054	3,719,723
Wastewater			3,791,743	3,739,629	3,791,743	3,739,629
Electric			29,042,901	27,380,632	29,042,901	27,380,632
Cable			4,200,613	4,173,224	4,200,613	4,173,224
Community House				300,521		300,521
Total expenses	20,275,378	19,230,349	41,463,311	39,313,729	61,738,689	58,544,078
Increase (decrease) in net assets before transfers	(3,301,902)	(3,349,689)	1,354,572	560,590	(1,947,330)	(2,789,099)
Transfers	(858,831)	337,467	858,831	(337,467)		
Increase(decrease) in net assets	(4,160,733)	(3,012,222)	2,213,403	223,123	(1,947,330)	(2,789,099)
Net assets, July 1	50,485,184	53,487,109	63,331,556	63,108,433	113,816,740	116,595,542
Prior period adjustment	(208,108)	10,297	208,108			10,297
Net assets, June 30	\$46,116,343	\$50,485,184	\$65,753,067	\$63,331,556	\$111,869,410	\$113,816,740

Governmental activities: Governmental activities decreased the City's net assets by \$4,160,733, thereby accounting for a reduction in the net assets of the City of Morganton.

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

- Sales tax revenue decreased this fiscal year.
- Interest earnings decreased this fiscal year.
- Ad valorem tax revenue decreased this fiscal year.

Business-type activities: Business-type activities increased the City of Morganton's net assets by \$2,213,403, accounting for a smaller overall reduction in net assets.

The most significant element of this change to note is that the increase in the water and sewer funds, \$2,647,904. The majority of the increase was generated by a transfer into the sewer fund in the amount of \$1,533,507. The electric fund experienced a loss of \$515,694. This loss 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 \$10,756,670, a decrease of \$1,272,419 in comparison with the prior year. Approximately 48% of this total amount (\$5,206,895) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it has already been committed

- To sustain canteen operations
- For drug enforcement/DARE/Explorers programs
- For future capital improvements
- For economic development
- For perpetual cemetery maintenance
- For restrictions by State Statute and streets/Powell Bill

The general fund is the chief operating fund of the City of Morganton. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,203,732, while total fund balance was \$10,374,163. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 30 percent of total General Fund expenditures, while total fund balance represents 60 percent of that same amount.

At June 30, 2011, the governmental funds of the City of Morganton reported a combined fund balance of \$10,756,670.

General Fund Budgetary Highlights: During the fiscal year, there was an \$264,973 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 (\$230,973)
- Smart communities grant (\$4,000)
- Lobbyist services (\$30,000)

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

- General fund revenues budgeted largely reflected revenue received. No significant variances other than sales tax revenue and interest earnings exist.
- Some General fund expenditures budgeted for capital outlay throughout the general fund were not expended as a result of economic conditions.

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 \$14,737,059. 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, 2011 totals \$96,526,253 (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		Business-type		Total	
	Activities		Activities			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land and Buildings	\$18,960,546	\$19,352,378	\$22,114,798	\$22,870,307	\$41,075,344	\$42,222,685
Plant and system			27,644,406	25,785,498	27,644,406	25,785,498
Equipment	9,199,837	9,773,153	5,909,246	5,259,155	15,109,083	15,032,308
Infrastructure	12,697,420	13,791,458			12,697,420	13,791,458
Total assets	<u>\$40,857,803</u>	<u>\$42,916,989</u>	<u>\$55,668,450</u>	<u>\$53,914,960</u>	<u>\$96,526,253</u>	<u>\$96,831,949</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, 2011 the City of Morganton had total bonded debt outstanding of \$4,170,000 all of which is backed by the full faith and credit of the City.

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

	<u>Business-type Activities</u>	
	<u>2011</u>	<u>2010</u>
G O Bonds	<u>\$4,170,000</u>	<u>\$5,475,000</u>

As mentioned in the financial highlights section of this document, the City of Morganton maintained its bond ratings after being reviewed by Moody's Investors Service in 2003 and Standard and Poors in 2011. The City's ratings of A2/A+ 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 \$134,264,055.

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.

- 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 12.6% is higher than the State's rate of 9.9% and the national rate of 9.2%. The MSA's labor force of 164,100 has increased. 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, 2011

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 2011-2012 represents a decrease of 5% or \$915,453 over the 2010-2011 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2011-2012 business-type activities budget overall is 2% or \$1,111,828 lower than the 2010-2011 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, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
ASSETS					
Cash and cash equivalents	\$9,483,353	\$13,533,110	\$23,016,463	\$153,623	\$45,838
Restricted cash	3,078,414	394,712	3,473,126		
Taxes receivable (net)	105,872		105,872		
Accrued interest receivable-taxes	3,537		3,537		
Interest receivable-investments	10,387	10,257	20,644		
Accounts receivable (net)	601,676	4,431,063	5,032,739		
Inventories	981,433		981,433	154,316	
Notes receivable (net)	248,731		248,731		
Capital assets (net of accumulated depreciation):					
Land	11,871,885	15,040,621	26,912,506	11,000	
Buildings	7,088,661	7,074,177	14,162,838	23,339	1,067,840
Plant and system		27,644,406	27,644,406		
Equipment	9,199,837	5,909,246	15,109,083	33,007	
Infrastructure	12,697,420		12,697,420		
Total assets	<u>55,371,206</u>	<u>74,037,592</u>	<u>129,408,798</u>	<u>375,285</u>	<u>1,113,678</u>
LIABILITIES					
Accounts payable and current liabilities	1,670,826	2,795,692	4,466,518	180,285	10,062
Customer deposits		394,712	394,712		
Unearned revenue	216,848		216,848		
Accrued interest payable	70,656		70,656		
Noncurrent liabilities:					
Due within one year:					
Installment purchases payable	682,564	365,725	1,048,289		
Bonds payable		1,197,627	1,197,627		
Notes payable					34,989
Compensated absences payable	369,816	118,879	488,695		
Due in more than one year:					
Installment purchases payable	3,839,765	348,835	4,188,600		
Bonds payable		2,740,255	2,740,255		
Compensated absences payable	451,997	145,297	597,294		
Net pension obligation	627,438		627,438		
OPEB	1,324,953	177,503	1,502,456		
Total liabilities	<u>9,254,863</u>	<u>8,284,525</u>	<u>17,539,388</u>	<u>180,285</u>	<u>45,051</u>
NET ASSETS					
Invested in capital assets, net of related debt	36,335,474	51,016,008	87,351,482	67,346	1,032,851
Fund Balance:					
Restricted for:					
Perpetual Maintenance	379,344		379,344		
Stabilization by State Statue	859,906		856,906		
Transportation	1,244,297		1,244,297		
Canteen operations	4,301		4,301		
Public safety	103,720		103,720		
Capital improvements	1,502,722		1,502,722		
Economic development	1,455,485		1,455,485		
Unassigned	4,231,094	14,737,059	18,968,153	127,654	35,776
Total net assets	<u>\$46,116,343</u>	<u>\$65,753,067</u>	<u>\$111,866,410</u>	<u>\$195,000</u>	<u>\$1,068,627</u>

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, 2011

<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	\$3,609,198	\$401,366	\$128,474	\$274,255
Public safety	8,020,152	49,184	85,986	320,379
Transportation	2,275,232	468,136		
Economic and physical development	216,413		199,576	
Environmental protection	1,210,998	1,094,518	11,456	
Culture and recreation	4,765,491	970,297		340,091
Interest on long-term debt	177,894			
Total governmental activities	<u>20,275,378</u>	<u>2,983,501</u>	<u>425,492</u>	<u>934,725</u>
Business-type activities:				
Water	4,428,054	4,643,110		
Wastewater	3,791,743	4,677,572		
Electric	29,042,901	29,170,119		
Cable	4,200,613	4,087,798		
Total business-type activities	<u>41,463,311</u>	<u>42,578,599</u>		
Total primary government	<u>\$61,738,689</u>	<u>\$45,562,100</u>	<u>\$425,492</u>	<u>\$934,725</u>
Component units:				
Morganton ABC board	701,763	668,601		
Morganton redevelopment commission	<u>2,700</u>			
Total component units	<u>704,463</u>	<u>668,601</u>		
General revenues:				
Ad valorem taxes				
Other taxes and licenses				
Unrestricted intergovernmental revenues				
Restricted intergovernmental revenues				
Investment earnings				
Other revenues				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Prior period adjustment - Community House				
Net assets - ending				

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

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CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$8,648,887	\$3,008		\$8,651,895
Restricted cash	\$2,699,782		\$378,632	3,078,414
Taxes receivable (net)	105,872			105,872
Accounts receivable (net)	601,500	176		601,676
Interest receivable	9,675		712	10,387
Notes receivable (net)	248,731			248,731
Total assets	<u>\$12,314,447</u>	<u>\$3,184</u>	<u>\$379,344</u>	<u>\$12,696,975</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	1,617,564	21		1,617,585
Deferred revenue	322,720			322,720
Total liabilities	<u>1,940,284</u>	<u>21</u>		<u>1,940,305</u>
Fund Balances:				
Nonspendable				
Perpetual Maintenance			379,344	379,344
Restricted				
Stabilization by State Statue	859,906			859,906
Streets - Powell Bill	1,244,297			1,244,297
Committed				
Canteen operations	4,301			4,301
Drug enforcement	91,472			91,472
Explorers program	2,778			2,778
DARE programs	9,470			9,470
Capital projects	1,502,722			1,502,722
Economic development	1,455,485			1,455,485
Unassigned	5,203,732	3,163		5,206,895
Total fund balances	<u>\$10,374,163</u>	<u>\$3,163</u>	<u>\$379,344</u>	<u>\$10,756,670</u>
Total liabilities and fund balances	<u>\$12,314,447</u>	<u>\$3,184</u>	<u>\$379,344</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.	40,444,029
Other assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	3,537
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	2,097,675
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(7,220,693)
Other liabilities and unearned revenue not reported in the funds	35,125
Net assets of governmental activities	<u>46,116,343</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, 2011

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$7,707,971			\$7,707,971
Other taxes and licenses	3,064,831			3,064,831
Unrestricted intergovernmental revenues	1,863,644			1,863,644
Restricted intergovernmental revenues	1,508,495	\$199,576		1,708,071
Other restricted revenues	128,474			128,474
Permits and fees	219,976			219,976
Sales and services	2,151,569		\$15,982	2,167,551
Investment earnings	36,564		1,429	37,993
Other revenues	74,362			74,362
Total revenues	<u>16,755,886</u>	<u>199,576</u>	<u>17,411</u>	<u>16,972,873</u>
EXPENDITURES				
Current				
General government	3,126,601			3,126,601
Public safety	7,221,357			7,221,357
Transportation	1,183,133			1,183,133
Environmental protection	1,044,297			1,044,297
Cultural and recreational	3,917,534			3,917,534
Economic and physical development		196,413	20,000	216,413
Debt service				
Principal retirement	693,644			693,644
Interest and fees	180,022			180,022
Total expenditures	<u>17,366,588</u>	<u>196,413</u>	<u>20,000</u>	<u>17,583,001</u>
Revenues over (under) expenditures	<u>(610,702)</u>	<u>3,163</u>	<u>(2,589)</u>	<u>(610,128)</u>
OTHER FINANCING SOURCES (USES)				
Transfers - in	724,676			724,676
Transfers - out	(1,533,507)		(50,000)	(1,583,507)
Installment purchase debt issued	196,540			196,540
Total other financing sources (uses)	<u>(612,291)</u>		<u>(50,000)</u>	<u>(662,291)</u>
Net change in fund balances	(1,222,993)	3,163	(52,589)	(1,272,419)
Fund balances - beginning (consolidated)	11,973,473		431,933	12,405,406
Prior period adjustment	(376,317)			(376,317)
Fund balances - ending	<u>\$10,374,163</u>	<u>\$3,163</u>	<u>\$379,344</u>	<u>\$10,756,670</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, 2011

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

Net change in fund balances - total governmental funds	(\$1,272,419)
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 capital outlays exceeded depreciation in the current period.	(2,302,703)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	603
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.	497,104
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.	(781,907)
The net revenue of certain activities of the internal service fund is reported with governmental activities.	<u>(301,411)</u>
Change in net assets of governmental activities.	<u><u>(\$4,160,733)</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, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes				
Current year	\$7,717,160	\$7,717,160	\$7,597,587	(\$119,573)
Prior years	50,000	50,000	45,627	(4,373)
Special tax - Main Street	108,230	108,230	115,712	7,482
Interest	38,500	38,500	28,355	(10,145)
Discounts	(85,000)	(85,000)	(79,310)	5,690
Total	<u>7,828,890</u>	<u>7,828,890</u>	<u>7,707,971</u>	<u>(120,919)</u>
Other taxes and licenses				
Privilege licenses	239,900	239,900	154,299	(85,601)
Carbon city fire tax	8,029	8,029	8,434	405
Occupancy tax	63,235	63,235	58,962	(4,273)
One-half cent sales tax	1,848,826	1,848,826	1,931,462	82,636
One cent sales tax	835,263	835,263	911,674	76,411
Total	<u>2,995,253</u>	<u>2,995,253</u>	<u>3,064,831</u>	<u>69,578</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	28,803	28,803	27,950	(853)
Section eight in lieu of taxes	4,515	4,515	2,671	(1,844)
Electric in lieu of taxes	100,384	100,384	100,384	
Franchise tax	1,396,727	1,396,727	1,456,686	59,959
Beer and wine	83,813	83,813	75,181	(8,632)
Solid waste disposal	9,375	9,375	11,456	2,081
Alcohol Beverage Commission	263,697	263,697	189,316	(74,381)
Total	<u>1,887,314</u>	<u>1,887,314</u>	<u>1,863,644</u>	<u>(23,670)</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	107,911	107,911	80,933	(26,978)
Drug restitution	2,500	2,500		(2,500)
ABC restitution	1,500	1,500	24,701	23,201
School resource officer	89,793	89,793		(89,793)
State and Federal grants	713,408	985,996	934,725	(51,271)
Powell bill street aid allocation	445,644	445,644	468,136	22,492
Total	<u>1,360,756</u>	<u>1,633,344</u>	<u>1,508,495</u>	<u>(124,849)</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, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Other restricted revenues				
Shared cost of curb and gutter	\$5,000	\$5,000		(\$5,000)
Restricted contributions	95,550	99,550	\$128,474	28,924
Total	<u>100,550</u>	<u>104,550</u>	<u>128,474</u>	<u>23,924</u>
Permits and fees				
Building permits	45,000	45,000	50,549	5,549
Plumbing permits	33,000	33,000	26,017	(6,983)
Electric permits	76,000	76,000	113,835	37,835
Variance request	1,000	1,000	600	(400)
Fire inspection revenue	31,150	31,150	28,975	(2,175)
Total	<u>186,150</u>	<u>186,150</u>	<u>219,976</u>	<u>33,826</u>
Sales and services				
Parking revenue	14,700	14,700	9,164	(5,536)
Reimbursement for services	5,000	5,000	5,625	625
Solid waste user fees	1,060,000	1,060,000	1,065,905	5,905
Solid waste late charges	15,000	15,000	12,631	(2,369)
Curb cuts	8,000	8,000	3,104	(4,896)
Civil citations	500	500	250	(250)
Rent	1,170	1,170	744	(426)
Fire protection	10,000	10,000	28,803	18,803
Recreation revenue	601,000	601,000	535,214	(65,786)
Food sales and services	185,000	185,000	183,331	(1,669)
Bad check charges	4,500	4,500	4,621	121
Canteen sales	1,480	1,480	1,898	418
Main street revenue	24,000	24,000	31,935	7,935
Façade loan program	20,000	20,000	2,175	(17,825)
DARE program	7,500	7,500	3,167	(4,333)
Municipal auditorium ticket sales	310,000	310,000	251,752	(58,248)
Reimbursements				
Election - fees	120	120		(120)
Morganton/Lenoir airport			205	205
Court cost and fees	19,000	19,000	11,045	(7,955)
Total	<u>2,286,970</u>	<u>2,286,970</u>	<u>2,151,569</u>	<u>(135,401)</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, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Investment earnings	\$86,835	\$86,835	\$32,999	(\$53,836)
Other revenue				
Miscellaneous	61,500	61,500	74,362	12,862
Contributions	500	500		(500)
Total	62,000	62,000	74,362	12,362
Total revenue	16,794,718	17,071,306	16,752,321	(318,985)
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			58,935	
Operating expenditures			114,528	
Donations/economic development			515,761	
Elections			2,469	
Capital outlay			103,443	
Pro rata administrative services			(435,852)	
Total	677,295	689,295	359,284	330,011
Legal				
Salaries and employee benefits			192,991	
Operating expenditures			52,900	
Pro rata administrative services			(182,402)	
Total	60,801	90,801	63,489	27,312
City manager				
Salaries and employee benefits			\$447,765	
Operating expenditures			45,515	
Pro rata administrative services			(390,064)	
Total	95,316	95,316	103,216	(\$7,900)
Human resources				
Salaries and employee benefits			233,031	
Operating expenditures			941,725	
Pro rata administrative services			(610,235)	
Total	610,234	610,234	564,521	\$45,713

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Accounting				
Salaries and employee benefits			\$233,158	
Operating expenditures			55,452	
Pro rata administrative services			(237,041)	
Total	\$59,260	\$59,260	51,569	\$7,691
Main street				
Salaries and employee benefits			129,678	
Operating expenditures			366,940	
Capital outlay			21,458	
Total	701,444	656,644	518,076	138,568
Canteen operations				
Operating expenditures	2,125	2,125	1,471	654
Purchasing				
Salaries and employee benefits			15,467	
Operating expenditures			73,253	
Pro rata administrative services			(144,241)	
Total	(6,984)	(6,984)	(55,521)	48,537
Business office/tax				
Salaries and employee benefits			308,404	
Operating expenditures			141,106	
Pro rata administrative services			(372,130)	
Total	94,199	94,199	77,380	16,819
Development				
Salaries and employee benefits			478,426	
Operating expenditures			86,599	
Capital outlay			24,353	
Total	662,107	703,673	589,378	114,295
Municipal buildings				
Operating expenditures			176,537	
Capital outlay			12,888	
Pro rata administrative services			(98,951)	
Total	228,813	228,813	90,474	138,339

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
General government (continued)				
Design				
Salaries and employee benefits			\$371,421	
Operating expenditures			58,682	
Pro rata administrative services			(272,523)	
Total	\$181,682	\$181,682	157,580	\$24,102
Public works				
Salaries and employee benefits			127,574	
Operating expenditures			16,341	
Total	159,988	159,988	143,915	16,073
Cemetery and grounds				
Salaries and employee benefits			420,518	
Operating expenditures			51,622	
Pro rata reimbursement			(20,000)	
Capital outlay			9,629	
Total	489,627	489,627	461,769	27,858
Total general government	4,015,907	4,054,673	3,126,601	928,072
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,677,008	
Operating expenditures			1,067,884	
Pro rata administrative services			(19,200)	
Capital outlay			495,665	
Total public safety	7,584,064	7,587,444	7,221,357	366,087
Transportation				
Street department				
Salaries and employee benefits			597,569	
Operating expenditures			\$98,357	
Pro rata administrative services			(\$30,000)	
Capital outlay			48,957	
Total	\$1,013,717	\$1,016,930	714,883	\$302,047

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Powell bill				
Salaries and employee benefits			233,679	
Operating expenditures			98,382	
Capital outlay			136,189	
Total	378,500	378,500	468,250	(89,750)
Total transportation	1,392,217	1,395,430	1,183,133	212,297
Environmental protection - sanitation				
Salaries and employee benefits			\$680,043	
Operating expenditures			331,725	
Capital outlay			32,529	
Total environmental protection	\$1,123,898	\$1,123,898	1,044,297	\$79,601
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			282,701	
Operating expenditures			532,306	
Total	817,253	817,253	815,007	2,246
Recreation				
Salaries and employee benefits			1,532,534	
Operating expenditures			1,178,393	
Pro rata administrative services			(22,080)	
Capital outlay			128,495	
Total	2,785,887	3,005,501	2,817,342	188,159
Community House				
Salaries and employee benefits			143,851	
Operating expenditures			141,334	
Total	300,835	300,835	285,185	15,650
Total cultural and recreational	3,903,975	4,123,589	3,917,534	206,055

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$704,639	\$704,639	\$693,644	10,995
Interest	183,635	183,635	180,022	3,613
Total debt service	<u>888,274</u>	<u>888,274</u>	<u>873,666</u>	<u>14,608</u>
Total expenditures	<u>18,908,335</u>	<u>19,173,308</u>	<u>17,366,588</u>	<u>1,806,720</u>
Revenues over (under) expenditures	<u>(2,113,617)</u>	<u>(2,102,002)</u>	<u>(614,267)</u>	<u>1,487,735</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	\$466,901	\$455,286		(\$455,286)
Installment purchase debt issued	196,540	196,540	\$196,540	
Sale of capital asset	725,500	725,500		(725,500)
Transfers in	724,676	724,676	724,676	
Total other financing sources	<u>2,113,617</u>	<u>2,102,002</u>	<u>921,216</u>	<u>(1,180,786)</u>
Revenues and other sources over (under) expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>306,949</u>	<u>\$306,949</u>
Net change in fund balances			306,949	
Fund balances - beginning			8,988,046	
Prior period adjustment			(376,317)	
Fund balances - ending			\$8,918,678	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			3,565	
Transfer to wastewater fund			(1,533,507)	
Fund balances - beginning			<u>2,985,427</u>	
Fund balances - ending			<u>\$10,374,163</u>	

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

CITY OF MORGANTON
ECONOMIC DEVELOPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Interest earned			\$3,565	\$3,565
Total revenues			3,565	3,565
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	1,783,507	1,783,507		(1,783,507)
Transfer to wastewater fund	(1,783,507)	(1,783,507)	(1,533,507)	250,000
Total other financing sources (uses)	Nil	Nil	(1,533,507)	(1,533,507)
Excess of revenues over (under) expenditures		Nil	(1,529,942)	(1,529,942)
Net change in fund balances			(1,529,942)	
Fund balances - beginning			2,985,427	
Fund balances - ending			\$1,455,485	

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

CITY OF MORGANTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2011	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
ASSETS						
CURRENT ASSETS :						
Cash and cash equivalents	\$5,147,855	\$197,892	\$3,306,983		\$8,652,730	\$831,458
Restricted Cash	53,208	37,539	303,965		394,712	
Investments	1,752,762	1,728,293	1,399,325		4,880,380	
Accounts receivable (net)	513,830	457,513	3,077,688	\$382,032	4,431,063	
Interest receivable	4,772	3,023	2,462		10,257	
Inventories						981,433
Due from other funds			2,727,352		2,727,352	
Total current assets	<u>7,472,427</u>	<u>2,424,260</u>	<u>10,817,775</u>	<u>382,032</u>	<u>21,096,494</u>	<u>1,812,891</u>
NONCURRENT ASSETS :						
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	15,266,435	11,912,628	9,511,056	3,937,710	40,627,829	380,457
Capital assets (net)	<u>16,178,452</u>	<u>25,979,696</u>	<u>9,567,006</u>	<u>3,943,296</u>	<u>55,668,450</u>	<u>413,774</u>
Total noncurrent assets	<u>16,178,452</u>	<u>25,979,696</u>	<u>9,567,006</u>	<u>3,943,296</u>	<u>55,668,450</u>	<u>413,774</u>
TOTAL ASSETS	<u><u>23,650,879</u></u>	<u><u>28,403,956</u></u>	<u><u>20,384,781</u></u>	<u><u>4,325,328</u></u>	<u><u>76,764,944</u></u>	<u><u>2,226,665</u></u>
LIABILITIES						
CURRENT LIABILITIES :						
Accounts payable and accrued liabilities	30,323	25,348	2,566,027	173,994	2,795,692	53,150
Due to other funds				2,727,352	2,727,352	
Customer deposits	53,208	37,539	303,965		394,712	
Compensated absences- current	30,154	32,426	40,347	15,952	118,879	16,916
G O Bonds payable - current maturities	251,502	946,125			1,197,627	
Installment purchase - current maturities	148,429	188,626	28,670		365,725	
Total current liabilities	<u>513,616</u>	<u>1,230,064</u>	<u>2,939,009</u>	<u>2,917,298</u>	<u>7,599,987</u>	<u>70,066</u>
NONCURRENT LIABILITIES :						
Other postemployment benefits	88,219	46,419	29,603	13,262	177,503	38,249
Compensated absences- noncurrent	36,855	39,631	49,314	19,497	145,297	20,675
G O Bonds payable - noncurrent	575,450	2,164,805			2,740,255	
Installment purchase - noncurrent maturities		209,505	139,330		348,835	
Total noncurrent liabilities	<u>700,524</u>	<u>2,460,360</u>	<u>218,247</u>	<u>32,759</u>	<u>3,411,890</u>	<u>58,924</u>
TOTAL LIABILITIES	<u><u>1,214,140</u></u>	<u><u>3,690,424</u></u>	<u><u>3,157,256</u></u>	<u><u>2,950,057</u></u>	<u><u>11,011,877</u></u>	<u><u>128,990</u></u>
NET ASSETS						
Invested in capital assets, net of related debt	15,203,071	22,470,635	9,399,006	3,943,296	51,016,008	413,774
Unrestricted	7,233,668	2,242,897	7,828,519	(2,568,025)	14,737,059	1,683,901
TOTAL NET ASSETS	<u><u>\$22,436,739</u></u>	<u><u>\$24,713,532</u></u>	<u><u>\$17,227,525</u></u>	<u><u>\$1,375,271</u></u>	<u><u>65,753,067</u></u>	<u><u>\$2,097,675</u></u>

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

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CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2011	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
OPERATING REVENUES :						
Charges for services	\$4,643,110	\$4,677,572	\$29,170,119	\$4,087,798	\$42,578,599	\$1,742,357
OPERATING EXPENSES :						
Water treatment and maintenance	3,486,888				3,486,888	
Wastewater treatment and maintenance		2,714,417			2,714,417	
Operations and construction			28,364,993		28,364,993	
Operations and maintenance				3,489,731	3,489,731	
MIS, Garage and Warehouse operations						1,961,982
Depreciation	877,303	837,911	674,101	704,473	3,093,788	83,333
Total	4,364,191	3,552,328	29,039,094	4,194,204	41,149,817	2,045,315
OPERATING INCOME (LOSS)	278,919	1,125,244	131,025	(106,406)	1,428,782	(302,958)
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	16,554	6,996	9,180		32,730	
Sale of materials						1,547
Interest expense	(47,615)	(178,290)	(3,807)	(6,409)	(236,121)	
Amortization of deferred charge on refundings	(16,248)	(61,125)			(77,373)	
Miscellaneous	9,926	36	2,584	194,008	206,554	
Total	(37,383)	(232,383)	7,957	187,599	(74,210)	1,547
INCOME (LOSS) BEFORE TRANSFERS	241,536	892,861	138,982	81,193	1,354,572	(301,411)
TRANSFERS :						
In		1,533,507			1,533,507	
Out	(20,000)		(654,676)		(674,676)	
Total	(20,000)	1,533,507	(654,676)		858,831	
Change in net assets	221,536	2,426,368	(515,694)	81,193	2,213,403	(301,411)
TOTAL NET ASSETS - beginning	22,215,203	22,287,164	17,743,219	1,294,078		2,399,086
TOTAL NET ASSETS - ending	<u>\$22,436,739</u>	<u>\$24,713,532</u>	<u>\$17,227,525</u>	<u>\$1,375,271</u>		<u>\$2,097,675</u>
Change in net assets of business-type activities					<u>2,213,403</u>	

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, 2011

	Business-type Activities - Enterprise Funds				Totals June 30, 2011	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
CASH FLOWS FROM OPERATING ACTIVITIES :						
Receipts from customers	\$4,643,110	\$4,677,572	\$29,170,119	\$4,087,798	\$42,578,599	\$1,694,859
Payments to suppliers	(2,350,118)	(1,690,682)	(26,389,124)	(3,113,276)	(33,543,200)	(1,266,727)
Payments to employees	(1,030,777)	(1,100,621)	(1,360,452)	(443,194)	(3,935,044)	(670,605)
Net cash provided (used) by operating activities	<u>1,262,215</u>	<u>1,886,269</u>	<u>1,420,543</u>	<u>531,328</u>	<u>5,100,355</u>	<u>(242,473)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES :						
Transfers - in		1,533,507			1,533,507	
Transfers - (out)	(20,000)		(654,676)		(674,676)	
Interfund borrowings			527,668	(166,703)		
Noncapital contributions received (used)	<u>9,926</u>	<u>36</u>	<u>2,584</u>	<u>194,008</u>	<u>206,554</u>	<u>1,547</u>
Net cash provided (used) by noncapital financing activities	<u>(10,074)</u>	<u>1,533,543</u>	<u>(124,424)</u>	<u>27,305</u>	<u>1,426,350</u>	<u>1,547</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(230,275)	(1,417,156)	(352,340)	(29,010)	(2,028,781)	(145,342)
Proceeds from capital debt			80,000			
Principal paid on capital debt	(416,729)	(1,212,829)	(11,000)	(523,214)	(2,163,772)	
Interest paid on capital debt	(47,615)	(178,290)	(3,807)	(6,409)	(236,121)	
Net cash provided (used) by capital and related financing activities	<u>(694,619)</u>	<u>(2,808,275)</u>	<u>(287,147)</u>	<u>(558,633)</u>	<u>(4,348,674)</u>	<u>(145,342)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :						
Proceeds from sales and maturities of investments	2,420,054	473,341	3,604,992		6,498,387	
Purchases of investments	(1,752,762)	(1,728,293)	(1,399,325)		(4,880,380)	
Interest on investments	23,981	9,603	8,421		42,005	
Net cash provided (used) by investing activities	<u>691,273</u>	<u>(1,245,349)</u>	<u>2,214,088</u>		<u>1,660,012</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	1,248,795	(633,812)	3,223,060	Nil	3,838,043	(386,268)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
	<u>3,952,268</u>	<u>869,243</u>	<u>387,888</u>	<u>Nil</u>	<u>5,209,399</u>	<u>1,217,726</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR						
	<u>\$5,201,063</u>	<u>\$235,431</u>	<u>\$3,610,948</u>	<u>Nil</u>	<u>9,047,442</u>	<u>\$831,458</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds				Totals June 30, 2011	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED)						
BY OPERATING ACTIVITIES:						
Operating income (loss)	\$278,919	\$1,125,244	\$131,025	(\$106,406)	1,428,782	(\$302,958)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	877,303	837,908	674,101	704,473	3,093,785	83,333
Changes in assets and liabilities :						
(Increase) decrease in accounts receivable	112,155	73,953	598,559	(27,977)	756,690	135
(Increase) decrease in inventories						(3,558)
Increase (decrease) in accounts payable and accrued liabilities	(27,996)	(133,554)	41,540	(42,258)	(162,268)	(16,509)
Increase (decrease) in customer deposits	2,820	2,368	18,954		24,142	
Increase (decrease) in OPEB	14,802	(17,821)	(43,814)	(5,092)	(51,925)	1,540
Increase (decrease) in accrued vacation pay	4,212	(1,829)	178	8,588	11,149	(4,456)
Net cash provided (used) by operating activities	<u>\$1,262,215</u>	<u>\$1,886,269</u>	<u>\$1,420,543</u>	<u>\$531,328</u>	<u>\$5,100,355</u>	<u>(\$242,473)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Amortization of deferred charges on refunding	(16,248)	(61,125)			(77,373)	
Total noncash investing, capital and financing activities	<u>(\$16,248)</u>	<u>(\$61,125)</u>			<u>(\$77,373)</u>	

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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, Suite A-100, Morganton, NC 28655.

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.

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. Therefore, the City's vehicle taxes for vehicles registered in Burke County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues.

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. Additionally, the City has legally adopted a Economic Development Fund. Under GASB 54 guidance the Economic Development Fund is consolidated in the General Fund. The budgetary comparison for the Economic Development Fund has been included in the supplemental information.

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 one special revenue fund, the CDBG Entitlement Fund. The CDBG Entitlement Fund accounts for federal funds used to benefit low and moderate-income individuals.

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.

Additionally, the City reports the following fund type:

The internal service fund accounts for the Warehouse, Garage and Information Resource Management Services 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).

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, 2011 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.

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, 2010. 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

Restricted Assets

Money in the Economic Development Fund is classified as restricted assets because its use is restricted to economic development and/or water and sewer capital projects. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Permanent fund restricted cash represents the nonspendable portion of the permanent fund. Utility customer deposits are also shown as restricted cash.

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.

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.

Net assets

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.

Fund Balances

In the governmental fund financial statements, fund balance is composed of four classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Perpetual maintenance – Cemetery resources that are required to be retained in perpetuity for maintenance of the City's Cemetery.

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

Restricted for Stabilization by State statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Morganton's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Committed 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.

Committed 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.

Committed for Explorers program - portion of fund balance available for appropriation but segregated for explorers programs

Committed for DARE program - portion of fund balance available for appropriation but segregated for DARE programs.

Committed for Capital improvements - portion of total fund balance available for appropriation which has been assigned by the governing board for future capital improvements.

Committed for Economic development - portion of fund balance assigned by the governing board for economic development.

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

I. 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 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 \$2,302,703 difference are as follows:

Capital outlay	\$1,013,606
Depreciation expense	<u>(3,316,309)</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of governmental activities	<u>\$(2,302,703)</u>

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 \$497,104 difference are as follows:

Debt issuance	(196,540)
Principal repayments:	
Installment purchase	<u>693,644</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of Governmental activities	<u>\$497,104</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 \$781,907 difference are as follows:

Compensated Absences, Pension Obligation and OPEB	\$(784,035)
Accrued Interest	<u>2,128</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of Governmental activities	<u>\$(781,907)</u>

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 \$603 are as follows:

Recording of tax receipts deferred in the fund statements	<u>\$603</u>
Net adjustment to revenues	<u>\$603</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 \$(301,411)

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 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, 2011, the City's deposits had a carrying amount of \$9,732,862 and a bank balance of \$10,458,524. Of the bank balance, \$500,000 was insured by federal depository insurance and \$9,958,524 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 \$152,957 and the bank balance was \$153,623. The bank balance was covered by an institution using the Pooling Method. The carrying amount of deposits for the Redevelopment Commission was \$45,838 and the bank balance was \$45,838. All of the bank balance was covered by Federal depository insurance.

Investments

At June 30, 2011 the City's investments were as follows:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1-3 Years
NC Capital Management Trust - Cash Portfolio	\$16,754,232	\$16,754,232		

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.

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 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, 2011. 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.

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	\$136,495
Allowance for revolving loans	209,707
Enterprise Funds:	
Allowance for uncollectible charges	<u>\$205,000</u>
Total	<u>\$551,202</u>

Capital assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$11,735,125	103,443		\$11,838,568
Capital assets being depreciated:				
Buildings	22,487,976	12,889		22,500,865
Equipment	20,802,889	897,274		21,700,163
Infrastructure	44,242,622			44,242,622
Total capital assets being depreciated	<u>87,533,487</u>	<u>910,163</u>		<u>88,443,650</u>
Less accumulated depreciation for:				
Buildings	14,883,674	659,464		15,543,138
Equipment	11,187,042	1,562,808		12,749,850
Infrastructure	30,451,165	1,094,037		31,545,202
Total accumulated depreciation	<u>56,521,881</u>	<u>3,316,309</u>		<u>59,838,190</u>
Total capital assets being depreciated, net	<u>31,011,606</u>	<u>(2,406,146)</u>		<u>28,605,460</u>
Governmental activity capital assets, net	<u>\$42,746,731</u>	<u>(\$2,302,703)</u>		<u>\$40,444,028</u>

Beginning balances include Community House assets which are no longer recorded in an Enterprise fund and have been transferred to the General Fund.

Internal Service Fund:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$33,318			\$33,318
Capital assets being depreciated:				
Buildings	621,212			621,212
Equipment	719,859	145,342		865,201
Total capital assets being depreciated	<u>1,341,071</u>	<u>145,342</u>		<u>1,486,413</u>
Less accumulated depreciation for:				
Buildings	476,869	13,409		490,278
Equipment	545,755	69,924		615,679
Total accumulated depreciation	<u>1,022,624</u>	<u>83,333</u>		<u>1,105,957</u>
Total capital assets being depreciated, net	<u>318,447</u>	<u>62,009</u>		<u>380,456</u>
Internal service fund capital assets, net	<u>\$351,765</u>	<u>\$62,009</u>		<u>\$413,774</u>

Depreciation expense was charged to functions/programs as follows:

General Government	\$425,892
Public Safety	627,214
Transportation	1,232,138
Environmental Protection	159,743
Culture and Recreational	<u>871,322</u>
Total depreciation expense	<u>\$3,316,309</u>

Business-type activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
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	17,294,745	44,018		17,338,763
Equipment	2,102,176	186,257		2,288,433
Total capital assets being depreciated	<u>29,540,464</u>	<u>230,275</u>		<u>29,770,739</u>
Less accumulated depreciation for:				
Buildings	5,553,292	195,609		5,748,901
Plant and System	6,857,691	435,111		7,292,802
Equipment	1,216,018	246,583		1,462,601
Total accumulated depreciation	<u>13,627,001</u>	<u>877,303</u>		<u>14,504,304</u>
Total capital assets being depreciated, net	<u>15,913,463</u>	<u>(647,028)</u>		<u>15,266,435</u>
Water fund capital assets, net	<u>\$16,825,480</u>	<u>(\$647,028)</u>		<u>\$16,178,452</u>

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Wastewater Fund:				
Capital assets not being depreciated:				
Land	\$14,067,068			\$14,067,068
Capital assets being depreciated:				
Buildings	4,072,991			4,072,991
Plant and System	18,289,740	15,615		18,305,355
Equipment	3,847,320	1,401,541		5,248,861
Total capital assets being depreciated	26,210,051	1,417,156		27,627,207
Less accumulated depreciation for:				
Buildings	2,577,772	309,546		2,887,318
Plant and System	9,997,805	73,364		10,071,169
Equipment	2,301,093	455,000		2,756,093
Total accumulated depreciation	14,876,670	837,910		15,714,580
Total capital assets being depreciated, net	11,333,381	579,246		11,912,627
Wastewater fund capital assets, net	\$25,400,449	\$579,246		\$25,979,695

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Electric Fund:				
Capital assets not being depreciated:				
Land	\$55,950			\$55,950
Capital assets being depreciated:				
Buildings	2,731,417			2,731,417
Plant and System	14,240,991	272,900		14,513,891
Equipment	4,960,639	79,440		5,040,079
Total capital assets being depreciated	21,933,047	352,340		22,285,387
Less accumulated depreciation for:				
Buildings	1,582,872	65,041		1,647,913
Plant and System	8,085,540	356,326		8,441,866
Equipment	2,431,818	252,734		2,684,552
Total accumulated depreciation	12,100,230	674,101		12,774,331
Total capital assets being depreciated, net	9,832,817	(321,761)		9,511,056
Electric fund capital assets, net	\$9,888,767	(\$321,761)		\$9,567,006

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Cable Fund:				
Capital assets not being depreciated:				
Land	\$5,586			\$5,586
Capital assets being depreciated:				
Buildings	793,076			793,076
Plant and System	11,277,684			11,277,684
Equipment	699,108	29,010		728,118
Total capital assets being depreciated	12,769,868	29,010		12,798,878
Less accumulated depreciation for:				
Buildings	362,113	20,604		382,717
Plant and System	7,376,628	608,823		7,985,451
Equipment	417,955	75,045		493,000
Total accumulated depreciation	8,156,696	704,472		8,861,168
Total capital assets being depreciated, net	4,613,172	(675,462)		3,937,710
Electric fund capital assets, net	\$4,618,758	(\$675,462)		\$3,943,296

Depreciation expense in the amount of \$3,177,120 was charged to business type activities.

Construction commitments

The City has no active construction projects as of June 30, 2011.

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2011, was as follows:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$11,000			\$11,000
Capital assets being depreciated:				
Buildings	77,980			77,980
Improvements	151,153			151,153
Equipment	148,726			148,726
Total capital assets being depreciated	377,859			377,859
Less accumulated Depreciation for:				
Buildings	77,980			77,980
Improvements	112,018	15,796		127,814
Equipment	111,772	3,947		115,719
Total accumulated depreciation	301,770	19,743		321,513

Total capital assets being depreciated, net	<u>76,089</u>	<u>(19,743)</u>	<u>56,346</u>
ABC Board capital assets, net	<u>\$87,089</u>	<u>\$(19,743)</u>	<u>\$67,346</u>

Activity for the Morganton Redevelopment Commission for the year ended June 30, 2011, 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	<u>\$1,067,840</u>		<u>\$1,067,840</u>

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 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 6.35% and 6.41%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement and law enforcement officers is 6.5% and 6.41% 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, 2011, 2010 and 2009 were \$560,543, \$551,771, and \$577,605, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$11,683, \$8,897, and \$8,908, 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, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	15
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>66</u>
Total	<u>81</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, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The level percent of pay amortization method was utilized.

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	\$ 171,295
Interest on net pension obligation	(7,794)
Adjustment to annual required contribution	<u>8,345</u>
Annual pension cost	171,846
Contributions made for fiscal year ended 6-30-11	<u>-</u>
Increase (decrease) in net pension Obligation	171,846
Net pension obligation beginning of year	<u>455,592</u>
Net pension obligation end of year	<u>\$627,438</u>

3 YEAR TREND INFORMATION

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	\$140,229	-	\$300,192
6/30/10	\$155,400	-	\$455,592
6/30/11	\$171,846	-	\$627,438

Funding Status and Funding Progress.

As if December 31, 2009, the most recent actuarial valuation dates, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$1,560,115. The covered payroll (annual payroll of active employees covered by the plan) was \$2,707,611, and the ratio of the UAAL to the covered payroll was 57.62 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or calling (919) 981-5454.

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, 2011 were \$248,425, which consisted of \$138,395 from the City and \$110,030 from the law enforcement officers.

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 Nationwide Retirement Solutions 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.

Other Post-Employment Health Care Benefits

Per a 1998 City Council approved policy; the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of the City. How much the City will pay for basic medical insurance for all retirees is 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. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation.

Retirees and dependents receiving benefits	67
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	
Law Enforcement Officers	66
Firefighters	16
General Employees	<u>213</u>
Total	362

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.

Summary of Significant Accounting Policies.

Postemployment expenditures are made from the general fund as well as the enterprise funds, all of which are maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$1,170,664
Interest on net OPEB obligation	36,709
Adjustment to annual required contribution	<u>(35,068)</u>
Annual OPEB cost (expense)	\$1,172,305
Contributions made	<u>587,565</u>
Increase (decrease) in net OPEB obligation	\$584,740
Net OPEB obligation, beginning of year	<u>917,716</u>
Net OPEB obligation, end of year	<u>\$1,502,456</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$895,333	0	\$895,333
2010	22,383	0	917,716
2011	1,172,305	50%	1,502,456

Funded Status and Funding Progress.

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and thus, the unfunded actuarial liability (UAAL) was \$14,022,125. The covered payroll (annual payroll of active employees covered by the plan) was \$14,022,125 and the ratio of the UAAL to the covered payroll was 125.6%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included at 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 30 years.

Deferred/Unearned Revenue

The balance in deferred revenues in the fund financial statements and unearned revenues in the government-wide statements, at June 30, 2011 is composed of the following elements:

	<u>Deferred</u>	<u>Unearned</u>
Taxes receivable (net)	\$105,872	
Auditorium advance ticket sales	56,582	56,582
Red, White and Bluegrass ticket sales	75,846	75,846
Unspent grant funds	76,699	76,699
Prepaid taxes	<u>7,721</u>	<u>7,721</u>
Total deferred revenue	<u>\$322,720</u>	<u>\$216,848</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 \$2 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.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000 each.

The City of Morganton and 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 coverage's. 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.

Claims, Judgments and Contingent Liabilities

At June 30, 2011, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

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 Water, Wastewater, Electric 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 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, 2011, including \$2,592 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	56,479	2,221
2013	<u>28,561</u>	<u>372</u>
Present value of the minimum		
Lease payments	<u>\$85,040</u>	
Total interest payments		<u>\$2,592</u>

In November 2007, the City entered into an installment purchase contract to finance the purchase of the City Hall Building. The agreement was to borrow \$3,339,700 for 16 years at an interest rate of 3.93%. The loan was refinanced during fiscal year 2010-2011; the new interest rate is 3.49%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$603,751 of interest, are as follows

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	222,647	98,438
2013	222,647	89,688
2014-2018	1,113,235	317,188
2019-2023	<u>1,001,908</u>	<u>98,437</u>
Present value of the minimum		
Lease payments	<u>\$2,560,437</u>	
Total interest payments		<u>\$603,751</u>

In July 2008, the City entered into an installment purchase contract to finance Catawba Meadows park improvements. \$1,390,000 was borrowed for 10 years at an interest rate of 3.55%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$178,282 of interest, are as follows:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	139,000	39,618
2013	139,000	34,666
2014	139,000	29,714
2015-2019	<u>695,000</u>	<u>74,284</u>
Present value of the minimum		
Lease payments	<u>\$1,112,000</u>	
Total interest payments		<u>\$178,282</u>

In November 2008, the City entered into an installment purchase contract to finance a fire truck. \$382,147 was borrowed for 7 years at an interest rate of 3.45%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$23,288 of interest, are as follows:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	58,006	8,827
2013	60,033	6,800
2014	62,132	4,702
2015	64,303	2,531
2016	<u>32,989</u>	<u>428</u>
Present value of the minimum		
Lease payments	<u>\$277,463</u>	
Total interest payments		<u>\$23,288</u>

In November 2008, the City entered into an installment purchase contract to finance a rescue and light apparatus (air van). \$267,853 was borrowed for 7 years at an interest rate of 3.45%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$16,323 of interest, are as follows:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	40,657	6,187
2013	42,078	4,766
2014	43,549	3,296
2015	45,071	1,774
2016	<u>23,124</u>	<u>300</u>
Present value of the minimum		
Lease payments	<u>\$194,479</u>	
Total interest payments		<u>\$16,323</u>

In February 2009, the City entered into an installment purchase contract to finance Public Safety vehicles. \$280,000 was borrowed for 3 years at an interest rate of 2.74%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$1,656 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	<u>96,383</u>	<u>1,656</u>
Present value of the minimum Lease payments	<u>\$96,383</u>	
Total interest payments		<u>\$1,656</u>

In December 2010, the City entered into an installment purchase contract to finance Public Safety vehicles. \$196,540 was borrowed for 3 years at an interest rate of 2.03%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$7,306 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	69,393	4,733
2013	72,091	2,035
2014	<u>55,056</u>	<u>538</u>
Present value of the minimum Lease payments	<u>\$196,540</u>	
Total interest payments		<u>\$7,306</u>

In September 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, 2011, including \$5,072 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	<u>203,328</u>	<u>5,072</u>
Present value of the minimum Lease payments	<u>\$203,328</u>	
Total interest payments		<u>\$5,072</u>

In July 2008, the City entered into an installment purchase contract to finance Catawba Meadows electric improvements. \$110,000 was borrowed for 10 years at an interest rate of 3.55%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$13,418 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	11,000	2,982
2013	11,000	2,609
2014	11,000	2,236
2015-2019	<u>55,000</u>	<u>5,591</u>
Present value of the minimum		
Lease payments	<u>\$88,000</u>	
Total interest payments		<u>\$13,418</u>

In December 2008, the City entered into an installment purchase contract to finance a generator for the Waste Treatment Plant. \$590,000 was borrowed for 4.5 years at an interest rate of 3.53%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$16,983 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	133,727	10,359
2013	138,511	5,575
2014	<u>70,994</u>	<u>1,049</u>
Present value of the minimum		
Lease payments	<u>\$343,232</u>	
Total interest payments		<u>\$16,983</u>

In December 2010, the City entered into an installment purchase contract to finance a bucket truck for the Electric Department. \$80,000 was borrowed for 4 years at an interest rate of 2.32%.

The future minimum payments of the installment purchase as of June 30, 2011, including \$4,848 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	17,670	2,295
2013	18,680	1,284
2014	19,117	847
2015	<u>24,533</u>	<u>422</u>
Present value of the minimum		
Lease payments	<u>\$80,000</u>	
Total interest payments		<u>\$4,848</u>

General obligation bonds

The City's general obligation bonds serviced by business type activities were 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, 2011 is comprised of the following individual issue:

\$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 of \$3,937,882 is net of the amortized deferred loss on the defeasance of \$232,118.

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
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>\$4,170,000</u>	<u>\$356,037</u>

Debt Margin

At June 30, 2011, the City of Morganton had a legal debt margin of \$134,264,055.

Changes in long-term liabilities:

	Balance			Current	
	30-Jun-10	Increases	Decreases	Balance 30-Jun-11	Portion of Balance
Governmental activities:					
Installment purchase	\$5,019,433	\$196,540	\$693,644	\$4,522,329	\$682,564
Compensated absences	845,169	397,546	420,902	821,813	369,816
Other postemployment benefits	679,111	645,842		1,324,953	
Net pension obligation	455,592	171,846		627,438	
Governmental activity long-term liabilities	6,999,305	1,411,774	1,114,546	7,296,533	1,052,380
Business-type activities:					
General obligation bonds	\$5,475,000		\$1,305,000	\$4,170,000	\$1,275,000
Less deferred amount for loss on defeasance	309,491		77,373	232,118	77,373
Total general obligation bonds	5,165,509		1,227,627	3,937,882	1,197,627
Installment purchase	1,493,332	80,000	858,772	714,560	365,725
Other postemployment benefits	238,605		61,102	177,503	
Compensated absences	257,062	158,173	151,059	264,176	118,879
Business-type activity long-term liabilities	7,154,508	238,173	2,298,560	5,094,121	1,682,231

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 \$37,591 of internal service funds compensated absences are included in the above amounts. At year-end \$10,718 of internal service funds OPEB obligations are included in the above amounts. Also, for governmental activities, compensated absences, net pension obligations and net other postemployment benefit obligations are generally liquidated by the general fund.

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, 2011 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from		
Cable fund	\$2,727,352	
Cable fund - payable to Electric fund		<u>\$2,727,352</u>
Total interfund receivables and payables	<u>\$2,727,352</u>	<u>\$2,727,352</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, 2011 transfers were used to:

- Subsidize the general fund to forestall a significant property tax increase:
- Move funds from economic development fund to the wastewater fund in anticipation of future repayment from financing proceeds.
- Reimburse inter-departmental costs shared by more than one enterprise

A summary of interfund transfers by fund for the year ended June 30, 2011 is as follows:

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$654,676	
From Water Fund	20,000	
From Cemetary Fund	<u>50,000</u>	
Total	<u>724,676</u>	
Economic Development Fund		
To Wastewater Fund		<u>1,533,507</u>
Total		<u>1,533,507</u>
Water Fund :		
To General Fund		<u>20,000</u>
Total		<u>20,000</u>

Wastewater Fund :		
From Economic Development		
Fund	<u>1,533,507</u>	<u> </u>
Total	<u>1,533,507</u>	<u> </u>
Cemetary Fund		
To General Fund	<u> </u>	<u>50,000</u>
Total	<u> </u>	<u>50,000</u>
Electric Fund :		
To General Fund	<u> </u>	<u>654,676</u>
Total	<u> </u>	<u>654,676</u>
Grand Totals	<u>\$2,258,183</u>	<u>\$2,258,183</u>

Fund Balance

The following schedule provides management and citizens with information on the portion of general fund balance that is available for appropriation:

Total fund balance – general fund	\$10,374,163
Less:	
Stabilization by state statue	(859,906)
Streets – Powell bill	(1,244,297)
Economic development	(1,455,485)
Capital improvements	(1,502,722)
Canteen operations	(4,301)
Drug enforcement	(91,472)
Explorers and Dare	(12,248)
Remaining fund balance	<u>\$5,203,732</u>

Subsequent Events

Subsequent events have been evaluated through August 12, 2011 which is the date the financial statements were available to be issued.

Stewardship, Compliance and Accountability:

Excess Expenditures

For the year ended June 30, 2011 expenditures exceeded appropriations as follows:

General Fund:

City Manager	\$7,900
Powell Bill	\$89,750

Electric Fund:

Budgetary Appropriations	\$97,340
Operations	\$190,636

Internal Service Fund:

Equipment Services	\$17,856
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These over expenditures were not material to the financial statements and were approved subsequent to year end.

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, 2011 were \$25,601,176.

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 governing board. The City paid membership fees of \$16,758 to WPCOG during the fiscal year ended June 30, 2011.

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 \$42,505 to the Airport during the fiscal year ended June 30, 2011. 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, 2011. 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.

VI. 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.

VII. Prior Period Adjustment

For the year ending June 30, 2011, the City of Morganton converted the Community House fund from an enterprise fund to a department in the general fund. The effect was to increase beginning net assets in the business-type activities and decrease beginning net assets in the governmental activities by \$208,108.

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

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b - a) / c)
	Value of Assets (a)	Projected Unit Credit (b)				
12-31-10	\$- 0 -	\$1,560,115	\$1,560,115	0.00%	\$2,707,611	57.62%
12-31-09	- 0 -	1,863,956	1,863,956	0.00%	2,690,412	69.28%
12-31-08	- 0 -	1,639,390	1,639,390	0.00%	3,014,309	54.39%
12-31-07	- 0 -	1,556,859	1,556,859	0.00%	2,558,119	60.87%
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%

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

Year Ended <u>June 30.</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2009	140,229	.000%
2010	155,400	.000%
2011	171,846	.000%

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	12/31/10
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.25% - 7.85%
Includes inflation at	3.00%
Cost-of-living adjustments	None

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

	Actuarial Accrued Liability (AAL)		Unfunded	Funded	Covered	UAAL as a % of Covered Payroll
Actuarial Valuation Date	Value of Assets (a)	Projected Unit Credit (b)	AAL (UAAL) (b - a)	Ratio (a / b)	Payroll (c)	(b - a) / c
12-31-07	- 0 -	10,919,744	10,919,744	0.00%	10,858,443	100.6%
12-31-10	- 0 -	14,022,125	14,022,125	0.00%	11,160,151	125.6%

CITY OF MORGANTON
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended <u>June 30.</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2009	\$895,333	0.00%
2010	917,716	0.00%
2011	1,172,305	50.00%

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	12/31/10
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	4.0%
Medical cost trend rate	10.50% - 5.00%
Year of Ultimate trend rate	2018
Includes inflation at	3.00%

CITY OF MORGANTON
CDBG ENTITLEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>
REVENUES				
Restricted intergovernmental revenues - community development block grants	\$3,010,266	\$2,865,780	\$195,925	\$3,061,705
Program income	7,006	81,295	3,651	84,946
Total revenues	<u>3,017,272</u>	<u>2,947,075</u>	<u>199,576</u>	<u>3,146,651</u>
EXPENDITURES				
Economic and physical development				
Land acquisition	304,673	171,423		171,423
Rehabilitation	309,423	525,117		525,117
Construction	470,777	497,182	81,281	578,463
Administration	481,742	473,619	29,282	502,901
Credit counseling	32,253	32,253		32,253
Deposit assistance	19,162	19,162		19,162
Grant assistance	304,350	298,696	25,800	324,496
Interest expense	132,609	119,500		119,500
Small business loan	287,373	75,045	60,050	135,095
Section 108 loan repayment	365,000	375,000		375,000
Total expenditures	<u>2,707,362</u>	<u>2,586,997</u>	<u>196,413</u>	<u>2,783,410</u>
Excess of revenues over (under) expenditures	<u>309,910</u>	<u>360,078</u>	<u>3,163</u>	<u>363,241</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds - Section 108	375,000	375,000		375,000
Paid to State of North Carolina		(49,989)		(49,989)
Transfers from general fund	3,439	3,439		3,439
Transfer to electric fund	(8,332)	(8,331)		(8,331)
Transfer to cable fund	(16,960)	(16,960)		(16,960)
Transfer to component unit				
Redevelopment commission	(663,057)	(663,237)		(663,237)
Total other financing sources (uses)	<u>(309,910)</u>	<u>(360,078)</u>		<u>(\$360,078)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	<u>\$3,163</u>	<u>Nil</u>
Net change in fund balances			\$3,163	
Fund balances - beginning			<u>Nil</u>	
Fund balances - ending			<u>\$3,163</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, 2011

	2011			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Sales and services:				
New cemetery lot sales	\$10,000	\$10,000	\$15,150	\$5,150
Cemetery lot marker service	200	200	832	632
Total	<u>10,200</u>	<u>10,200</u>	<u>15,982</u>	<u>5,782</u>
Investment earnings - interest earned	2,400	2,400	1,429	(971)
Total revenues	<u>12,600</u>	<u>12,600</u>	<u>17,411</u>	<u>4,811</u>
EXPENDITURES				
Cemetery improvements and reimbursement	<u>32,600</u>	<u>32,600</u>	<u>20,000</u>	<u>12,600</u>
Excess of revenues over expenditures	<u>(20,000)</u>	<u>(20,000)</u>	<u>(2,589)</u>	<u>(22,589)</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	70,000	70,000		(70,000)
Transfer to general fund	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	
Total other financing sources (uses)	<u>20,000</u>	<u>20,000</u>	<u>(50,000)</u>	<u>(70,000)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	<u>(52,589)</u>	<u>(52,589)</u>
Net change in fund balances			(52,589)	
Fund balances - beginning			<u>431,933</u>	
Fund balances - ending			<u>\$379,344</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, 2011

	2011		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Reimbursement for services	15,000	9,902	(5,098)
Water rents	4,276,000	4,341,422	65,422
Penalties	50,000	55,519	5,519
Water taps	59,000	47,471	(11,529)
Reconnect fees	7,500	16,350	8,850
Rental income	146,000	172,446	26,446
Total	<u>4,553,500</u>	<u>4,643,110</u>	<u>89,610</u>
Nonoperating revenues (expenditures) :			
Interest on investments	41,825	16,554	(25,271)
Miscellaneous	6,000	9,926	3,926
Interest expenditures	(51,038)	(47,615)	3,423
Total	<u>(3,213)</u>	<u>(21,135)</u>	<u>(17,922)</u>
Total revenues	<u>4,550,287</u>	<u>4,621,975</u>	<u>71,688</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,030,777	
Operating expenditures		2,392,968	
Total	<u>3,816,256</u>	<u>3,423,745</u>	<u>392,511</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, 2011

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$416,728	\$416,729	(1)
Capital outlay	2,330,484	230,275	\$2,100,209
Total budgetary appropriations	<u>2,747,212</u>	<u>647,004</u>	<u>2,100,208</u>
Total expenditures	<u>6,563,468</u>	<u>4,070,749</u>	<u>2,492,719</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,013,181)</u>	<u>551,226</u>	<u>2,564,407</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	123,181		(123,181)
Installment purchase proceeds	1,910,000		(1,910,000)
Operating transfers - in (out) :			
To General Fund	<u>(20,000)</u>	<u>(20,000)</u>	
Total other financing sources (uses)	<u>2,013,181</u>	<u>(20,000)</u>	<u>(2,033,181)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$531,226</u>	<u>\$531,226</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, 2011

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$531,226
Add :		
Cost of expenditures which were capitalized	\$230,275	
Payment of debt principal	<u>416,729</u>	647,004
Less :		
Depreciation	(877,303)	
Increase in accrued vacation pay	(4,212)	
Increase in OPEB	(14,802)	
Amortization of deferred charge on refunding	(16,248)	
Bad debts	<u>(44,129)</u>	<u>(956,694)</u>
Total Change in Net Assets		221,536
NET ASSETS - Beginning of Year		<u>22,215,203</u>
NET ASSETS - End of Year		<u><u>\$22,436,739</u></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, 2011

	2011		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Reimbursement for services	\$57,000	\$63,093	\$6,093
Sewer rents	4,210,674	4,527,323	316,649
Late payment penalties	49,825	46,228	(3,597)
Sewer taps	15,000	15,000	
Septage revenue	20,000	19,900	(100)
Sale of sludge	7,600	6,028	(1,572)
Total	<u>4,360,099</u>	<u>4,677,572</u>	<u>317,473</u>
Nonoperating revenues (expenditures) :			
Interest earned	16,730	6,996	(9,734)
Miscellaneous	8,898	36	(8,862)
Interest expenditures	(180,867)	(178,290)	2,577
Total	<u>(155,239)</u>	<u>(171,258)</u>	<u>(16,019)</u>
Total revenues	<u>4,204,860</u>	<u>4,506,314</u>	<u>301,454</u>
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,100,621	
Operating expenditures		1,595,593	
Total wastewater treatment	<u>2,927,762</u>	<u>2,696,214</u>	<u>231,548</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, 2011

	2011		
	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$1,212,830	\$1,212,829	\$1
Capital outlay	2,363,225	1,417,156	\$946,069
Total budgetary appropriations	3,576,055	2,629,985	946,070
Total expenditures	6,503,817	5,326,199	1,177,618
REVENUES OVER (UNDER) EXPENDITURES	(2,298,957)	(819,885)	1,479,072
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	515,450		(515,450)
Operating transfers - in (out) :			
From Economic Development Fund	1,783,507	1,533,507	(250,000)
Total other financing sources (uses)	2,298,957	1,533,507	(765,450)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	\$713,622	\$713,622

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, 2011

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$713,622
Add :		
Cost of expenditures which were capitalized	\$1,417,156	
Decrease in accrued vacation pay	1,829	
Decrease in OPEB	17,821	
Payment of debt principal	<u>1,212,829</u>	2,649,635
Less :		
Depreciation	(837,911)	
Amortization of deferred charge on refunding	(61,125)	
Bad debts	<u>(37,853)</u>	<u>(936,889)</u>
Total Change in Net Assets		2,426,368
NET ASSETS - Beginning of Year		<u>22,287,164</u>
NET ASSETS - End of Year		<u><u>\$24,713,532</u></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, 2011

	2011		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Reimbursement for services	\$60,000	\$32,763	(\$27,237)
Sale of power	27,620,243	28,243,381	623,138
Late payment penalties	325,000	277,843	(47,157)
Security light rental	450,000	480,689	30,689
Street lighting	131,000	74,000	(57,000)
Reconnection fees	25,000	52,250	27,250
Pole rental	15,000	9,193	(5,807)
Total	<u>28,626,243</u>	<u>29,170,119</u>	<u>543,876</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(3,807)	(3,807)	
Interest earned	23,478	9,180	(14,298)
Cash over (short)		137	137
Miscellaneous	50,832	2,447	(48,385)
Total	<u>70,503</u>	<u>7,957</u>	<u>(62,546)</u>
Total revenues	<u>28,696,746</u>	<u>29,178,076</u>	<u>481,330</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,360,452	
Operating expenditures		1,202,721	
Purchases of power		25,601,176	
Total	<u>27,973,713</u>	<u>28,164,349</u>	<u>(190,636)</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, 2011

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$11,000	\$11,000	
Capital Outlay	<u>255,000</u>	<u>352,340</u>	<u>(\$97,340)</u>
Total budgetary appropriations	<u>266,000</u>	<u>363,340</u>	<u>(97,340)</u>
Total expenditures	<u>28,239,713</u>	<u>28,527,689</u>	<u>(287,976)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>457,033</u>	<u>650,387</u>	<u>193,354</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	117,643		(117,643)
Installment purchase proceeds	80,000	80,000	
Operating transfers - in (out) :			
To General Fund	<u>(654,676)</u>	<u>(654,676)</u>	
Total other financing sources (uses)	<u>(457,033)</u>	<u>(574,676)</u>	<u>(117,643)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$75,711</u>	<u>\$75,711</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, 2011

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$75,711
Add :		
Payment of debt principal	\$11,000	
Decrease in OPEB	43,814	
Cost of expenditures which were capitalized	<u>352,340</u>	407,154
Less :		
Bad debts	(244,280)	
Depreciation	(674,101)	
Installment purchase proceeds	(80,000)	
Increase in accrued vacation pay	<u>(178)</u>	<u>(998,559)</u>
Total Change in Net Assets		(515,694)
NET ASSETS - Beginning of Year		<u>17,743,219</u>
NET ASSETS - End of Year		<u><u>\$17,227,525</u></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, 2011

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$15,553	\$85,984	\$70,431
Studio revenues	2,500	40	(\$2,460)
Telephone revenues	454,272	136,728	(\$317,544)
Internet revenues	800,000	854,335	\$54,335
Cable rents	<u>3,228,340</u>	<u>3,010,711</u>	<u>(\$217,629)</u>
Total	<u>4,500,665</u>	<u>4,087,798</u>	<u>(412,867)</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(6,409)	(6,409)	
Penalties	45,000	58,033	13,033
Reconnect fees	20,000	19,605	(395)
Ad sales	110,000	102,942	(7,058)
Bad check charges	2,000	1,420	(580)
Miscellaneous revenue	<u>20,000</u>	<u>12,008</u>	<u>(7,992)</u>
Total	<u>190,591</u>	<u>187,599</u>	<u>(2,992)</u>
Total revenues	<u>4,691,256</u>	<u>4,275,397</u>	<u>(415,859)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		443,194	
Operating expenditures		<u>2,963,184</u>	
Total cable operations and maintenance	<u>4,095,042</u>	<u>3,406,378</u>	<u>688,664</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, 2011

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Capital outlay	\$73,000	\$29,010	\$43,990
Debt principal - installment purchase notes	<u>523,214</u>	<u>523,214</u>	
Total budgetary appropriations	<u>596,214</u>	<u>552,224</u>	<u>43,990</u>
Total expenditures	<u>4,691,256</u>	<u>3,958,602</u>	<u>732,654</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>Nil</u>	<u>316,795</u>	<u>316,795</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, 2011

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$316,795
Add :		
Cost of expenditures which were capitalized	\$29,010	
Decrease in OPEB	5,092	
Payment of debt principal	<u>523,214</u>	557,316
Less :		
Increase in accrued vacation pay	(8,588)	
Depreciation	(704,473)	
Bad debts	<u>(79,857)</u>	<u>(792,918)</u>
Total Change in Net Assets		81,193
NET ASSETS - Beginning of Year		<u>1,294,078</u>
NET ASSETS - End of Year		<u><u>\$1,375,271</u></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, 2011

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	562,841	562,841	
Electric Fund	80,204	80,204	
Water Fund	64,726	64,726	
Wastewater Fund	41,147	41,147	
Cable Fund	56,970	56,970	
Total	<u>805,888</u>	<u>805,888</u>	
Warehouse :			
General Fund sales	30,960	14,710	(16,250)
Electric Fund sales	201,240	200,202	(1,038)
Water Fund sales	77,400	49,939	(27,461)
Wastewater Fund sales	38,700	946	(37,754)
Cable Fund sales	38,700	34,431	(4,269)
Total	<u>387,000</u>	<u>300,228</u>	<u>(86,772)</u>
Garage :			
General Fund sales	118,800	160,337	41,537
Electric Fund sales	18,000	16,628	(1,372)
Water Fund sales	18,000	13,297	(4,703)
Wastewater Fund sales	18,000	5,793	(12,207)
Cable Fund sales	3,600	5,441	1,841
IRMS sales	3,600		(3,600)
Sale of fuel	400,000	434,745	34,745
Total	<u>580,000</u>	<u>636,241</u>	<u>56,241</u>
Total operating revenues	<u>1,772,888</u>	<u>1,742,357</u>	<u>(30,531)</u>
Nonoperating revenues :			
Sale of materials		1,547	1,547
Total revenues	<u>1,772,888</u>	<u>1,743,904</u>	<u>(28,984)</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, 2011

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$347,593	
Operating expenditures		663,573	
Total IRMS	<u>1,115,705</u>	<u>1,011,166</u>	<u>104,539</u>
Warehouse :			
Salaries and employee benefits		108,470	
Operating expenditures		38,516	
Purchases of inventory		333,414	
Pro rata administrative services		(145,966)	
Total warehouse	<u>388,440</u>	<u>334,434</u>	<u>54,006</u>
Garage :			
Salaries and employee benefits		214,542	
Operating expenditures		64,828	
Purchases of inventory		187,807	
Purchases of fuel		441,293	
Pro rata administrative services		(285,614)	
Total garage	<u>605,000</u>	<u>622,856</u>	<u>(17,856)</u>
Budgetary appropriations :			
Appropriated retained earnings	(699,651)		(699,651)
Capital outlay	363,394	145,342	218,052
Total budgetary appropriations	<u>(336,257)</u>	<u>145,342</u>	<u>(481,599)</u>
Total expenditures	<u>1,772,888</u>	<u>2,113,798</u>	<u>(340,910)</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, 2011

	<u>2011</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>Nil</u>	<u>(\$369,894)</u>	<u>(\$369,894)</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS :			
Revenues and Other Sources Over (Under)			
Expenditures and Other Uses			(\$369,894)
Add :			
Increase in inventory		\$3,558	
Decrease in accrued vacation pay		4,456	
Cost of expenditures which were capitalized		<u>145,342</u>	153,356
Less :			
Depreciation		(83,333)	
Increase in accrued vacation pay		<u>(1,540)</u>	<u>(84,873)</u>
Total Change in Net Assets			(301,411)
NET ASSETS - Beginning of Year			<u>2,399,086</u>
NET ASSETS - End of Year			<u>\$2,097,675</u>

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2011

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2010</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010-2011		\$7,778,447	\$7,660,545	\$117,902
2009-2010	\$115,833		\$83,989	\$31,844
2008-2009	24,652		8,455	16,197
2007-2008	15,138		2,738	12,400
2006-2007	15,271		2,120	13,151
2005-2006	11,332		802	10,530
2004-2005	9,673		403	9,270
2003-2004	10,692		392	10,300
2002-2003	11,929		644	11,285
2001-2002	9,756		268	9,488
2000-2001	10,438		10,438	
TOTAL	<u><u>\$234,714</u></u>	<u><u>\$7,778,447</u></u>	<u><u>\$7,770,794</u></u>	<u><u>\$242,367</u></u>
Less Allowance for Doubtful Accounts				<u>136,495</u>
Net Property Tax Receivable (Exhibit 1)				<u><u>\$105,872</u></u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$7,707,971		
Less interest collected		<u>(28,355)</u>	\$ 7,679,616	
Discounts			79,310	
Releases - Prior years			1,830	
Amount written off for tax year 1999-2000 per statute of limitations			<u>10,038</u>	
TOTAL COLLECTIONS AND CREDITS			<u><u>\$ 7,770,794</u></u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2011

	<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	\$1,541,925,652	0.46	\$7,092,858	\$7,092,858	
Special district	83,851,429	0.14	117,392	117,392	
Vehicle Taxes	93,671,087	0.46	430,887		\$430,887
PENALTIES			23,865	23,865	
ADD DISCOVERIES :					
Current year	32,706,522	0.46	150,450	149,193	1,257
Prior year	1,033,476	0.46	4,754	4,754	
LESS RELEASES	<u>(9,426,366)</u>		<u>(41,759)</u>	<u>(31,024)</u>	<u>(10,735)</u>
TOTAL	<u>\$1,743,761,800</u>		<u>\$7,778,447</u>	<u>\$7,357,038</u>	<u>\$421,409</u>
LESS UNCOLLECTED TAXES AT June 30, 2011			<u>117,902</u>	<u>65,692</u>	<u>52,210</u>
CURRENT YEAR'S TAXES COLLECTED			<u>\$7,660,545</u>	<u>\$7,291,346</u>	<u>\$369,199</u>
PERCENT CURRENT YEAR COLLECTED			<u>98.48%</u>	<u>99.11%</u>	<u>87.61%</u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$654,676	
From Water Fund	20,000	
From Cemetary Fund	50,000	
	<u>724,676</u>	
Economic Development Fund		
To Wastewater Fund		1,533,507
		<u>1,533,507</u>
Water Fund :		
To General Fund		20,000
		<u>20,000</u>
Wastewater Fund :		
From Economic Development Fund	1,533,507	
	<u>1,533,507</u>	
Cemetary Fund		
To General Fund		50,000
		<u>50,000</u>
Electric Fund :		
To General Fund		654,676
		<u>654,676</u>
Grand Totals	<u>\$2,258,183</u>	<u>\$2,258,183</u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2011

	<u>Carrying Value</u>	<u>Cost Value</u>	<u>Fair Value</u>
CASH :			
On hand	2,495	2,495	2,495
In time deposits - NOW, SuperNOW, money market and certificates of deposit	<u>9,732,862</u>	<u>9,732,862</u>	<u>9,732,862</u>
Total cash	<u>9,735,357</u>	<u>9,735,357</u>	<u>9,735,357</u>
INVESTMENTS :			
North Carolina Capital Management Trust	<u>16,754,232</u>	<u>16,754,232</u>	<u>16,754,232</u>
Total investments (including cash equivalents)	<u>16,754,232</u>	<u>16,754,232</u>	<u>16,754,232</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$26,489,589</u></u>	 <u><u>\$26,489,589</u></u>	 <u><u>\$26,489,589</u></u>

CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2011

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

<u>Contents</u>	<u>Pages</u>
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being has changed over time.	83-92
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	93-96
Debt Capacity 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.	97-100
Demographic and Economic Information These schedules offer demographic and economic indicators to Help the reader understand the environment within which the Government's financial activities take place.	101-102
Operating Information 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.	103-105

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 Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year		
	2003	2004	2005
Governmental activities			
Invested in capital assets, net of related debt	\$42,517,541	\$42,270,377	\$42,225,042
Restricted	1,402,102	1,428,875	716,926
Unrestricted	11,487,466	12,219,489	12,207,920
Nonspendable			
Restricted			
Committed			
Unassigned			
Total governmental activities net assets	<u>\$55,407,109</u>	<u>\$55,918,741</u>	<u>\$55,149,888</u>
Business-type activities			
Invested in capital assets, net of related debt	\$42,567,661	\$42,251,982	\$46,132,330
Unrestricted	26,266,393	26,916,570	22,771,585
Total business-type activities net assets	<u>\$68,834,054</u>	<u>\$69,168,552</u>	<u>\$68,903,915</u>
Primary government			
Invested in capital assets, net of related debt	\$85,085,202	\$84,522,359	\$88,357,372
Restricted	1,402,102	1,428,875	716,926
Unrestricted	37,753,859	39,136,059	34,979,505
Nonspendable			
Restricted			
Committed			
Unassigned			
Total primary government net assets	<u>\$124,241,163</u>	<u>\$125,087,293</u>	<u>\$124,053,803</u>

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

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$41,695,614	\$41,831,482	\$40,439,879	\$39,304,208	\$37,897,550	\$36,335,474
1,260,371	745,287	1,404,040	1,134,780	1,315,433	
12,339,129	14,704,160	15,287,650	13,048,121	11,272,201	
					379,344
					2,104,203
					3,066,228
					4,231,094
<u>\$55,295,114</u>	<u>\$57,280,929</u>	<u>\$57,131,569</u>	<u>\$53,487,109</u>	<u>\$50,485,184</u>	<u>\$46,116,343</u>
\$45,875,917	\$56,874,381	\$48,204,805	\$49,218,328	\$50,256,119	\$51,016,008
23,181,717	11,302,071	17,210,171	13,890,105	13,075,437	14,737,059
<u>\$69,057,634</u>	<u>\$68,176,452</u>	<u>\$65,414,976</u>	<u>\$63,108,433</u>	<u>\$63,331,556</u>	<u>\$65,753,067</u>
\$87,571,531	\$98,705,863	\$88,644,684	\$88,522,536	\$88,153,669	\$87,351,482
1,260,371	745,287	1,404,040	1,134,780	1,315,433	
35,520,846	26,006,231	32,497,821	26,938,226	24,347,638	14,737,059
					379,344
					2,101,203
					3,066,228
					4,234,094
<u>\$124,352,748</u>	<u>\$125,457,381</u>	<u>\$122,546,545</u>	<u>\$116,595,542</u>	<u>\$113,816,740</u>	<u>\$111,869,410</u>

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

	Fiscal Year		
	2003	2004	2005
Expenses			
Governmental activities:			
General government	\$2,255,413	\$2,783,081	\$3,391,972
Public Safety	5,110,138	5,445,610	6,448,234
Transportation	1,906,654	2,058,883	2,375,152
Economic and physical development	138,229	161,712	146,743
Environmental protection	1,096,914	938,734	1,075,471
Culture and recreation	2,288,112	2,481,282	2,826,391
Interest on long-term debt	90,423	71,323	58,467
Total governmental activities expenses	<u>12,885,883</u>	<u>13,940,625</u>	<u>16,322,430</u>
Business-type activities:			
Water	2,638,295	2,627,701	2,739,467
Wastewater	3,424,896	3,466,183	3,307,399
Electric	21,566,422	22,175,865	22,871,668
Cable	2,312,224	2,886,460	3,511,824
Community house	273,248	278,758	312,556
Total business-type activities expenses	<u>30,215,085</u>	<u>31,434,967</u>	<u>32,742,914</u>
Total primary government expenses	<u>43,100,968</u>	<u>45,375,592</u>	<u>49,065,344</u>
Program Revenues			
Governmental activities:			
Charges for services:			
General government	\$225,184	\$346,075	\$193,064
Public Safety	42,491	46,307	53,167
Transportation	8,432	348,430	340,468
Environmental protection	385,593	133,820	200,736
Culture and recreation	578,545	498,904	577,595
Operating Grants and Contributions	954,015	819,867	654,103
Capital Grants and Contributions	167,341	1,468,175	983,972
Total governmental activities program revenues	<u>2,361,601</u>	<u>3,661,578</u>	<u>3,003,105</u>
Business-type activities:			
Charges for services:			
Water	3,384,344	3,276,066	3,616,616
Wastewater	3,472,733	3,347,854	3,889,286
Electric	22,212,562	22,549,633	22,227,843
Cable	2,620,155	2,438,572	2,691,868
Community house	202,335	208,498	211,852
Operating Grants and Contributions	95,328	31,437	22,202
Total business-type activities program revenues	<u>31,987,457</u>	<u>31,852,060</u>	<u>32,659,667</u>
Total primary government program revenues	<u>\$34,349,058</u>	<u>\$35,513,638</u>	<u>\$35,662,772</u>

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$2,759,135	\$2,742,806	\$2,853,101	\$3,607,537	\$3,630,766	\$3,609,198
6,613,948	6,590,390	7,094,187	8,483,992	7,408,112	8,020,152
2,209,624	2,244,130	2,476,434	2,468,048	2,412,047	2,275,232
121,415	10,308	117,668	96,570	218,656	216,413
1,114,664	1,123,568	1,216,620	1,307,076	1,176,135	1,210,998
3,276,853	3,637,977	4,236,367	4,655,871	4,183,063	4,765,491
47,554	44,385	103,428	212,829	201,570	177,894
<u>16,143,193</u>	<u>16,393,564</u>	<u>18,097,805</u>	<u>20,831,923</u>	<u>19,230,349</u>	<u>20,275,378</u>
2,864,899	3,169,593	3,634,869	4,075,486	3,719,723	4,428,054
3,401,640	3,380,132	4,077,418	4,113,272	3,739,629	3,791,743
24,664,921	25,241,193	26,505,211	26,798,280	27,380,632	29,042,901
3,874,683	4,001,462	4,015,776	4,009,621	4,173,224	4,200,613
296,857	323,251	312,634	345,256	300,521	
<u>35,103,000</u>	<u>36,115,631</u>	<u>38,545,908</u>	<u>39,341,915</u>	<u>39,313,729</u>	<u>41,463,311</u>
<u>51,246,193</u>	<u>52,509,195</u>	<u>56,643,713</u>	<u>60,173,838</u>	<u>58,544,078</u>	<u>61,738,689</u>
\$387,459	\$283,089	\$232,411	\$46,347	\$354,433	\$401,366
37,253	24,793	46,702	472,980	214,043	49,184
4,796	4,797	7,656	529,095		468,136
351,808	1,093,367	1,062,990	1,035,070	1,024,768	1,094,518
638,779	628,181	677,243	888,946	861,029	970,297
873,196	998,104	1,100,958	286,720	724,637	425,492
709,313		258,646	12,291	323,177	934,725
<u>3,002,604</u>	<u>3,032,331</u>	<u>3,386,606</u>	<u>3,271,449</u>	<u>3,502,087</u>	<u>4,343,718</u>
4,078,099	3,945,198	4,011,287	4,662,378	4,894,472	4,643,110
4,309,576	4,353,978	4,138,754	4,288,210	4,274,993	4,677,572
23,116,052	23,094,949	23,422,320	23,925,934	26,192,614	29,170,119
3,046,581	3,367,112	3,496,493	3,823,539	3,973,907	4,087,798
199,688	241,420	223,929	215,865	175,332	
19,415	21,016	21,734	20,980	19,392	
<u>34,769,411</u>	<u>35,023,673</u>	<u>35,314,517</u>	<u>36,936,906</u>	<u>39,530,710</u>	<u>42,578,599</u>
<u>\$37,772,015</u>	<u>\$38,056,004</u>	<u>\$38,701,123</u>	<u>\$40,208,355</u>	<u>\$43,032,797</u>	<u>\$46,922,317</u>

Net (Expense)/Revenue

Governmental activities	(\$10,524,282)	(\$10,279,047)	(\$13,319,325)
Business-type activities	1,772,372	417,093	(83,247)
Total primary government net expense	<u>(\$8,751,910)</u>	<u>(\$9,861,954)</u>	<u>(\$13,402,572)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:			
Ad valorem taxes	\$6,096,559	\$6,045,738	\$6,628,096
Other taxes and licenses	2,371,323	2,765,497	2,898,950
Unrestricted intergovernmental revenues	2,432,232	1,534,419	1,554,802
Restricted intergovernmental revenues			
Investment earnings	286,171	218,499	314,002
Other revenues	39,210	9,786	251,180
Transfers	564,000	503,750	903,442
Total governmental activities	<u>11,789,495</u>	<u>11,077,689</u>	<u>12,550,472</u>
Business-type activities:			
Investment earnings	430,203	319,671	530,398
Other revenues	33,838	101,484	191,654
Transfers	(564,000)	(503,750)	(903,442)
Total business-type activities	<u>(99,959)</u>	<u>(82,595)</u>	<u>(181,390)</u>
Total primary government	<u>\$11,689,536</u>	<u>\$10,995,094</u>	<u>\$12,369,082</u>

Change in Net Assets

Governmental activities	\$1,265,213	\$798,642	(\$768,853)
Business-type activities	1,672,413	334,498	(264,637)
Total primary government	<u>2,937,626</u>	<u>1,133,140</u>	<u>(1,033,490)</u>

(\$13,140,589)	(\$13,361,233)	(\$14,711,199)	(\$17,560,474)	(\$15,728,262)	(\$15,931,660)
<u>(333,589)</u>	<u>(1,091,958)</u>	<u>(3,231,391)</u>	<u>(2,405,009)</u>	<u>216,981</u>	<u>1,115,288</u>
<u>(\$13,474,178)</u>	<u>(\$14,453,191)</u>	<u>(\$17,942,590)</u>	<u>(\$19,965,483)</u>	<u>(\$15,511,281)</u>	<u>(\$14,816,372)</u>
\$6,815,478	\$7,298,421	7,769,020	7,862,442	7,820,692	7,708,574
2,980,248	4,938,519	3,353,209	2,976,369	2,641,496	3,064,831
1,624,417	827,704	1,936,451	1,993,844	1,713,894	1,719,297
					24,701
677,091	519,912	861,266	526,467	137,801	37,993
334,576	744,259	245,750	95,722	64,690	74,362
<u>706,054</u>	<u>620,527</u>	<u>585,795</u>	<u>461,170</u>	<u>337,467</u>	<u>(858,831)</u>
<u>13,137,864</u>	<u>14,949,342</u>	<u>14,751,491</u>	<u>13,916,014</u>	<u>12,716,040</u>	<u>11,770,927</u>
988,043	862,651	815,522	373,351	105,723	32,730
205,319	325,647	240,188	186,285	237,886	206,554
<u>(706,054)</u>	<u>(744,259)</u>	<u>(585,795)</u>	<u>(461,170)</u>	<u>(337,467)</u>	<u>858,831</u>
<u>487,308</u>	<u>444,039</u>	<u>469,915</u>	<u>98,466</u>	<u>6,142</u>	<u>1,098,115</u>
<u>\$13,625,172</u>	<u>\$15,393,381</u>	<u>\$15,221,406</u>	<u>\$14,014,480</u>	<u>\$12,722,182</u>	<u>\$12,869,042</u>
(\$2,725)	\$1,588,109	\$40,292	(\$3,644,460)	(\$3,012,222)	(\$4,160,733)
<u>153,719</u>	<u>(647,919)</u>	<u>(2,761,476)</u>	<u>(2,306,543)</u>	<u>223,123</u>	<u>2,213,403</u>
<u>150,994</u>	<u>940,190</u>	<u>(2,721,184)</u>	<u>(5,951,003)</u>	<u>(2,789,099)</u>	<u>(1,947,330)</u>

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

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	\$5,079,308	\$5,998,550	\$4,756,325	\$5,910,316
Unreserved	3,764,811	3,765,739	4,434,814	3,779,653
Restricted				
Committed				
Unassigned				
	<u>\$8,844,119</u>	<u>\$9,764,289</u>	<u>\$9,191,139</u>	<u>\$9,689,969</u>
Total general fund				
All Other Governmental Funds				
Unreserved, reported in:				
Special revenue funds	\$3,366,742	\$3,402,321	\$3,254,095	\$3,141,226
Permanent fund	284,695	305,451	320,799	340,995
Nonspendable				
Perpetual Maintenance				
Unassigned				
Total all other governmental funds	<u>\$3,651,437</u>	<u>\$3,707,772</u>	<u>\$3,574,894</u>	<u>\$3,482,221</u>

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$5,327,266	\$4,465,357	\$2,894,718	\$1,872,310	
5,067,584	7,321,962	7,062,954	7,115,736	\$2,104,203
				3,066,228
				5,203,732
<u>\$10,394,850</u>	<u>\$11,787,319</u>	<u>\$9,957,672</u>	<u>\$8,988,046</u>	<u>\$10,374,163</u>
\$3,592,720	\$3,607,527	\$3,266,897	\$2,985,427	
363,816	390,615	415,774	431,933	\$379,344
				3,163
<u>\$3,956,536</u>	<u>\$3,998,142</u>	<u>\$3,682,671</u>	<u>\$3,417,360</u>	<u>\$382,507</u>

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

	Fiscal Year			
	2003	2004	2005	2006
Revenues				
Ad valorem taxes	\$6,048,001	\$6,040,286	\$6,663,201	\$6,797,506
Other taxes and licenses	2,377,453	2,775,661	2,906,817	2,988,551
Unrestricted intergovernmental revenues	1,537,227	1,534,419	1,554,802	1,624,417
Restricted intergovernmental revenues	1,312,634	2,284,280	1,780,311	1,532,197
Other restricted revenues	17,612	126,584	52,415	42,009
Permits and fees	230,810	224,614	139,672	267,267
Sales and services	1,915,634	1,015,936	1,022,840	1,152,828
Investment earnings	286,171	218,499	314,002	677,091
Other revenues	39,210	9,786	251,180	334,576
Total revenues	13,764,752	14,230,065	14,685,240	15,416,442
Expenditures				
General government	2,228,024	3,040,850	4,069,987	2,892,163
Public safety	5,134,812	5,513,212	6,589,215	6,857,152
Transportation	892,680	1,026,053	1,194,636	1,068,305
Environmental protection	952,116	1,123,085	1,110,305	962,287
Cultural and recreational	2,723,914	2,547,194	2,852,031	3,805,386
Economic and physical development	178,229	116,972	186,743	121,415
Debt service				
Principal	411,851	505,267	521,106	603,254
Interest	75,431	61,441	48,963	47,554
Total expenditures	12,597,057	13,934,074	16,572,986	16,357,516
Other Financing Sources (Uses)				
Installment purchase proceeds	240,000	278,352	292,269	641,177
Transfers in	954,780	603,750	1,243,442	987,754
Transfers out	(390,780)	(184,740)	(340,000)	(281,700)
Total other financing sources (uses)	804,000	697,362	1,195,711	1,347,231
Net change in fund balances	\$1,971,695	\$993,353	(\$692,035)	\$406,157
Debt service as a percentage of noncapital expenditures	4.30%	4.60%	3.87%	4.48%

Fiscal Year				
2007	2008	2009	2010	2011
\$7,136,147	\$7,787,684	\$7,811,407	\$7,786,282	\$7,707,971
3,111,379	3,353,209	2,984,770	2,649,525	\$3,064,831
1,827,140	1,936,451	1,996,276	1,851,812	\$1,863,644
897,398	1,304,340	993,723	1,164,160	\$1,708,071
61,109	163,289	15,408	58,557	\$128,474
208,590	176,939	235,419	168,853	\$219,976
1,865,234	1,850,063	2,045,014	1,964,570	2,167,551
827,704	861,266	526,467	137,801	37,993
557,160	137,725	212,665	64,690	74,362
16,491,861	17,570,966	16,821,149	15,846,250	16,972,873
2,712,591	5,741,643	3,922,209	3,266,881	3,126,601
6,590,915	7,032,648	8,477,428	6,693,223	7,221,357
1,122,564	1,601,674	1,243,638	1,160,742	1,183,133
1,186,814	1,344,758	1,208,846	1,005,097	1,044,297
4,386,677	3,935,811	6,102,022	4,171,791	3,917,534
50,308	117,668	96,570	233,656	216,413
577,181	452,798	499,283	672,392	693,644
50,401	89,346	147,452	214,872	180,022
16,677,451	20,316,346	21,697,448	17,418,654	17,583,001
620,527	3,593,660	2,320,000		196,540
1,020,959	1,141,940	1,015,561	749,167	724,676
(276,700)	(556,145)	(554,391)	(411,700)	(1,583,507)
1,364,786	4,179,455	2,781,170	337,467	(662,291)
\$1,179,196	\$1,434,075	(\$2,095,129)	(\$1,234,937)	(\$1,272,419)
4.42%	3.53%	3.73%	5.37%	5.23%

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

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Utilities</u>	<u>Taxable Value</u>	<u>Tax Rate</u>
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
2007-08	1,189,002,621	453,196,142	29,826,794	1,672,025,557	0.46
2008-09	1,194,632,016	465,372,265	29,418,770	1,689,423,051	0.46
2009-10	1,199,128,762	474,848,368	29,824,993	1,703,802,123	0.46
2010-11	1,198,791,908	438,159,444	31,728,145	1,668,679,497	0.46

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>
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
2007-08	0.46	0.14	0.52
2008-09	0.46	0.14	0.52
2009-10	0.46	0.14	0.52
2010-11	0.46	0.14	0.52

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 2010-2011</u>			<u>Fiscal Year 2000-2001</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.	\$68,242,585	1	4.09%	40,827,347	2	3.06%
SGL Carbon Corp	36,808,093	2	2.21%	52,095,665	1	3.90%
Sypris	32,803,476	3	1.97%			
Viscotec	31,158,645	4	1.87%			
Gerresheimer	22,957,248	5	1.38%			
Leviton	22,114,266	6	1.33%	12,773,454	8	0.96%
Case Farms Processing	18,825,763	7	1.13%			
HDM Furniture Indust.	17,246,650	8	1.03%			
Caterpillar Inc.	16,731,949	9	1.00%	12,845,926		0.96%
Grace Properties Inc.	16,107,880	10	0.97%			
BASF Corp.				16,426,152	6	1.23%
Dana Corp.				28,663,918	3	2.15%
Drexel Heritage				19,365,614	4	1.45%
Henredon Furniture Co.				17,387,727	5	1.30%
Rexnord Corp.				14,329,015	7	1.07%
Bellsouth Telephone				13,270,782	9	0.99%
Total	\$282,996,555		16.96%	\$227,985,600		17.06%

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
2001-02	6,128,460	5,981,901	97.61%	135,979	6,117,880	99.83%
2002-03	6,178,474	5,958,757	96.44%	207,135	6,165,892	99.80%
2003-04	6,084,089	5,925,246	97.39%	147,443	6,072,689	99.81%
2004-05	6,713,167	6,583,691	98.07%	118,962	6,702,653	99.84%
2005-06	6,838,043	6,702,794	98.02%	122,367	6,825,161	99.81%
2006-07	7,123,752	7,003,027	98.31%	103,803	7,106,830	99.76%
2007-08	7,768,135	7,660,009	98.61%	84,117	7,744,126	99.69%
2008-09	7,893,702	7,776,653	98.52%	N/A	7,776,653	98.52%
2009-10	7,860,584	7,744,751	98.53%	N/A	7,744,751	98.53%
2010-11	7,778,447	7,660,545	98.48%	N/A	7,660,545	98.48%

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 Nine 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
2007-08		3,831,159	8,175,000	3,383,319	15,389,478	3.26%	889
2008-09		5,691,876	6,810,000	2,856,295	15,358,171	3.39%	900
2009-10		5,019,440	5,475,000	1,493,332	11,987,772	Not available	702
2010-11		4,522,329	4,170,000	714,560	9,406,889	Not available	555

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

*Information not available for ten year comparison. Tables will be built over time.

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

Fiscal Year	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
2007-08	8,175,000	0.05%	472
2008-09	6,810,000	0.04%	398
2009-10	5,475,000	0.03%	321
2010-11	4,170,000	0.02%	246

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

*Information not available for ten year comparison. Tables will be built over time.

**City of Morganton
Direct and Overlapping Debt
As of June 30, 2010**

Governmental Unit	Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$58,917,252	26.79%	\$15,783,932
City of Morganton	<u>9,174,771</u>	100.00%	<u>9,174,771</u>
Total direct and overlapping debt	\$68,092,023		\$24,958,703

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
 Legal Debt Margin Information
 As of June 30, 2011

Legal Debt Margin Calculation for Fiscal Year 2010-11	
Assessed Value	\$1,743,761,800
Debt Limit 8% of Assessed Value	139,500,944
Debt Applicable to Debt Limit:	
Total bonded debt and notes payable	9,174,771
Less: Other Deductions Allowed by Law (Water and Wastewater bonds)	<u>(3,937,882)</u>
Total Amount of Debt Applicable to Debt Limit	<u>5,236,889</u>
Legal Debt Margin	<u>134,264,055</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	7,157,252	103,221,392	6.48%
2005-06	112,174,107	252,800	111,921,307	0.23%
2006-07	116,943,013	49,400	116,893,613	0.04%
2007-08	139,362,012	0	139,362,012	0.00%
2008-09	141,336,740	0	141,336,740	0.00%
2009-10	140,840,693	5,641,654	135,199,039	4.01%
2010-11	139,500,944	5,236,889	134,264,055	3.75%

**City of Morganton
Demographic and Economic Statistics
Last Nine Calendar Years**

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u> (thousands of dollars)	<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%
2008	17,310	472,476,450	27,295	8.6%
2009	17,108	452,848,760	26,470	14.9%
2010	17,035	Not available	Not available	13.0%
2011	16,935	Not available	Not available	12.5%

Sources: Information provided by the U.S. Census, N.C. Office of State Planning, City of Morganton Development and Design, US Department of Commerce, and Bureau of Economic Analysis.

Per capital source: Bureau of Economic Analysis/Burke County

*Information not available for ten year comparison. Tables will be built over time.

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

Fiscal Year 2010 - 2011

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
State of North Carolina	2,200	1	5.82%
Burke Public Schools	2,200	2	5.82%
Blue Ridge Healthcare / Grace Hosp.	1,400	3	3.71%
Turning Point Services	1,000	4	2.65%
Case Farms	620	5	1.64%
Western Piedmont College	550	6	1.46%
Burke County	520	7	1.38%
Leviton	520	8	1.38%
City of Morganton	516	9	1.37%
Continental Teves Inc.	350	10	0.93%
Total	<u>9,876</u>		<u>26.14%</u>

Sources: Burke Partnership for Economic Development and North Carolina Employment Security

Notes: 2008 Burke County Labor Force is 40,224.

*Information not available for nine year comparison. Tables will be built over time.

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

Full-time Equivalent Employees as of June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government	58	57	57	57	57	62	51	51	48
Public Safety	101.5	102.5	101.5	102	103	104	100	97.58	92
Transportation	31	31	31	31	31	31	24	22	23
Environmental Protection	16	13	13	13	13	13	17	16	13
Cultural & Recreation	20	20	22.25	23.25	23.25	23.25	24.5	24.17	23.5
IRMS	5	5	5	5	5	6	6	6	5
Electric	26	26	26	26	26	26	25	26	24
Cable	8	8	8	8	8	8	8	8	8
Water	21	21	22	22	22	22	22	22	21
Wastewater	27	27	27	27	27	27	24	23	21
Community House	3	3	3	3	3	3	2	2	
Total	316.5	313.5	315.75	317.25	318.25	325.25	303.5	297.75	278.5

Source: City Human Resource Department

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.

*Information not available for ten year comparison. Tables will be built over time.

City of Morganton
Operating Indicators by Function / Program
Fiscal Year Ended June 30, 2011

Fiscal Year 2010-11

General Government

Building Permits Issued	273
Building Inspections Conducted	4,958
Total City Employees - Full-time	276.50
Total City Employees - Part-time	285.00

Police

Physical Arrests (18 years and over) (annual)	1,569
Parking Violations	278
Number of Police Employees - Officers	59
Number of Police Employees - Civilians	17
Number of Police Employees - Reserves	3
Number of Calls Responded	24,275
Number of Traffic Accidents	1,203

Fire Protection

Fire Calls	346
Number of Fire Personnel - Paid	16
Number of Fire Personnel - Volunteer	12
Fire Inspections	632

Electric

Customers	8,089
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Public Works

Refuse Collection (tons per day)	32
Recyclables Collected (tons per day)	2
Residential Collection Trucks	3

Water Treatment Facility

Customers	12,500
Consumptions	3,031,000,000

Wastewater

Customers	6,300
Average Daily Sewage Treatment	4.79 mgd

Cable Television

Subscribers / Customers	4,477
Basic Channels	78
Premium Channels	65

Sources: Various City Departments.

*Information not available for ten year comparison. Tables will be built over time.

City of Morganton
Capital Asset Statistics by Function / Program
Fiscal Year Ended June 30, 2011

Fiscal Year 2010-11

Police	
Stations	1
Patrol units	85
Fire Protection	
Fire Stations	3
Electric	
Miles of Service	270
Public Works	
Miles of Streets	87.88
Primary Streets	86.79
Secondary Streets	1.09
Streetlights	3,420
Traffic Signals	58
Water Treatment Facility	
Plants	1
Miles of Distribution Lines	322
Fire Hydrants	1,200
Storage Capacity (millions of gallons)	9.15
Wastewater	
Plants	1
Miles of Collection Lines	200
Cable Television	
Miles of plant	162
Parks and Recreation	
Acreage	680
Playgrounds	9
Parks	12
Baseball fields	15
Soccer fields	4
Community Centers	2
Aquatic Facilities	2

Sources: Various City of Morganton Departments.

*Information not available for ten year comparison. Tables will be built over time.

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, 2011, which collectively comprises the City of Morganton's basic financial statements dated August 12, 2011. 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 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 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as 2011-1, 2011-2 and 2011-3 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 or 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
August 12, 2011

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

403 South Green Street
P.O. Box 1476
Morganton, NC 28680-1476
Telephone (828) 438-1065
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 City of Morganton, North Carolina, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on its major federal program for the year ended June 30, 2011. 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; 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, 2011.

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

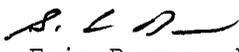
Internal Control Over Compliance

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 to determine the 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 but not for the purpose of expressing an opinion on the effectiveness of the City of Morganton's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Morganton's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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
August 12, 2011

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

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Report On Compliance With Requirements Applicable
To Each of Its Major State Programs 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 each of its major State programs for the year ended June 30, 2011. The City of Morganton's major State programs are 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 each of its major State programs 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; 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 could have a direct and material effect on each of its major State programs for the year ended June 30, 2011.

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

However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and the State Audit Implementation Act and which are described in the accompanying schedule of findings and questioned costs as item 2011-4.

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 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, but not for expressing an opinion on the effectiveness of the City of Morganton's internal control over compliance.

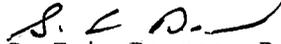
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as 2011-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

This report is intended solely for the information and use of 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
August 12, 2011

CITY OF MORGANTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

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 weaknesses identified? yes X no

* Significant deficiencies identified
that are not considered to be
material weaknesses X yes 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 programs:

Program Name

Powell Bill Program

Parks and Recreation Trust Fund

CITY OF MORGANTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

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

2011-1

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.

2011-2

Condition: The City's internal control did not prevent charging costs to a grant program that were unallowable.

Criteria: The City's controls should prevent unallowable costs from being charged to a grant program.

Effect: Certain costs were questioned as not being allowable.

Cause: There was not proper coordination between engineering and accounting.

Recommendation: We recommend all personal involved in the grant process be properly trained.

Management Response: The City agrees with this finding.

2011-3

Condition: All Local Governments are to adopt a balanced budget and make necessary amendments to the original budget as conditions dictate.

Criteria: The City overexpended several departments in the General Fund totaling \$97 650. Also overexpenditures of \$287 976 was noted in the Electric Fund and \$17 856 in the Internal Service Fund.

Effect: Funds were expended out of several departments before the appropriate budget amendments were made.

Cause: The Board failed to adopt the budget amendments prior to fiscal year end.

Recommendation: City of Morganton should not expend any funds unless there is adequate amounts in the particular department budget.

Management Response: The City agrees 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:

State Program - N.C. Parks and Recreation Trust Fund

2011-4

Condition: The City charged in kind labor to the program in error.

Criteria: Allowable costs charged to the program should not include in kind labor.

Effect: The City's request for grant reimbursement was overstated by \$4,420.

Cause: Accounting was not made aware that this type of cost was not allowable.

Recommendation: City engineers should insure that accounting personnel have knowledge of what costs are being charged to grant programs.

Management Response: The City agrees with this finding.

CITY OF MORGANTON, NORTH CAROLINA

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2011

Finding: 2011-1

- A. Name of Contact Person: Karen Duncan, Finance Officer
- B. Corrective Action: It is not economically feasible to hire additional staff at this time.
- C. Proposed Completion Date: N/A

Finding: 2011-2

- A. Name of Contact Person: Karen Duncan, Finance Officer
- B. Corrective Action: In Kind Labor Costs will not be charged against N.C. Parks and Recreation Trust Fund grants.
- C. Proposed Completion Date: The Board will implement the above procedure immediately.

Finding: 2011-3

- A. Name of Contact Person: Karen Duncan, Finance Officer
- B. Corrective Action: Budget amendments will continue to be made timely.
- C. Proposed Completion Date: The Board will implement the above procedure immediately.

CITY OF MORGANTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Prior year audit finding 2010-1 has not been corrected because it is not feasible to hire additional staff.

Prior year audit finding 2010-2 has not been corrected. Budget amendments were made timely but overexpenditures were still noted in several departments.

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

<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	14.218	B-10-MC-37-0018
<u>U.S. Department of Justice</u>		
Passed through N.C. Department of Crime Control and Public Safety:		
JAG – Viper Radios	16.738	BH – 292
JAG Grant –Mobile Field Reporting	16.738	BH – 164
JAG Grant-Mobile Equipment-ARRA	16.710	RJ-156
Total U.S. Department of Justice		
<u>U.S. Department of Transportation</u>		
Passed through N.C. Department of Transportation:		
Governor's Highway Safety Program	20.601	K9-11-06
Railroad Improvements	20.205	B-501429
Total U.S. Department of Transportation		
<u>U.S. Department of Homeland Security</u>		
Passed through N.C. Department of Commerce:		
Energy Efficiency Community Block Grant (ARRA)	81.128	43A-2010
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Affordable Health Care – Early Retiree Reinsurance Program	N/A	
Total Federal Cash Awards		

<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>\$ 195 925</u>	<u>\$ _____</u>	<u>\$ _____</u>
97 997		97 997
48 008		16 007
<u>2 476</u>	<u>_____</u>	<u>_____</u>
<u>148 481</u>	<u>_____</u>	<u>114 004</u>
7 855		7 855
<u>21 013</u>	<u>2 334</u>	<u>2 334</u>
<u>28 868</u>	<u>2 334</u>	<u>10 189</u>
<u>34 820</u>	<u>_____</u>	<u>_____</u>
<u>107 000</u>	<u>_____</u>	<u>_____</u>
<u>\$ 515 094</u>	<u>\$ 2 334</u>	<u>\$ 124 193</u>

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

State Awards:

Cash Programs:

N.C. Department of Transportation

Powell Bill

N.C. Department of Public Commerce

Main Street Solutions Fund

N.C. Department of Environmental and Natural Resources

Community Conservation Program

Parks and Recreation Trust Fund

Total NC Department of Environmental and Natural Resources

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.

<u>Federal</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Local</u> <u>Expenditures</u>
\$ _____	\$ 469 053	\$ _____
_____	271 455	_____
_____	1 675	_____
_____	340 091	340 091
_____	341 766	340 091
_____	1 082 274	340 091
<u>\$ 515 094</u>	<u>\$1 084 608</u>	<u>\$ 464 284</u>