

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2012**



**City of Morganton
North Carolina**

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2012

City Council

**Mel L. Cohen, Mayor
John H. Cantrell, Jr.
Forrest A. Fleming
Alfred W. Hamer, Jr.
S. Sidney Simmons**

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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CITY OF MORGANTON NORTH CAROLINA

October 29, 2012

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, 2012.

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 issued an unqualified (“clean”) opinion on the City of Morganton’s financial statements for the year ended June 30, 2012. 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, 2011. 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
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, 2011

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.



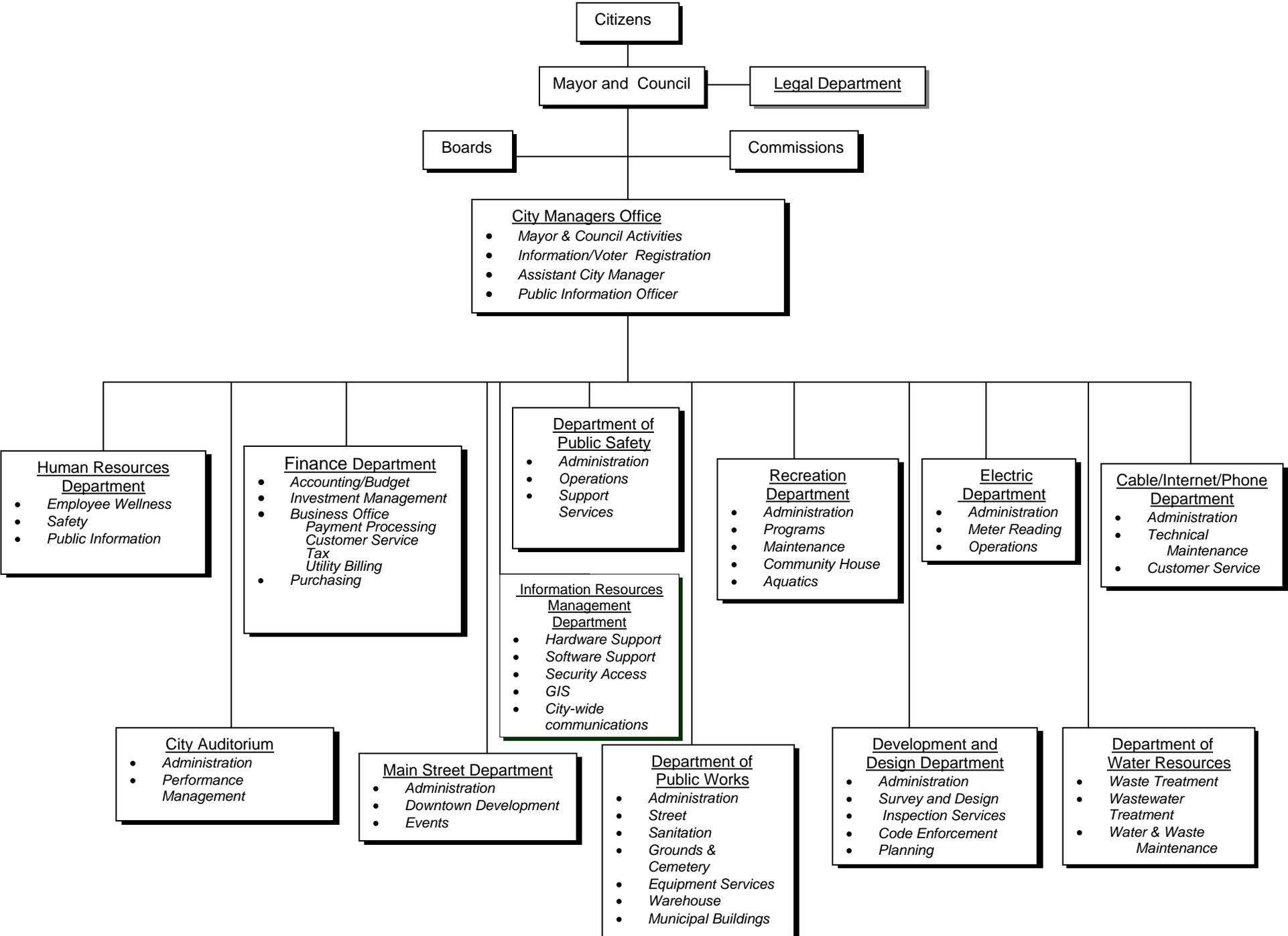
Linda C. Davidson

President

Jeffrey R. Emen

Executive Director

CITY OF MORGANTON ORGANIZATION CHART



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, 2012, 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 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 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.

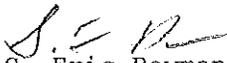
In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general 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 17, 2012 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 and grants. The purpose of the report is to describe the scope of our testing of internal controls 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 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 basic financial statements of the City of Morganton. 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. The combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic 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

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, 2012. 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.

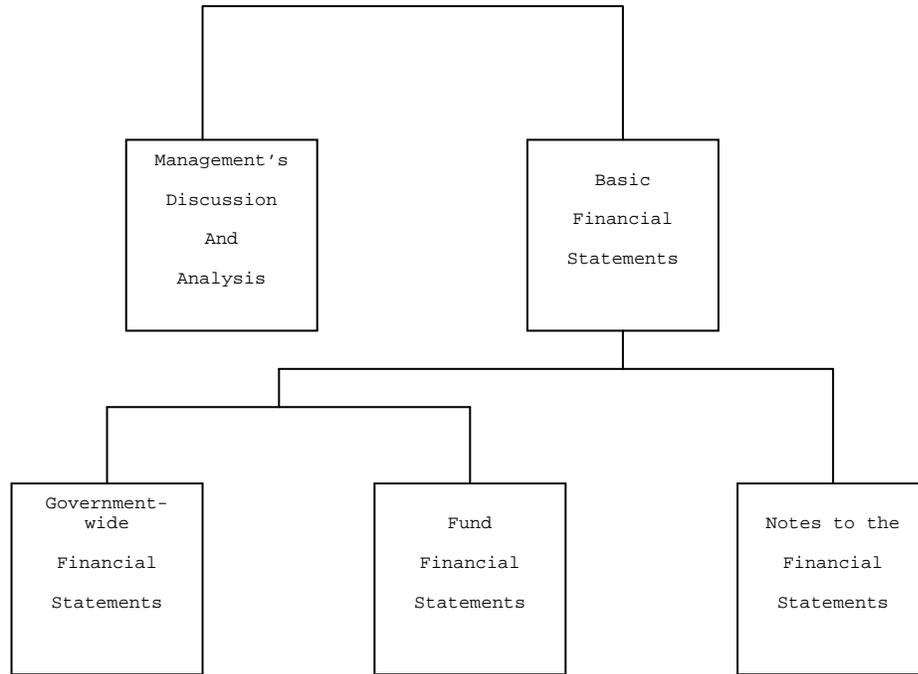
Financial Highlights

- The assets of the City of Morganton exceeded its liabilities at the close of the fiscal year by \$111,333,075 (*net assets*).
- The government's total net assets decreased by \$536,335 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 \$11,365,180 a increase of 608,510 in comparison with the prior year. Approximately 80 percent of this amount, or \$9,063,662, 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 \$5,096,368, or 29 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt decreased by \$1,513,024 (21%) 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 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$14,683,145	\$14,513,403	\$20,926,613	\$18,369,142	\$35,609,758	\$32,882,545
Capital assets	38,337,710	40,857,803	55,160,865	55,668,450	93,498,575	96,526,253
Total assets	53,020,855	55,371,206	76,087,478	74,037,592	129,108,333	129,408,798
L T liabilities outstanding	5,955,472	6,244,153	4,093,527	4,872,635	10,048,999	11,116,788
Other liabilities	2,917,648	3,010,710	4,808,611	3,411,890	7,726,252	6,422,600
Total liabilities	8,873,120	9,254,863	8,902,138	8,284,525	17,775,251	17,539,388
Net assets:						
Invested in capital assets, net of related debt	33,673,160	36,335,474	50,371,775	51,016,008	84,044,935	87,351,482
Restricted	6,255,232	5,549,775			6,255,232	5,549,775
Unrestricted	4,219,343	4,231,094	16,813,565	14,737,059	21,032,908	18,968,153
Total net assets	<u>\$44,147,735</u>	<u>\$46,116,343</u>	<u>\$67,185,340</u>	<u>\$65,753,067</u>	<u>\$111,333,075</u>	<u>\$111,869,410</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Morganton exceeded liabilities by \$111,333,075 as of June 30, 2012. 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 (\$1,965,729) represents resources that are subject to external restrictions on how they may be used. \$335,789 is considered non-spendable for perpetual maintenance at the City Cemetery. \$3,953,714 is subject to City Council restrictions and the remaining balance of \$5,109,948 is unrestricted/unassigned.

City of Morganton's Changes in Net Assets

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$2,586,838	\$2,983,501	\$44,716,440	\$42,578,599	\$47,303,278	\$45,562,100
Operating grants and Contributions	797,030	425,492			797,030	425,492
Capital grants and Contributions	775,628	934,725			775,628	934,725
General revenues:						
Ad valorem taxes	7,623,645	7,708,574			7,623,645	7,708,574
Other taxes	3,517,569	3,064,831			3,517,569	3,064,831
Unrestricted Intergovernmental	1,751,859	1,719,297			1,751,859	1,719,297
Unrestricted Intergovernmental		24,701			0	24,701
Investment earnings	21,939	37,993	31,769	32,730	53,708	70,723
Other		74,362	220,063	206,554	220,063	280,916
Total revenues	17,074,508	16,973,476	44,968,272	42,817,883	62,042,780	59,791,359
Expenses:						
General government	3,982,814	3,609,198			3,982,814	3,609,198
Public safety	7,331,704	8,020,152			7,331,704	8,020,152
Transportation	2,396,894	2,275,232			2,396,894	2,275,232
Economic and physical development	200,710	216,413			200,710	216,413
Environmental protection	1,105,025	1,210,998			1,105,025	1,210,998
Culture and recreation	4,680,010	4,765,491			4,680,010	4,765,491
Interest on long-term debt	132,767	177,894			132,767	177,894
Water			4,626,908	4,428,054	4,626,908	4,428,054
Wastewater			3,465,124	3,791,743	3,465,124	3,791,743
Electric			30,455,928	29,042,901	30,455,928	29,042,901
Cable			4,201,231	4,200,613	4,201,231	4,200,613
Community House						
Total expenses	19,829,924	20,275,378	42,749,191	41,463,311	62,579,115	61,738,689
Increase (decrease) in net assets before transfers	(2,755,416)	(3,301,902)	2,219,081	1,354,572	(536,335)	(1,947,330)
Transfers	786,808	(858,831)	(786,808)	858,831		
Increase(decrease) in net assets	(1,968,608)	(4,160,733)	1,432,273	2,213,403	(536,335)	(1,947,330)
Net assets, July 1	46,116,343	50,485,184	65,753,067	63,331,556	111,869,410	113,816,740
Net assets, June 30	\$44,147,735	\$46,324,451	\$67,185,340	\$65,544,959	\$111,333,075	\$111,869,410

Governmental activities: Governmental activities decreased the City's net assets by \$1,968,608, 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:

- Interest earnings continue to be minimal.
- Ad valorem tax revenue decreased this fiscal year.

Business-type activities: Business-type activities increased the City of Morganton's net assets by \$1,432,273.

The most significant element of this change to note is in the wastewater fund, \$1,477,123.

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 \$11,365,180, an increase of \$608,510 in comparison with the prior year. Approximately 45% of this total amount (\$5,109,948) 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
- 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 \$5,096,368, while total fund balance was \$11,015,811. 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 29 percent of total General Fund expenditures, while total fund balance represents 63 percent of that same amount.

At June 30, 2012, the governmental funds of the City of Morganton reported a combined fund balance of \$11,365,180.

General Fund Budgetary Highlights: During the fiscal year, there was an 1,550,610 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 (\$289,877)
- Lobbyist services (\$25,000)
- Grants (\$1,235,733)

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

- General fund revenues budgeted largely reflected revenue received. No significant variances other than auditorium ticket sales and recreation revenue.
- 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 \$16,813,565. 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, 2012 totals \$93,498,575 (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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land and Buildings	\$18,329,584	\$18,960,546	\$21,761,616	\$22,114,798	\$40,091,200	\$41,075,344
Plant and system			26,875,918	27,644,406	26,875,918	27,644,406
Equipment	8,404,743	9,199,837	6,523,331	5,909,246	14,928,074	15,109,083
Infrastructure	11,603,383	12,697,420			11,603,383	12,697,420
Total assets	<u>\$38,337,710</u>	<u>\$40,857,803</u>	<u>\$55,160,865</u>	<u>\$55,668,450</u>	<u>\$93,498,575</u>	<u>\$96,526,253</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, 2012 the City of Morganton had total bonded debt outstanding of \$2,895,000 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>2012</u>	<u>2011</u>
G O Bonds	<u>\$2,895,000</u>	<u>\$4,170,000</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 \$125,891,425.

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 11.1% is higher than the State's rate of 9.9% and the national rate of 8.3%. The MSA's labor force of 171,400 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, 2013

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 2012-2013 represents a decrease of 4% or \$687,202 over the 2011-2012 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2012-2013 business-type activities budget overall is 17% or \$10,333,653 lower than the 2011-2012 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 Finance Director, City of Morganton, P O Box 3448, Morganton, NC 28655.

CITY OF MORGANTON
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
ASSETS					
Cash and cash equivalents	\$11,384,396	\$15,549,155	\$26,933,551	\$192,526	\$45,641
Restricted cash	1,540,067	442,829	1,982,896		20,000
Taxes receivable (net)	98,530		98,530		
Accrued interest receivable-taxes	4,316		4,316		
Interest receivable-investments	3,964	13,141	17,105		
Accounts receivable (net)	759,254	4,921,488	5,680,742		
Inventories	892,618		892,618	148,139	
Capital assets (net of accumulated depreciation):					
Land	11,871,885	15,040,621	26,912,506	11,000	
Buildings	6,457,699	6,720,996	13,178,695	8,310	1,067,840
Plant and system		26,875,917	26,875,917		
Equipment	8,404,743	6,523,331	14,928,074	30,256	
Infrastructure	11,603,383		11,603,383		
Total assets	53,020,855	76,087,478	129,108,333	390,231	1,133,481
LIABILITIES					
Accounts payable and current liabilities	1,468,925	2,917,621	4,386,546	195,231	20,000
Customer deposits		442,829	442,829		
Unearned revenue	172,403		172,403		
Accrued interest payable	52,762		52,762		
Noncurrent liabilities:					
Due within one year:					
Installment purchases payable	878,745	168,191	1,046,936		
Bonds payable		1,167,627	1,167,627		
Notes payable					34,989
Compensated absences payable	344,813	112,343	457,156		
Due in more than one year:					
Installment purchases payable	3,405,560	1,880,644	5,286,204		
Bonds payable		1,572,628	1,572,628		
Compensated absences payable	421,438	137,308	558,746		
Net pension obligation	619,633		619,633		
OPEB	1,508,841	502,947	2,011,788		
Total liabilities	8,873,120	8,902,138	17,775,258	195,231	54,989
NET ASSETS					
Invested in capital assets, net of related debt	33,673,160	50,371,775	84,044,935	49,566	1,032,851
Net assets:					
Restricted for:					
Perpetual Maintenance	335,789		335,789		
Stabilization by State Statue	761,015		761,015		
Transportation	1,204,714		1,204,714		
Canteen operations	4,540		4,540		
Public safety	91,472		91,472		
Capital improvements	2,329,775		2,329,775	80,018	
Economic development	1,527,927		1,527,927		
Unrestricted	4,219,343	16,813,565	21,032,908	65,416	45,641
Total net assets	\$44,147,735	\$67,185,340	\$111,333,075	\$195,000	\$1,078,492

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, 2012

<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	\$3,982,814	\$474,238	\$34,098	
Public safety	7,331,704	38,273	76,833	775,628
Transportation	2,396,894		476,277	
Economic and physical development	200,710		201,127	
Environmental protection	1,105,025	1,085,405	8,695	
Culture and recreation	4,680,010	988,922		
Interest on long-term debt	132,767			
Total governmental activities	<u>19,829,924</u>	<u>2,586,838</u>	<u>797,030</u>	<u>775,628</u>
Business-type activities:				
Water	4,626,908	4,854,787		
Wastewater	3,465,124	4,891,791		
Electric	30,455,928	30,854,838		
Cable	4,201,231	4,115,024		
Total business-type activities	<u>42,749,191</u>	<u>44,716,440</u>		
Total primary government	<u>\$62,579,115</u>	<u>\$47,303,278</u>	<u>\$797,030</u>	<u>\$775,628</u>
Component units:				
Morganton ABC board	656,365	656,196		
Morganton redevelopment commission	197	10,062		
Total component units	<u>656,562</u>	<u>666,258</u>		
General revenues:				
Ad valorem taxes				
Other taxes				
Unrestricted intergovernmental revenues				
Investment earnings				
Other revenues				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

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Net (Expense) Revenue and
Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
(\$3,474,478)		(\$3,474,478)		
(6,440,970)		(6,440,970)		
(1,920,617)		(1,920,617)		
417		417		
(10,925)		(10,925)		
(3,691,088)		(3,691,088)		
(132,767)		(132,767)		
<u>(15,670,428)</u>		<u>(15,670,428)</u>		
	227,879	227,879		
	1,426,667	1,426,667		
	398,910	398,910		
	(86,207)	(86,207)		
	<u>1,967,249</u>	<u>1,967,249</u>		
	<u>1,967,249</u>	<u>(13,703,179)</u>		
			(\$169)	
				\$9,865
			<u>(169)</u>	<u>9,865</u>
7,623,645		7,623,645		
3,517,569		3,517,569		
1,751,859		1,751,859		
21,939	31,769	53,708	169	
	220,063	220,063		
786,808	(786,808)			
<u>13,701,820</u>	<u>(534,976)</u>	<u>13,166,844</u>	<u>169</u>	
(1,968,608)	1,432,273	(536,335)		9,865
46,116,343	65,753,067	111,869,410	195,000	1,068,627
<u>\$44,147,735</u>	<u>\$67,185,340</u>	<u>\$111,333,075</u>	<u>\$195,000</u>	<u>\$1,078,492</u>

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CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$10,648,781	\$11,813		\$10,660,594
Restricted cash	\$1,204,714		\$335,353	1,540,067
Taxes receivable (net)	98,530			98,530
Accounts receivable (net)	757,487	1,767		759,254
Interest receivable	3,528		436	3,964
Total assets	<u>\$12,713,040</u>	<u>\$13,580</u>	<u>\$335,789</u>	<u>\$13,062,409</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	1,426,296			1,426,296
Deferred revenue	270,933			270,933
Total liabilities	<u>1,697,229</u>			<u>1,697,229</u>
Fund Balances:				
Nonspendable				
Perpetual Maintenance			335,789	335,789
Restricted				
Stabilization by State Statue	761,015			761,015
Streets - Powell Bill	1,204,714			1,204,714
Committed				
Canteen operations	4,540			4,540
Drug enforcement	91,472			91,472
Capital projects	2,329,775			2,329,775
Economic development	1,527,927	13,580		1,541,507
Unassigned	5,096,368			5,096,368
Total fund balances	<u>\$11,015,811</u>	<u>\$13,580</u>	<u>\$335,789</u>	<u>\$11,365,180</u>
Total liabilities and fund balances	<u>\$12,713,040</u>	<u>\$13,580</u>	<u>\$335,789</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.	37,957,464
Other assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	4,316
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	1,834,621
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(7,059,524)
Other liabilities and unearned revenue not reported in the funds	45,678
Net assets of governmental activities	<u>44,147,735</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, 2012

	General	CDBG Entitlement Fund	Permanent Fund	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$7,630,208			\$7,630,208
Other taxes and licenses	3,517,569			3,517,569
Unrestricted intergovernmental revenues	1,891,276			1,891,276
Restricted intergovernmental revenues	1,327,738	\$201,127		1,528,865
Other restricted revenues	34,098			34,098
Permits and fees	168,538			168,538
Sales and services	2,199,922		\$15,139	2,215,061
Investment earnings	20,633		1,306	21,939
Other revenues	73,517			73,517
Total revenues	<u>16,863,499</u>	<u>201,127</u>	<u>16,445</u>	<u>17,081,071</u>
EXPENDITURES				
Current				
General government	3,479,442			3,479,442
Public safety	6,908,659			6,908,659
Transportation	1,230,622			1,230,622
Environmental protection	1,168,448			1,168,448
Cultural and recreational	3,882,803			3,882,803
Economic and physical development		190,710	10,000	200,710
Debt service				
Principal retirement	682,564			682,564
Interest and fees	150,661			150,661
Total expenditures	<u>17,503,199</u>	<u>190,710</u>	<u>10,000</u>	<u>17,703,909</u>
Revenues over (under) expenditures	<u>(639,700)</u>	<u>10,417</u>	<u>6,445</u>	<u>(622,838)</u>
OTHER FINANCING SOURCES (USES)				
Transfers - in	836,808			836,808
Transfers - out			(50,000)	(50,000)
Installment purchase debt issued	444,540			444,540
Total other financing sources (uses)	<u>1,281,348</u>		<u>(50,000)</u>	<u>1,231,348</u>
Net change in fund balances	641,648	10,417	(43,555)	608,510
Fund balances - beginning (consolidated)	<u>10,374,163</u>	<u>3,163</u>	<u>379,344</u>	<u>10,756,670</u>
Fund balances - ending	<u>\$11,015,811</u>	<u>\$13,580</u>	<u>\$335,789</u>	<u>\$11,365,180</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, 2012

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

Net change in fund balances - total governmental funds	\$608,510
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(2,486,564)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(6,563)
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.	238,024
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.	(58,961)
The net revenue of certain activities of the internal service fund is reported with governmental activities.	<u>(263,054)</u>
Change in net assets of governmental activities.	<u><u>(\$1,968,608)</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, 2012

	2012			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes				
Current year	\$7,501,580	\$7,518,480	\$7,474,666	(\$43,814)
Prior years	43,000	52,300	100,375	48,075
Special tax - Main Street	113,075	113,075	114,286	1,211
Interest	30,000	30,000	25,332	(4,668)
Discounts	(85,000)	(85,000)	(84,451)	549
Total	<u>7,602,655</u>	<u>7,628,855</u>	<u>7,630,208</u>	<u>1,353</u>
Other taxes and licenses				
Privilege licenses	175,625	197,525	199,677	2,152
Carbon city fire tax	8,435	8,435	7,170	(1,265)
Occupancy tax	63,450	63,450	75,980	12,530
One-half cent sales tax	1,943,484	1,948,384	2,213,405	265,021
One cent sales tax	903,860	903,860	1,021,337	117,477
Total	<u>3,094,854</u>	<u>3,121,654</u>	<u>3,517,569</u>	<u>395,915</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	27,950	27,950	26,994	(956)
Section eight in lieu of taxes	2,671	2,671	2,579	(92)
Electric in lieu of taxes	101,149	101,149	101,149	
Franchise tax	1,472,857	1,472,857	1,490,785	17,928
Beer and wine	73,738	73,738	73,375	(363)
Solid waste disposal	11,707	11,707	8,695	(3,012)
Alcohol Beverage Commission	234,400	234,400	187,699	(46,701)
Total	<u>1,924,472</u>	<u>1,924,472</u>	<u>1,891,276</u>	<u>(33,196)</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	107,911	107,911	75,833	(32,078)
Drug restitution	2,500	2,500		(2,500)
ABC restitution	1,500	1,500		(1,500)
State and Federal grants	429,707	1,580,240	775,628	(804,612)
Powell bill street aid allocation	466,569	466,569	476,277	9,708
Total	<u>1,008,187</u>	<u>2,158,720</u>	<u>1,327,738</u>	<u>(830,982)</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, 2012

	2012			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	28,800	35,100	\$34,098	(1,002)
Total	<u>33,800</u>	<u>40,100</u>	<u>34,098</u>	<u>(6,002)</u>
Permits and fees				
Building permits	100,000	100,000	49,689	(50,311)
Plumbing permits	37,000	37,000	38,744	1,744
Electric permits	111,500	111,500	80,105	(31,395)
Variance request	1,000	1,000		(1,000)
Total	<u>249,500</u>	<u>249,500</u>	<u>168,538</u>	<u>(80,962)</u>
Sales and services				
Parking revenue	14,700	14,700	2,614	(12,086)
Reimbursement for services	5,000	31,300	1,681	(29,619)
Solid waste user fees	1,061,000	1,064,500	1,059,359	(5,141)
Solid waste late charges	15,000	15,000	10,907	(4,093)
Curb cuts	8,000	8,000	11,468	3,468
Civil citations	500	500	1,426	926
Rent	1,170	1,170	500	(670)
Fire protection	10,000	10,000	1,775	(8,225)
False alarm violations	31,150	31,150	24,700	(6,450)
Recreation revenue	733,650	733,650	578,552	(155,098)
Food sales and services	179,000	179,000	183,110	4,110
Bad check charges	4,500	4,500	5,140	640
Canteen sales	1,480	1,480	1,614	134
Main street revenue	24,000	24,000	24,450	450
Façade loan program	20,000	20,000	5,761	(14,239)
DARE program	7,500	7,500	1,000	(6,500)
Municipal auditorium ticket sales	446,225	446,225	227,260	(218,965)
Surplus sale	25,000	30,500	47,250	16,750
Reimbursements				
Election - fees			100	100
Morganton/Lenoir airport			296	296
Court cost and fees	19,000	19,000	10,959	(8,041)
Total	<u>2,606,875</u>	<u>2,642,175</u>	<u>2,199,922</u>	<u>(459,003)</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, 2012

	2012			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Investment earnings	\$56,089	\$56,089	\$19,616	(\$36,473)
Other revenue				
Revolving loan principal			10,137	10,137
Revolving loan interest			7,691	
Miscellaneous	35,500	35,500	47,764	12,264
Contributions	500	500	7,925	7,425
Total	36,000	36,000	73,517	29,826
Total revenue	16,612,432	17,857,565	16,862,482	(1,019,524)
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			60,636	
Operating expenditures			111,535	
Donations/economic development			896,120	
Elections			21,263	
Pro rata administrative services			(447,132)	
Total	120,186	1,271,516	642,422	629,094
Legal				
Salaries and employee benefits			185,842	
Operating expenditures			74,958	
Pro rata administrative services			(165,317)	
Total	54,766	124,766	95,483	29,283
Executive				
Salaries and employee benefits			\$477,038	
Operating expenditures			43,072	
Pro rata administrative services			(395,490)	
Total	96,619	96,619	124,620	(\$28,001)
Human resources				
Salaries and employee benefits			237,989	
Operating expenditures			1,045,835	
Pro rata administrative services			(596,132)	
Total	800,810	800,810	687,692	\$113,118

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Accounting				
Salaries and employee benefits			\$248,299	
Operating expenditures			280,261	
Pro rata administrative services			(425,770)	
Total	\$104,104	\$108,304	102,790	\$5,514
Main street				
Salaries and employee benefits			133,868	
Operating expenditures			212,387	
Capital outlay			51,247	
Total	406,360	481,928	397,502	84,426
Canteen operations				
Operating expenditures	2,125	2,125	1,374	751
Business office/tax				
Salaries and employee benefits			315,683	
Operating expenditures			133,107	
Pro rata administrative services			(422,205)	
Total	43,704	43,704	26,585	17,119
Development				
Salaries and employee benefits			445,067	
Operating expenditures			73,841	
Total	542,560	544,060	518,908	25,152
Municipal buildings				
Operating expenditures			193,463	
Pro rata administrative services			(144,323)	
Total	30,667	100,463	49,140	51,323

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
General government (continued)				
Design				
Salaries and employee benefits			\$381,127	
Operating expenditures			56,305	
Pro rata administrative services			(274,011)	
Total	\$179,579	\$179,579	163,421	\$16,158
Public works				
Salaries and employee benefits			130,012	
Operating expenditures			13,473	
Total	162,404	162,404	143,485	18,919
Cemetery and grounds				
Salaries and employee benefits			469,490	
Operating expenditures			56,900	
Pro rata reimbursement			(10,000)	
Capital outlay			9,630	
Total	547,458	547,458	526,020	21,438
Total general government	3,091,342	4,463,736	3,479,442	984,294
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			5,612,619	
Operating expenditures			924,300	
Pro rata administrative services			(19,200)	
Capital outlay			390,940	
Total public safety	7,794,989	7,909,628	6,908,659	1,000,969
Transportation				
Street department				
Salaries and employee benefits			578,067	
Operating expenditures			112,647	
Total	\$965,041	\$965,041	690,714	\$274,327

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Powell bill				
Salaries and employee benefits			227,508	
Operating expenditures			212,444	
Capital outlay			99,956	
Total	313,500	313,500	539,908	(226,408)
Total transportation	1,278,541	1,278,541	1,230,622	47,919
Environmental protection - sanitation				
Salaries and employee benefits			\$585,825	
Operating expenditures			324,792	
Capital outlay			257,831	
Total environmental protection	\$1,219,297	\$1,219,297	1,168,448	\$50,849
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			271,131	
Operating expenditures			437,989	
Total	747,837	748,714	709,120	39,594
Recreation				
Salaries and employee benefits			1,453,769	
Operating expenditures			1,304,781	
Pro rata administrative services			(22,080)	
Capital outlay			124,901	
Total	2,878,083	2,908,783	2,861,371	47,412
Community House				
Salaries and employee benefits			153,326	
Operating expenditures			158,986	
Total	290,540	322,540	312,312	10,228
Total cultural and recreational	3,916,460	3,980,037	3,882,803	97,234

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$682,565	\$682,565	\$682,564	1
Interest	150,661	150,661	150,661	
Total debt service	<u>833,226</u>	<u>833,226</u>	<u>833,225</u>	<u>1</u>
Total expenditures	<u>18,133,855</u>	<u>19,684,465</u>	<u>17,503,199</u>	<u>2,181,266</u>
Revenues over (under) expenditures	<u>(1,521,423)</u>	<u>(1,826,900)</u>	<u>(640,717)</u>	<u>1,161,742</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	\$275,000	\$580,477		(\$580,477)
Installment purchase debt issued	481,040	481,040	\$444,540	(\$36,500)
Transfers in	765,383	765,383	765,383	
Total other financing sources	<u>1,521,423</u>	<u>1,826,900</u>	<u>1,209,923</u>	<u>(616,977)</u>
Revenues and other sources over (under) expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>569,206</u>	<u>\$544,765</u>
Net change in fund balances			569,206	
Fund balances - beginning			<u>8,918,678</u>	
Fund balances - ending			\$9,487,884	
A legally budgeted Economic Development Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			1,017	
Transfers			71,425	
Fund balances - beginning			<u>1,455,485</u>	
Fund balances - ending			<u>\$11,015,811</u>	

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

CITY OF MORGANTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-type Activities - Enterprise Funds				Totals June 30, 2012	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
<u>ASSETS</u>						
CURRENT ASSETS :						
Cash and cash equivalents	\$5,719,939	\$124,099	\$814,904		\$6,658,942	\$723,802
Restricted Cash	59,903	43,291	339,635		442,829	
Investments	3,261,077	1,555,056	4,074,080		8,890,213	
Accounts receivable (net)	508,238	659,601	3,397,637	\$356,012	4,921,488	
Interest receivable	4,265	3,210	5,666		13,141	
Inventories						892,618
Due from other funds			2,621,931		2,621,931	
Total current assets	<u>9,553,422</u>	<u>2,385,257</u>	<u>11,253,853</u>	<u>356,012</u>	<u>23,548,544</u>	<u>1,616,420</u>
NONCURRENT ASSETS :						
Land	912,017	14,067,068	55,950	5,586	15,040,621	33,317
Other capital assets (net)	14,790,999	12,400,775	9,212,750	3,715,720	40,120,244	346,929
Capital assets (net)	<u>15,703,016</u>	<u>26,467,843</u>	<u>9,268,700</u>	<u>3,721,306</u>	<u>55,160,865</u>	<u>380,246</u>
Total noncurrent assets	<u>15,703,016</u>	<u>26,467,843</u>	<u>9,268,700</u>	<u>3,721,306</u>	<u>55,160,865</u>	<u>380,246</u>
TOTAL ASSETS	<u>25,256,438</u>	<u>28,853,100</u>	<u>20,522,553</u>	<u>4,077,318</u>	<u>78,709,409</u>	<u>1,996,666</u>
<u>LIABILITIES</u>						
CURRENT LIABILITIES :						
Accounts payable and accrued liabilities	38,328	31,853	2,666,727	180,713	2,917,621	42,539
Due to other funds				2,621,931	2,621,931	
Customer deposits	59,903	43,291	339,635		442,829	
Compensated absences- current	28,091	32,475	37,323	14,454	112,343	17,566
G O Bonds payable - current maturities	245,202	922,425			1,167,627	
Installment purchase - current maturities		138,511	29,680		168,191	
Total current liabilities	<u>371,524</u>	<u>1,168,555</u>	<u>3,073,365</u>	<u>2,817,098</u>	<u>7,430,542</u>	<u>60,105</u>
NONCURRENT LIABILITIES :						
Other postemployment benefits	160,943	140,825	160,943	40,236	502,947	80,471
Compensated absences- noncurrent	34,333	39,691	45,618	17,666	137,308	21,469
G O Bonds payable - noncurrent	330,248	1,242,380			1,572,628	
Installment purchase - noncurrent maturities	1,700,000	70,994	109,650		1,880,644	
Total noncurrent liabilities	<u>2,225,524</u>	<u>1,493,890</u>	<u>316,211</u>	<u>57,902</u>	<u>4,093,527</u>	<u>101,940</u>
TOTAL LIABILITIES	<u>2,597,048</u>	<u>2,662,445</u>	<u>3,389,576</u>	<u>2,875,000</u>	<u>11,524,069</u>	<u>162,045</u>
<u>NET ASSETS</u>						
Invested in capital assets, net of related debt	13,427,566	24,093,533	9,129,370	3,721,306	50,371,775	380,246
Unrestricted	9,231,824	2,097,122	8,003,607	(2,518,988)	16,813,565	1,454,375
TOTAL NET ASSETS	<u>\$22,659,390</u>	<u>\$26,190,655</u>	<u>\$17,132,977</u>	<u>\$1,202,318</u>	<u>\$67,185,340</u>	<u>\$1,834,621</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, 2012

	<u>Business-type Activities - Enterprise Funds</u>				Totals June 30, 2012	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
OPERATING REVENUES :						
Charges for services	\$4,854,787	\$4,891,791	\$30,854,838	\$4,115,024	\$44,716,440	\$1,751,524
OPERATING EXPENSES :						
Water treatment and maintenance	3,674,355				3,674,355	
Wastewater treatment and maintenance		2,286,137			2,286,137	
Operations and construction			29,766,970		29,766,970	
Operations and maintenance MIS, Garage and Warehouse operations				3,884,677	3,884,677	
Depreciation	899,583	981,958	683,681	316,554	2,881,776	1,941,546 81,101
Total	4,573,938	3,268,095	30,450,651	4,201,231	42,493,915	2,022,647
OPERATING INCOME (LOSS)	280,849	1,623,696	404,187	(86,207)	2,222,525	(271,123)
NONOPERATING REVENUES (EXPENSES) :						
Interest on investments	12,775	5,715	13,279		31,769	
Sale of materials						8,069
Interest expense	(36,722)	(135,904)	(5,277)		(177,903)	
Amortization of deferred charge on refundings	(16,248)	(61,125)			(77,373)	
Miscellaneous	1,997	44,741	4,980	168,345	220,063	
Total	(38,198)	(146,573)	12,982	168,345	(3,444)	8,069
INCOME (LOSS) BEFORE TRANSFERS	242,651	1,477,123	417,169	82,138	2,219,081	(263,054)
TRANSFERS :						
In			147,953		147,953	
Out	(20,000)		(659,670)	(255,091)	(934,761)	
Total	(20,000)		(511,717)	(255,091)	(786,808)	
Change in net assets	222,651	1,477,123	(94,548)	(172,953)	1,432,273	(263,054)
TOTAL NET ASSETS - beginning	22,436,739	24,713,532	17,227,525	1,375,271		2,097,675
TOTAL NET ASSETS - ending	<u>\$22,659,390</u>	<u>\$26,190,655</u>	<u>\$17,132,977</u>	<u>\$1,202,318</u>		<u>\$1,834,621</u>
Change in net assets of business-type activities					<u>1,432,273</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, 2012

	Business-type Activities - Enterprise Funds				Totals June 30, 2012	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund		
CASH FLOWS FROM						
OPERATING ACTIVITIES :						
Receipts from customers	\$4,854,787	\$4,891,791	\$30,854,838	\$4,115,024	\$44,716,440	\$1,751,524
Payments to suppliers	(2,573,663)	(1,293,154)	(28,549,594)	(3,382,079)	(35,798,490)	(1,197,077)
Payments to employees	(1,012,261)	(1,088,299)	(1,276,335)	(446,214)	(3,823,109)	(622,599)
Net cash provided (used) by operating activities	<u>1,268,863</u>	<u>2,510,338</u>	<u>1,028,909</u>	<u>286,731</u>	<u>5,094,841</u>	<u>(68,152)</u>
CASH FLOWS FROM NONCAPITAL						
FINANCING ACTIVITIES :						
Transfers - in			147,953		147,953	
Transfers - (out)	(20,000)		(659,670)	(255,091)	(934,761)	
Interfund borrowings			105,421	(105,421)		
Noncapital contributions received (used)	<u>1,997</u>	<u>44,741</u>	<u>4,980</u>	<u>168,345</u>	<u>220,063</u>	<u>8,069</u>
Net cash provided (used) by noncapital financing activities	<u>(18,003)</u>	<u>44,741</u>	<u>(401,316)</u>	<u>(192,167)</u>	<u>(566,745)</u>	<u>8,069</u>
CASH FLOWS FROM CAPITAL						
AND RELATED FINANCING						
ACTIVITIES:						
Acquisition and construction of capital assets	(424,147)	(1,470,106)	(385,375)	(94,564)	(2,374,192)	(47,573)
Proceeds from capital debt	1,700,000					
Principal paid on capital debt	(416,179)	(1,195,876)	(28,670)		(1,640,725)	
Interest paid on capital debt	(36,722)	(135,904)	(5,277)		(177,903)	
Net cash provided (used) by capital and related financing activities	<u>822,952</u>	<u>(2,801,886)</u>	<u>(419,322)</u>	<u>(94,564)</u>	<u>(2,492,820)</u>	<u>(47,573)</u>
CASH FLOWS FROM INVESTING						
ACTIVITIES :						
Proceeds from sales and maturities of investments	1,752,762	1,728,294	1,399,325		4,880,381	
Purchases of investments	(3,261,077)	(1,555,056)	(4,074,080)		(8,890,213)	
Interest on investments	13,282	5,528	10,075		28,885	
Net cash provided (used) by investing activities	<u>(1,495,033)</u>	<u>178,766</u>	<u>(2,664,680)</u>		<u>(3,980,947)</u>	
NET INCREASE (DECREASE)						
IN CASH AND CASH						
EQUIVALENTS						
	578,779	(68,041)	(2,456,409)	Nil	(1,945,671)	(107,656)
CASH AND CASH EQUIVALENTS						
AT BEGINNING 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>
CASH AND CASH EQUIVALENTS						
AT END OF YEAR						
	<u>\$5,779,842</u>	<u>\$167,390</u>	<u>\$1,154,539</u>	<u>Nil</u>	<u>7,101,771</u>	<u>\$723,802</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds				Totals June 30, 2012	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)	\$280,849	\$1,623,696	\$404,187	(\$86,207)	2,222,525	(\$271,123)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :						
Depreciation	899,583	981,958	683,681	316,554	2,881,776	81,101
Changes in assets and liabilities :						
(Increase) decrease in accounts receivable	5,592	(202,088)	(319,949)	26,020	(490,425)	
(Increase) decrease in inventories						88,815
Increase (decrease) in accounts payable and accrued liabilities	8,005	6,506	100,700	6,719	121,930	(10,611)
Increase (decrease) in customer deposits	6,695	5,751	35,670		48,116	
Increase (decrease) in OPEB	72,724	94,406	131,340	26,974	325,444	42,222
Increase (decrease) in accrued vacation pay	(4,585)	109	(6,720)	(3,329)	(14,525)	1,444
Net cash provided (used) by operating activities	<u>\$1,268,863</u>	<u>\$2,510,338</u>	<u>\$1,028,909</u>	<u>\$286,731</u>	<u>\$5,094,841</u>	<u>(\$68,152)</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, 2012

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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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 an 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, 2012 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, 2011. 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

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 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.

It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

I. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities,

including bonds payable, are not due and payable in the current and therefore are not reported in the funds." The details of this \$7,059,524 difference are as follows:

Installment purchase payable	\$4,284,305
Other post employment benefits	1,428,370
Net pension obligation	619,633
Compensated absences	<u>727,216</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$7,059,524</u>

- B. 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 \$2,486,564 difference are as follows:

Capital outlay	\$934,504
Depreciation expense	<u>(3,421,068)</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of governmental activities	<u>\$(2,486,564)</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 \$238,024 difference are as follows:

Debt issuance	(444,540)
Principal repayments:	
Installment purchase	<u>682,564</u>
Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of Governmental activities	<u>\$238,024</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 \$58,961 difference are as follows:

Compensated Absences, Pension Obligation and OPEB	\$(76,855)
Accrued Interest	<u>17,894</u>
Net adjustment to net changes in fund balances - total	
Governmental funds to arrive at changes in net assets of	
Governmental activities	<u>\$(58,961)</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 \$6,563 are as follows:

Recording of tax receipts deferred in the fund statements	<u>(\$6,563)</u>
Net adjustment to revenues	<u>(\$6,563)</u>

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

Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$(263,054)</u>
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IV. Detail notes on all funds

A. Assets

Deposits

All of the City's, the ABC Board's and the Redevelopment Commission's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's, the ABC Board's or the Redevelopment Commission's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, the ABC Board and the Redevelopment Commission, these deposits are considered to be held by the City's, the ABC Board's and the Redevelopment Commission's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Unit or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board or the Redevelopment Commission under the Pooling Method, the 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. The City, ABC Board and Redevelopment Commission have no policy regarding outstanding risk for deposits.

At June 30, 2012, the City's deposits had a carrying amount of \$9,634,081 and a bank balance of \$9,770,624. Of the bank balance, \$250,000 was insured by federal depository insurance and \$9,520,624 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 \$132,523 and the bank balance was \$167,831. - The bank balance was covered by an institution using the Pooling Method. The carrying amount of

deposits for the Redevelopment Commission was \$65,641 and the bank balance was \$65,641. All of the bank balance was covered by Federal depository insurance.

Investments

At June 30, 2012 the City's investments were as follows:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1-3 Years
Commercial Paper	\$1,993,618	\$1,993,618		
US Government Agencies	5,000,000		\$5,000,000	
NC Capital Management Trust - Cash Portfolio	7,283,463	7,283,463		
NC Capital Management Trust- Term Portfolio	5,002,790	5,002,790		
Total:	\$19,279,871	\$14,279,871	\$5,000,000	

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, 2012. 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.

Other than stated above, the City of Morganton has no other policy relating to the credit risk of investments and deposits.

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	\$136,103
Allowance for notes receivable	34,989
Allowance for revolving loans	199,570
Enterprise Funds:	
Allowance for uncollectible charges	<u>205,000</u>
Total	<u>\$575,662</u>

Capital assets

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government:

	Beginning		Ending	
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$11,838,568			\$11,838,568
Capital assets being depreciated:				
Buildings	22,500,865			22,500,865
Equipment	21,700,163	934,504		22,634,667
Infrastructure	44,242,622			44,242,622
Total capital assets being depreciated	<u>88,443,650</u>	<u>934,504</u>		<u>89,378,154</u>
Less accumulated depreciation for:				
Buildings	15,543,138	658,216		16,201,354
Equipment	12,749,850	1,668,815		14,418,665
Infrastructure	31,545,202	1,094,037		32,639,239
Total accumulated depreciation	<u>59,838,190</u>	<u>3,421,068</u>		<u>63,259,258</u>
Total capital assets being depreciated, net	<u>28,605,460</u>	<u>(2,486,564)</u>		<u>26,118,896</u>
Governmental activity capital assets, net	<u>\$40,444,028</u>	<u>(\$2,486,564)</u>		<u>\$37,957,464</u>

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	41,705		662,917
Equipment	865,201	5,869		871,070
Total capital assets being depreciated	<u>1,486,413</u>	<u>47,574</u>		<u>1,533,987</u>
Less accumulated depreciation for:				
Buildings	490,278	14,452		504,730
Equipment	615,679	66,650		682,329
Total accumulated depreciation	<u>1,105,957</u>	<u>81,102</u>		<u>1,187,059</u>
Total capital assets being depreciated, net	<u>380,456</u>	<u>(33,528)</u>		<u>346,928</u>
Internal service fund capital assets, net	<u>\$413,774</u>	<u>(\$33,528)</u>		<u>\$380,246</u>

Depreciation expense was charged to functions/programs as follows:

General Government	\$415,967
Public Safety	688,024
Transportation	1,252,491
Environmental Protection	184,519
Culture and Recreational	880,067
Total depreciation expense	<u>\$3,421,068</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	17,338,763	132,271		17,471,034
Equipment	2,288,433	291,877		2,580,310
Total capital assets being depreciated	<u>29,770,739</u>	<u>424,148</u>		<u>30,194,887</u>
Less accumulated depreciation for:				
Buildings	5,748,901	194,172		5,943,073
Plant and System	7,292,802	437,896		7,730,698
Equipment	1,462,601	267,516		1,730,117
Total accumulated depreciation	<u>14,504,304</u>	<u>899,584</u>		<u>15,403,888</u>
Total capital assets being depreciated, net	<u>15,266,435</u>	<u>(475,436)</u>		<u>14,790,999</u>
Water fund capital assets, net	<u>\$16,178,452</u>	<u>(\$475,436)</u>		<u>\$15,703,016</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	18,305,355	51,756		18,357,111
Equipment	5,248,861	1,418,350		6,667,211
Total capital assets being depreciated	27,627,207	1,470,106		29,097,313
Less accumulated depreciation for:				
Buildings	2,887,318	73,364		2,960,682
Plant and System	10,071,169	312,449		10,383,618
Equipment	2,756,093	596,145		3,352,238
Total accumulated depreciation	15,714,580	981,958		16,696,538
Total capital assets being depreciated, net	11,912,627	488,148		12,400,775
Wastewater fund capital assets, net	\$25,979,695	\$488,148		\$26,467,843

	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	14,513,891	385,375		14,899,266
Equipment	5,040,079			5,040,079
Total capital assets being depreciated	22,285,387	385,375		22,670,762
Less accumulated depreciation for:				
Buildings	1,647,913	65,041		1,712,954
Plant and System	8,441,866	372,721		8,814,587
Equipment	2,684,552	245,919		2,930,471
Total accumulated depreciation	12,774,331	683,681		13,458,012
Total capital assets being depreciated, net	9,511,056	(298,306)		9,212,750
Electric fund capital assets, net	\$9,567,006	(\$298,306)		\$9,268,700

	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	728,118	94,564		822,682
Total capital assets being depreciated	12,798,878	94,564		12,893,442
Less accumulated depreciation for:				
Buildings	382,717	20,604		403,321
Plant and System	7,985,451	214,825		8,200,276
Equipment	493,000	81,125		574,125
Total accumulated depreciation	8,861,168	316,554		9,177,722
Total capital assets being depreciated, net	3,937,710	(221,990)		3,715,720
Cable fund capital assets, net	\$3,943,296	(\$221,990)		\$3,721,306

Depreciation expense in the amount of \$2,962,877 was charged to business type activities.

Construction commitments

The City has no active construction projects as of June 30, 2012.

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2012, 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	2,093		150,819
Total capital assets being depreciated	377,859	2,093		379,952
Less accumulated Depreciation for:				
Buildings	77,980			77,980
Improvements	127,814	15,029		142,843
Equipment	115,719	4,844		120,563
Total accumulated depreciation	321,513	19,873		341,386

Total capital assets being depreciated, net	<u>56,346</u>	<u>(17,780)</u>	<u>38,566</u>
ABC Board capital assets, net	<u>\$67,346</u>	<u>\$(19,873)</u>	<u>\$49,566</u>

Activity for the Morganton Redevelopment Commission for the year ended June 30, 2012, was as follows:

	Beginning		Ending
	<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 6.88% and 7.35%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement and law enforcement officers is 7.03% and 7.04% 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, 2012, 2011 and 2010 were \$548,104, \$560,543, and \$551,771, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$13,167, \$11,683, and \$8,897, 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, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	14
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>63</u>
Total	<u>77</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, 2011 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	\$ 151,254
Interest on net pension obligation	(9,649)
Adjustment to annual required contribution	<u>11,512</u>
Annual pension cost	153,117
Contributions made for fiscal year ended 6-30-12	<u>160,922</u>
Increase (decrease) in net pension Obligation	(7,805)
Net pension obligation beginning of year	<u>627,438</u>
Net pension obligation end of year	<u>\$619,633</u>

3 YEAR TREND INFORMATION

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	\$155,400	135.88%	\$455,592
6/30/11	\$171,846	121.58%	\$627,438
6/30/12	\$153,117	105.10%	\$619,633

Funding Status and Funding Progress.

As if December 31, 2011, 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 \$1,510,264. The covered payroll (annual payroll of active employees covered by the plan) was \$2,582,327, and the ratio of the UAAL to the covered payroll was 58.48 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, 2012 were \$323,916, which consisted of \$174,962 from the City and \$148,954 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. For the year ended June 30, 2012, the alternative measurement method was used to calculate the annual required contribution. 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	\$1,213,190
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	\$1,213,190
Contributions made for year ended 6/30/12	<u>703,858</u>
Increase (decrease) in net OPEB obligation	\$509,332
Net OPEB obligation, beginning of year	<u>1,502,456</u>
Net OPEB obligation, end of year	<u>\$2,011,788</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
2010	22,383	0	917,716
2011	1,172,305	50%	1,502,456
2012	1,213,190	58%	2,011,788

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 \$11,160,151 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, 2012 is composed of the following elements:

	<u>Deferred</u>	<u>Unearned</u>
Taxes receivable (net)	\$98,530	
Auditorium advance ticket sales	94,889	94,889
Prepaid taxes	733	733
Red, White and Bluegrass ticket sales	<u>76,781</u>	<u>76,781</u>
Total deferred revenue	<u>\$270,933</u>	<u>\$172,403</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, 2012, 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, 2012, including \$371 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	<u>28,561</u>	<u>371</u>
Present value of the minimum		
Lease payments	<u>\$28,561</u>	
Total interest payments		<u>\$371</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, 2012, including \$505,313 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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>\$2,337,790</u>	
Total interest payments		<u>\$505,313</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, 2012, including \$138,664 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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>\$973,000</u>	
Total interest payments		<u>\$138,664</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, 2012, including \$14,460 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	60,033	6,800
2014	62,132	4,702
2015	64,303	2,531
2016	<u>32,989</u>	<u>427</u>
Present value of the minimum		
Lease payments	<u>\$219,457</u>	
Total interest payments		<u>\$14,460</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, 2012, including \$10,135 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	42,078	4,766
2014	43,549	3,296
2015	45,071	1,774
2016	<u>23,124</u>	<u>299</u>
Present value of the minimum		
Lease payments	<u>\$153,822</u>	
Total interest payments		<u>\$10,135</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, 2012, including \$2,572 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	72,091	2,035
2014	<u>55,056</u>	<u>538</u>
Present value of the minimum		
Lease payments	<u>\$129,720</u>	
Total interest payments		<u>\$2,572</u>

In January 2012, the City entered into an installment purchase contract to finance Public Safety vehicles. \$220,540 was borrowed for 3 years at an interest rate of 1.77%.

The future minimum payments of the installment purchase as of June 30, 2012, including \$7,432 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	71,541	4,450
2014	73,842	2,149
2015	<u>75,157</u>	<u>833</u>
Present value of the minimum Lease payments	<u>\$220,540</u>	
Total interest payments		<u>\$7,432</u>

In January 2012, the City entered into an installment purchase contract to finance a garbage truck. \$224,000 was borrowed for 3 years at an interest rate of 1.74%.

The future minimum payments of the installment purchase as of June 30, 2012, including \$7,271 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	72,794	4,296
2014	74,947	2,144
2015	<u>76,259</u>	<u>831</u>
Present value of the minimum Lease payments	<u>\$224,000</u>	
Total interest payments		<u>\$7,271</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, 2012, including \$10,436 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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>\$77,000</u>	
Total interest payments		<u>\$10,436</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, 2012 including \$6,624 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	138,511	5,575
2014	<u>70,994</u>	<u>1,049</u>
Present value of the minimum Lease payments	<u>\$209,505</u>	
Total interest payments		<u>\$6,624</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, 2012, including \$2,553 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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>\$62,330</u>	
Total interest payments		<u>\$2,553</u>

In May 2012, the City entered into an installment purchase contract to finance a water filter media project for the Water Department. \$1,700,000 was borrowed for 10 years at an interest rate of 2.08%.

The future minimum payments of the installment purchase as of June 30, 2012, including \$201,198 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013		
2014	170,000	42,078
2015	170,000	31,824
2016	170,000	28,288
2017	170,000	24,752
2018-2022	850,000	7,072
2023	<u>170,000</u>	<u>3,536</u>
Present value of the minimum Lease payments	<u>\$1,700,000</u>	
Total interest payments		<u>\$201,198</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, 2012 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 \$2,740,255 is net of the amortized deferred loss on the defeasance of \$154,745.

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2013	1,245,000	115,800
2014	1,225,000	66,000
2015	425,000	17,000
Total	<u>\$2,895,000</u>	<u>\$198,800</u>

Debt Margin

At June 30, 2012, the City of Morganton had a legal debt margin of \$125,891,425.

Changes in long-term liabilities:

	Balance			Current	
	30-Jun-11	Increases	Decreases	Balance 30-Jun-12	Portion of Balance
Governmental activities:					
Installment purchase	\$4,522,329	444,540	\$682,564	\$4,284,305	\$878,745
Compensated absences	821,813	360,872	416,434	766,251	344,813
Other postemployment benefits	1,324,953	183,888		1,508,841	
Net pension obligation	627,438		7,805	619,633	
Governmental activity long-term liabilities	<u>7,296,533</u>	<u>989,300</u>	<u>1,106,803</u>	<u>7,179,030</u>	<u>1,223,558</u>
Business-type activities:					
General obligation bonds	\$4,170,000		\$1,275,000	\$2,895,000	\$1,245,000
Less deferred amount for loss on defeasance	232,118		77,373	154,745	77,373
Total general obligation bonds	<u>3,937,882</u>		<u>1,197,627</u>	<u>2,740,255</u>	<u>1,167,627</u>
Installment purchase	714,560	1,700,000	365,724	2,048,836	168,191
Other postemployment benefits	177,503	325,444		502,947	
Compensated absences	264,176	141,038	155,563	249,651	112,343
Business-type activity long-term liabilities	<u>5,094,121</u>	<u>2,166,482</u>	<u>1,718,914</u>	<u>5,541,689</u>	<u>1,448,161</u>

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 \$39,035 of internal service funds compensated absences are included in the above amounts. At year-end \$80,471 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, 2012 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from Cable fund	\$2,621,931	
Cable fund - payable to Electric fund		<u>\$2,621,931</u>
Total interfund receivables and payables	<u>\$2,621,931</u>	<u>\$2,621,931</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, 2012 transfers were used to:

- Subsidize the general fund to forestall a significant property tax increase:
- Reimburse inter-departmental costs shared by more than one enterprise

A summary of interfund transfers by fund for the year ended June 30, 2012 is as follows:

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$659,670	
From Water Fund	20,000	
From Cable Fund	107,138	
From Cemetary Fund	<u>50,000</u>	
Total	<u>836,808</u>	
Water Fund :		
To General Fund		<u>20,000</u>
Total		<u>20,000</u>
Cable Fund:		
To Electric Fund		147,953
To General Fund		<u>107,138</u>

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, 2012 were \$26,748,320.

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 \$16,582 to WPCOG during the fiscal year ended June 30, 2012.

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 \$44,320 to the Airport during the fiscal year ended June 30, 2012. 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, 2012. 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 Morganton Housing Authority.

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

	Actuarial Accrued Liability (AAL)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b - a) / c)	
12-31-11	\$- 0 -	\$1,510,264	\$1,510,264	0.00%	\$2,582,327	58.48%	
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%	

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>
2010	155,400	135.88%
2011	171,846	121.58%
2012	153,117	105.10%

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	12/31/11
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 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%
2012	1,213,190	58.00%

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
ECONOMIC DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>2012</u>			Variance Favorable (Unfavorable)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest earned			\$1,017	\$1,017
Total revenues			<u>1,017</u>	<u>1,017</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	(71,425)	(71,425)		71,425
Transfers	<u>71,425</u>	<u>71,425</u>	<u>71,425</u>	
Total other financing sources (uses)	<u>Nil</u>	<u>Nil</u>	<u>71,425</u>	<u>71,425</u>
Excess of revenues over (under) expenditures		<u>Nil</u>	<u>72,442</u>	<u>72,442</u>
Net change in fund balances			72,442	
Fund balances - beginning			<u>1,455,485</u>	
Fund balances - ending			<u><u>\$1,527,927</u></u>	

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

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, 2012

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Years</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total To</u> <u>Date</u>
REVENUES				
Restricted intergovernmental revenues - community development block grants	\$2,999,823	\$2,865,780	\$183,351	\$3,049,131
Program income	121,295	81,295	17,776	99,071
Total revenues	<u>3,121,118</u>	<u>2,947,075</u>	<u>201,127</u>	<u>3,148,202</u>
EXPENDITURES				
Economic and physical development				
Land acquisition	171,423	171,423		171,423
Rehabilitation	525,117	525,117		525,117
Construction	497,182	497,182	3,905	501,087
Administration	500,427	473,619	26,705	500,324
Credit counseling	32,253	32,253		32,253
Deposit assistance	19,162	19,162		19,162
Grant assistance	318,796	298,696	20,100	318,796
Interest expense	119,500	119,500		119,500
Small business loan	202,180	75,045	140,000	215,045
Section 108 loan repayment	375,000	375,000		375,000
Total expenditures	<u>2,761,040</u>	<u>2,586,997</u>	<u>190,710</u>	<u>2,777,707</u>
Excess of revenues over (under) expenditures	<u>360,078</u>	<u>360,078</u>	<u>10,417</u>	<u>370,495</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)		(49,989)
Transfers from general fund	3,439	3,439		3,439
Transfer to electric fund	(8,331)	(8,331)		(8,331)
Transfer to cable fund	(16,960)	(16,960)		(16,960)
Transfer to component unit				
Redevelopment commission	(663,237)	(663,237)		(663,237)
Total other financing sources (uses)	<u>(360,078)</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>\$10,417</u>	<u>Nil</u>
Net change in fund balances			\$10,417	
Fund balances - beginning			<u>\$3,163</u>	
Fund balances - ending			<u>\$13,580</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, 2012

	2012			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Sales and services:				
New cemetery lot sales	\$10,000	\$10,000	\$12,801	\$2,801
Cemetery lot marker service	200	200	2,338	2,138
Total	<u>10,200</u>	<u>10,200</u>	<u>15,139</u>	<u>4,939</u>
Investment earnings - interest earned	1,736	1,736	1,306	(430)
Total revenues	<u>11,936</u>	<u>11,936</u>	<u>16,445</u>	<u>4,509</u>
EXPENDITURES				
Cemetery improvements and reimbursement	21,936	21,936	10,000	11,936
Excess of revenues over expenditures	<u>(10,000)</u>	<u>(10,000)</u>	<u>6,445</u>	<u>16,445</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	60,000	60,000		(60,000)
Transfer to general fund	(50,000)	(50,000)	(50,000)	
Total other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>(50,000)</u>	<u>(60,000)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>Nil</u>	<u>(43,555)</u>	<u>(43,555)</u>
Net change in fund balances			(43,555)	
Fund balances - beginning			<u>379,344</u>	
Fund balances - ending			<u>\$335,789</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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	12,000	11,510	(490)
Water rents	4,302,000	4,524,782	222,782
Penalties	51,000	58,197	7,197
Water taps	59,000	58,243	(757)
Reconnect fees	12,000	15,400	3,400
Rental income	166,133	186,655	20,522
Total	<u>4,602,133</u>	<u>4,854,787</u>	<u>252,654</u>
Nonoperating revenues (expenditures) :			
Interest on investments	38,018	12,775	(25,243)
Miscellaneous	6,000	1,997	(4,003)
Interest expenditures	(36,723)	(36,722)	1
Total	<u>7,295</u>	<u>(21,950)</u>	<u>(29,245)</u>
Total revenues	<u>4,609,428</u>	<u>4,832,837</u>	<u>223,409</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,012,261	
Operating expenditures		2,569,736	
Total	<u>3,965,444</u>	<u>3,581,997</u>	<u>383,447</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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$416,180	\$416,179	\$1
Capital outlay	2,231,123	424,147	1,806,976
Total budgetary appropriations	<u>2,647,303</u>	<u>840,326</u>	<u>1,806,977</u>
Total expenditures	<u>6,612,747</u>	<u>4,422,323</u>	<u>2,190,424</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,003,319)</u>	<u>410,514</u>	<u>2,413,833</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	175,319		(175,319)
Installment purchase proceeds	1,848,000	1,700,000	(148,000)
Operating transfers - in (out) :			
To General Fund	<u>(20,000)</u>	<u>(20,000)</u>	
Total other financing sources (uses)	<u>2,003,319</u>	<u>1,680,000</u>	<u>(323,319)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$2,090,514</u>	<u>\$2,090,514</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, 2012

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$2,090,514
Add :		
Cost of expenditures which were capitalized	\$424,147	
Decrease in accrued vacation pay	4,585	
Payment of debt principal	<u>416,179</u>	844,911
Less :		
Depreciation	(899,583)	
Increase in OPEB	(72,724)	
Installment purchase proceeds	(1,700,000)	
Amortization of deferred charge on refunding	(16,248)	
Bad debts	<u>(24,219)</u>	<u>(2,712,774)</u>
Total Change in Net Assets		222,651
NET ASSETS - Beginning of Year		<u>22,436,739</u>
NET ASSETS - End of Year		<u><u>\$22,659,390</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, 2012

	2012		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Reimbursement for services	\$2,500	\$22,111	\$19,611
Sewer rents	4,458,544	4,778,846	320,302
Late payment penalties	45,385	46,924	1,539
Sewer taps	12,000	12,285	285
Septage revenue	20,000	20,710	710
Sale of sludge	7,600	10,915	3,315
Total	4,546,029	4,891,791	345,762
Nonoperating revenues (expenditures) :			
Interest earned	6,057	5,715	(342)
Restricted contribution	39,160	19,580	(19,580)
State Revolving Loan	11,428,456		(11,428,456)
Miscellaneous	33,900	25,161	(8,739)
Interest expenditures	(135,946)	(135,904)	42
Total	11,371,627	(85,448)	(11,457,075)
Total revenues	15,917,656	4,806,343	(11,111,313)
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,088,299	
Operating expenditures		1,078,666	
Total wastewater treatment	2,420,164	2,166,965	253,199

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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$1,195,876	\$1,195,876	
Capital outlay	13,823,754	1,470,106	\$12,353,648
Total budgetary appropriations	<u>15,019,630</u>	<u>2,665,982</u>	<u>12,353,648</u>
Total expenditures	<u>17,439,794</u>	<u>4,832,947</u>	<u>12,606,847</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,522,138)</u>	<u>(26,604)</u>	<u>1,495,534</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	<u>1,522,138</u>		<u>(1,522,138)</u>
Total other financing sources (uses)	<u>1,522,138</u>		<u>(1,522,138)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$26,604)</u>	<u>(\$26,604)</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, 2012

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$26,604)
Add :		
Cost of expenditures which were capitalized	\$1,470,106	
Payment of debt principal	<u>1,195,876</u>	2,665,982
Less :		
Depreciation	(981,958)	
Amortization of deferred charge on refunding	(61,125)	
Increase in OPEB	(94,406)	
Increase in accrued vacation pay	(109)	
Bad debts	<u>(24,657)</u>	<u>(1,162,255)</u>
Total Change in Net Assets		1,477,123
NET ASSETS - Beginning of Year		<u>24,713,532</u>
NET ASSETS - End of Year		<u><u>\$26,190,655</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, 2012

	2012		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Reimbursement for services	\$295,000	\$109,239	(\$185,761)
Sale of power	29,585,500	29,871,132	285,632
Late payment penalties	310,000	264,394	(45,606)
Security light rental	488,000	478,294	(9,706)
Street lighting	74,000	74,000	
Reconnection fees	45,000	48,551	3,551
Pole rental	15,000	9,228	(5,772)
Total	<u>30,812,500</u>	<u>30,854,838</u>	<u>42,338</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(5,277)	(5,277)	
Interest earned	33,498	13,279	(20,219)
Cash over (short)		(205)	(205)
Miscellaneous	32,500	5,185	(27,315)
Total	<u>60,721</u>	<u>12,982</u>	<u>(47,739)</u>
Total revenues	<u>30,873,221</u>	<u>30,867,820</u>	<u>(5,401)</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,276,335	
Operating expenditures		1,432,235	
Purchases of power		26,748,321	
Total	<u>29,958,510</u>	<u>29,456,891</u>	<u>501,619</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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal - installment purchase notes	\$28,670	\$28,670	
Capital Outlay	<u>390,000</u>	<u>385,375</u>	<u>\$4,625</u>
Total budgetary appropriations	<u>418,670</u>	<u>414,045</u>	<u>4,625</u>
Total expenditures	<u>30,377,180</u>	<u>29,870,936</u>	<u>506,244</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>496,041</u>	<u>996,884</u>	<u>500,843</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	15,676		(15,676)
Operating transfers - in (out) :			
From Cable Fund	147,953	147,953	
To General Fund	<u>(659,670)</u>	<u>(659,670)</u>	
Total other financing sources (uses)	<u>(496,041)</u>	<u>(511,717)</u>	<u>(15,676)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$485,167</u>	<u>\$485,167</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, 2012

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$485,167
Add :		
Payment of debt principal	\$28,670	
Increase in accrued vacation pay	6,720	
Cost of expenditures which were capitalized	<u>385,375</u>	420,765
Less :		
Bad debts	(185,459)	
Depreciation	(683,681)	
Increase in OPEB	<u>(131,340)</u>	<u>(1,000,480)</u>
Total Change in Net Assets		(94,548)
NET ASSETS - Beginning of Year		<u>17,227,525</u>
NET ASSETS - End of Year		<u><u>\$17,132,977</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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$28,000	\$15,236	(\$12,764)
Studio revenues	1,000	1,960	\$960
Telephone revenues	241,752	253,184	\$11,432
Internet revenues	850,000	918,987	\$68,987
Cable rents	<u>3,054,000</u>	<u>2,925,657</u>	<u>(\$128,343)</u>
Total	<u>4,174,752</u>	<u>4,115,024</u>	<u>(59,728)</u>
Nonoperating revenues (expenditures) :			
Penalties	60,000	72,922	12,922
Reconnect fees	21,000	18,225	(2,775)
Ad sales	100,000	58,299	(41,701)
Bad check charges	2,000	2,209	209
Miscellaneous revenue	<u>15,000</u>	<u>16,690</u>	<u>1,690</u>
Total	<u>198,000</u>	<u>168,345</u>	<u>(29,655)</u>
Total revenues	<u>4,372,752</u>	<u>4,283,369</u>	<u>(89,383)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		446,214	
Operating expenditures		<u>3,363,891</u>	
Total cable operations and maintenance	<u>4,042,661</u>	<u>3,810,105</u>	<u>232,556</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>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Capital outlay	<u>\$75,000</u>	<u>\$94,564</u>	<u>(\$19,564)</u>
Total budgetary appropriations	<u>75,000</u>	<u>94,564</u>	<u>(19,564)</u>
Total expenditures	<u>4,117,661</u>	<u>3,904,669</u>	<u>212,992</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>255,091</u>	<u>378,700</u>	<u>123,609</u>
OTHER FINANCING SOURCES (USES) :			
Operating transfers - in (out) :			
To General Fund	<u>(107,138)</u>	<u>(107,138)</u>	
To Electric Fund	<u>(147,953)</u>	<u>(147,953)</u>	
Total other financing sources (uses)	<u>(255,091)</u>	<u>(255,091)</u>	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$123,609</u>	<u>\$123,609</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		\$123,609
Add :		
Cost of expenditures which were capitalized	\$94,564	
Decrease in accrued vacation pay	<u>3,328</u>	97,892
Less :		
Increase in OPEB	(26,974)	
Depreciation	(316,554)	
Bad debts	<u>(50,926)</u>	<u>(394,454)</u>
Total Change in Net Assets		(172,953)
NET ASSETS - Beginning of Year		<u>1,375,271</u>
NET ASSETS - End of Year		<u><u>\$1,202,318</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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	439,992	439,992	
Electric Fund	60,871	60,871	
Water Fund	46,370	46,370	
Wastewater Fund	32,041	32,041	
Cable Fund	61,052	61,052	
Total	<u>640,326</u>	<u>640,326</u>	
Warehouse :			
General Fund sales	25,000	31,969	6,969
Electric Fund sales	200,000	282,610	82,610
Water Fund sales	45,000	49,186	4,186
Wastewater Fund sales	2,000	2,450	450
Cable Fund sales	25,000	24,935	(65)
Total	<u>297,000</u>	<u>391,150</u>	<u>94,150</u>
Garage :			
General Fund sales	140,000	185,757	45,757
Electric Fund sales	25,000	14,136	(10,864)
Water Fund sales	10,000	15,704	5,704
Wastewater Fund sales	7,500	9,277	1,777
Cable Fund sales	7,300	6,853	(447)
IRMS sales	200		(200)
Sale of fuel	580,000	488,321	(91,679)
Total	<u>770,000</u>	<u>720,048</u>	<u>(49,952)</u>
Total operating revenues	<u>1,707,326</u>	<u>1,751,524</u>	<u>44,198</u>
Nonoperating revenues :			
Sale of materials		8,069	8,069
Total revenues	<u>1,707,326</u>	<u>1,759,593</u>	<u>52,267</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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$300,311	
Operating expenditures		521,329	
Total IRMS	858,623	821,640	36,983
Warehouse :			
Salaries and employee benefits		111,340	
Operating expenditures		36,962	
Purchases of inventory		299,145	
Pro rata administrative services		(151,670)	
Total warehouse	300,053	295,777	4,276
Garage :			
Salaries and employee benefits		210,948	
Operating expenditures		61,893	
Purchases of inventory		214,136	
Purchases of fuel		488,226	
Pro rata administrative services		(283,555)	
Total garage	768,650	691,648	77,002
Budgetary appropriations :			
Appropriated retained earnings	(412,856)		(412,856)
Capital outlay	192,856	47,573	145,283
Total budgetary appropriations	(220,000)	47,573	(267,573)
Total expenditures	1,707,326	1,856,638	(149,312)

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, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>Nil</u>	<u>(\$97,045)</u>	<u>(\$97,045)</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS :			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			(\$97,045)
Add :			
Cost of expenditures which were capitalized		<u>47,573</u>	47,573
Less :			
Depreciation		(81,101)	
Decrease in inventory		(88,815)	
Increase in accrued vacation pay		(\$1,444)	
Increase in OPEB		<u>(42,222)</u>	<u>(213,582)</u>
Total Change in Net Assets			(263,054)
NET ASSETS - Beginning of Year			<u>2,097,675</u>
NET ASSETS - End of Year			<u>\$1,834,621</u>

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2012

<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>
2011-2012		\$7,695,934	\$7,588,040	\$107,894
2010-2011	\$117,902		85,289	32,613
2009-2010	31,844		13,379	18,465
2008-2009	16,197		2,380	13,817
2007-2008	12,400		2,228	10,172
2006-2007	13,151		1,526	11,625
2005-2006	10,530		559	9,971
2004-2005	9,270		379	8,891
2003-2004	10,300		183	10,117
2002-2003	11,285		217	11,068
2001-2002	9,488		9,488	
TOTAL	<u><u>\$242,367</u></u>	<u><u>\$7,695,934</u></u>	<u><u>\$7,703,668</u></u>	<u><u>\$234,633</u></u>
Less Allowance for Doubtful Accounts				<u>136,103</u>
Net Property Tax Receivable (Exhibit 1)				<u><u>\$98,530</u></u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$7,630,208		
Less interest collected		<u>(25,332)</u>	\$ 7,604,876	
Discounts			84,451	
Releases - Prior years			5,071	
Amount written off for tax year 2001-2002 per statute of limitations			<u>9,270</u>	
TOTAL COLLECTIONS AND CREDITS			<u><u>\$ 7,703,668</u></u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2012

	Total Property Valuation	Rate	Amount of Levy	Excluding Vehicles	Motor Vehicles
TAX LEVY :					
City-wide	\$1,523,273,043	0.46	\$7,007,056	\$7,007,056	
Special district	8,341,357	0.14	116,779	116,779	
Vehicle Taxes	96,763,696	0.46	445,113		\$445,113
 PENALTIES			7,597	7,597	
 ADD DISCOVERIES :					
Current year	30,584,130	0.46	140,687	138,824	1,863
Prior year	273,783	0.46	1,258	1,258	
 LESS RELEASES	<u>(6,428,944)</u>		<u>(22,556)</u>	<u>(11,489)</u>	<u>(11,067)</u>
 TOTAL	<u>\$1,652,807,065</u>		<u>\$7,695,934</u>	<u>\$7,260,025</u>	<u>\$435,909</u>
 LESS UNCOLLECTED TAXES AT June 30, 2012			<u>107,894</u>	<u>55,123</u>	<u>52,771</u>
 CURRENT YEAR'S TAXES COLLECTED			<u>\$7,588,040</u>	<u>\$7,204,902</u>	<u>\$383,138</u>
 PERCENT CURRENT YEAR COLLECTED			<u>98.60%</u>	<u>99.24%</u>	<u>87.89%</u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$659,670	
From Water Fund	20,000	
From Cable Fund	107,138	
From Cemetary Fund	50,000	
	<u>836,808</u>	
Water Fund :		
To General Fund		20,000
		<u>20,000</u>
Cable Fund:		
To Electric Fund		147,953
To General Fund		107,138
		<u>255,091</u>
Cemetary Fund		
To General Fund		50,000
		<u>50,000</u>
Electric Fund :		
From Cable Fund	147,953	
To General Fund		659,670
	<u>147,953</u>	<u>659,670</u>
Grand Totals	<u>\$984,761</u>	<u>\$984,761</u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2012

	<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>9,634,081</u>	<u>9,634,081</u>	<u>9,634,081</u>
Total cash	<u>9,636,576</u>	<u>9,636,576</u>	<u>9,636,576</u>
INVESTMENTS :			
North Carolina Capital Management Trust	12,286,253	12,286,253	12,286,253
Commercial paper	1,993,618	1,993,618	1,993,618
US Government agencies	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Total investments (including cash equivalents)	<u>19,279,871</u>	<u>19,279,871</u>	<u>19,279,871</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$28,916,447</u></u>	 <u><u>\$28,916,447</u></u>	 <u><u>\$28,916,447</u></u>



CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2012

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 Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$42,517,541	\$42,270,377	\$42,225,042	\$41,695,614
Restricted	1,402,102	1,428,875	716,926	1,260,371
Unrestricted	11,487,466	12,219,489	12,207,920	12,339,129
Nonspendable				
Restricted				
Committed				
Unassigned				
Total governmental activities net assets	<u>\$55,407,109</u>	<u>\$55,918,741</u>	<u>\$55,149,888</u>	<u>\$55,295,114</u>
Business-type activities				
Invested in capital assets, net of related debt	\$42,567,661	\$42,251,982	\$46,132,330	\$45,875,917
Unrestricted	26,266,393	26,916,570	22,771,585	23,181,717
Total business-type activities net assets	<u>\$68,834,054</u>	<u>\$69,168,552</u>	<u>\$68,903,915</u>	<u>\$69,057,634</u>
Primary government				
Invested in capital assets, net of related debt	\$85,085,202	\$84,522,359	\$88,357,372	\$87,571,531
Restricted	1,402,102	1,428,875	716,926	1,260,371
Unrestricted	37,753,859	39,136,059	34,979,505	35,520,846
Nonspendable				
Restricted				
Committed				
Unassigned				
Total primary government net assets	<u>\$124,241,163</u>	<u>\$125,087,293</u>	<u>\$124,053,803</u>	<u>\$124,352,748</u>

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$41,831,482	\$40,439,879	\$39,304,208	\$37,897,550	\$36,335,474	\$33,673,160
745,287	1,404,040	1,134,780	1,315,433		
14,704,160	15,287,650	13,048,121	11,272,201		
				379,344	335,789
				2,104,203	1,965,729
				3,066,228	3,953,714
				4,231,094	4,219,343
\$57,280,929	\$57,131,569	\$53,487,109	\$50,485,184	\$46,116,343	\$44,147,735
\$56,874,381	\$48,204,805	\$49,218,328	\$50,256,119	\$51,016,008	\$50,371,775
11,302,071	17,210,171	13,890,105	13,075,437	14,737,059	16,813,565
\$68,176,452	\$65,414,976	\$63,108,433	\$63,331,556	\$65,753,067	\$67,185,340
\$98,705,863	\$88,644,684	\$88,522,536	\$88,153,669	\$87,351,482	\$84,044,935
745,287	1,404,040	1,134,780	1,315,433		
26,006,231	32,497,821	26,938,226	24,347,638	14,737,059	16,813,565
				379,344	335,789
				2,101,203	1,965,729
				3,066,228	3,953,714
				4,234,094	4,219,343
\$125,457,381	\$122,546,545	\$116,595,542	\$113,816,740	\$111,869,410	\$111,333,075

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

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$2,255,413	\$2,783,081	\$3,391,972	\$2,759,135
Public Safety	5,110,138	5,445,610	6,448,234	6,613,948
Transportation	1,906,654	2,058,883	2,375,152	2,209,624
Economic and physical development	138,229	161,712	146,743	121,415
Environmental protection	1,096,914	938,734	1,075,471	1,114,664
Culture and recreation	2,288,112	2,481,282	2,826,391	3,276,853
Interest on long-term debt	90,423	71,323	58,467	47,554
Total governmental activities expenses	<u>12,885,883</u>	<u>13,940,625</u>	<u>16,322,430</u>	<u>16,143,193</u>
Business-type activities:				
Water	2,638,295	2,627,701	2,739,467	2,864,899
Wastewater	3,424,896	3,466,183	3,307,399	3,401,640
Electric	21,566,422	22,175,865	22,871,668	24,664,921
Cable	2,312,224	2,886,460	3,511,824	3,874,683
Community house	273,248	278,758	312,556	296,857
Total business-type activities expenses	<u>30,215,085</u>	<u>31,434,967</u>	<u>32,742,914</u>	<u>35,103,000</u>
Total primary government expenses	<u>43,100,968</u>	<u>45,375,592</u>	<u>49,065,344</u>	<u>51,246,193</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$225,184	\$346,075	\$193,064	\$387,459
Public Safety	42,491	46,307	53,167	37,253
Transportation	8,432	348,430	340,468	4,796
Environmental protection	385,593	133,820	200,736	351,808
Culture and recreation	578,545	498,904	577,595	638,779
Operating Grants and Contributions	954,015	819,867	654,103	873,196
Capital Grants and Contributions	167,341	1,468,175	983,972	709,313
Total governmental activities program rev's	<u>2,361,601</u>	<u>3,661,578</u>	<u>3,003,105</u>	<u>3,002,604</u>
Business-type activities:				
Charges for services:				
Water	3,384,344	3,276,066	3,616,616	4,078,099
Wastewater	3,472,733	3,347,854	3,889,286	4,309,576
Electric	22,212,562	22,549,633	22,227,843	23,116,052
Cable	2,620,155	2,438,572	2,691,868	3,046,581
Community house	202,335	208,498	211,852	199,688
Operating Grants and Contributions	95,328	31,437	22,202	19,415
Total business-type activities program rev's	<u>31,987,457</u>	<u>31,852,060</u>	<u>32,659,667</u>	<u>34,769,411</u>
Total primary government program rev's	<u>\$34,349,058</u>	<u>\$35,513,638</u>	<u>\$35,662,772</u>	<u>\$37,772,015</u>

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$2,742,806	\$2,853,101	\$3,607,537	\$3,630,766	\$3,609,198	\$3,982,814
6,590,390	7,094,187	8,483,992	7,408,112	8,020,152	7,331,704
2,244,130	2,476,434	2,468,048	2,412,047	2,275,232	2,396,894
10,308	117,668	96,570	218,656	216,413	200,710
1,123,568	1,216,620	1,307,076	1,176,135	1,210,998	1,105,025
3,637,977	4,236,367	4,655,871	4,183,063	4,765,491	4,680,010
44,385	103,428	212,829	201,570	177,894	132,767
16,393,564	18,097,805	20,831,923	19,230,349	20,275,378	19,829,924
3,169,593	3,634,869	4,075,486	3,719,723	4,428,054	4,626,908
3,380,132	4,077,418	4,113,272	3,739,629	3,791,743	3,465,124
25,241,193	26,505,211	26,798,280	27,380,632	29,042,901	30,455,928
4,001,462	4,015,776	4,009,621	4,173,224	4,200,613	4,201,231
323,251	312,634	345,256	300,521		
36,115,631	38,545,908	39,341,915	39,313,729	41,463,311	42,749,191
52,509,195	56,643,713	60,173,838	58,544,078	61,738,689	62,579,115
\$283,089	\$232,411	\$46,347	\$354,433	\$401,366	\$474,238
24,793	46,702	472,980	214,043	49,184	38,273
4,797	7,656	529,095		468,136	
1,093,367	1,062,990	1,035,070	1,024,768	1,094,518	1,085,405
628,181	677,243	888,946	861,029	970,297	988,922
998,104	1,100,958	286,720	724,637	425,492	797,030
	258,646	12,291	323,177	934,725	775,628
3,032,331	3,386,606	3,271,449	3,502,087	4,343,718	4,159,496
3,945,198	4,011,287	4,662,378	4,894,472	4,643,110	4,854,787
4,353,978	4,138,754	4,288,210	4,274,993	4,677,572	4,891,791
23,094,949	23,422,320	23,925,934	26,192,614	29,170,119	30,854,838
3,367,112	3,496,493	3,823,539	3,973,907	4,087,798	4,115,024
241,420	223,929	215,865	175,332		
21,016	21,734	20,980	19,392		
35,023,673	35,314,517	36,936,906	39,530,710	42,578,599	44,716,440
\$38,056,004	\$38,701,123	\$40,208,355	\$43,032,797	\$46,922,317	\$48,875,936

Net (Expense)/Revenue

Governmental activities	(\$10,524,282)	(\$10,279,047)	(\$13,319,325)	(\$13,140,589)
Business-type activities	1,772,372	417,093	(83,247)	(333,589)
Total primary government net expense	<u>(\$8,751,910)</u>	<u>(\$9,861,954)</u>	<u>(\$13,402,572)</u>	<u>(\$13,474,178)</u>

General Revenues and Other

Changes in Net Assets

Governmental activities:

Ad valorem taxes	\$6,096,559	\$6,045,738	\$6,628,096	\$6,815,478
Other taxes	2,371,323	2,765,497	2,898,950	2,980,248
Unrestricted intergovernmental revenues	2,432,232	1,534,419	1,554,802	1,624,417
Restricted intergovernmental revenues				
Investment earnings	286,171	218,499	314,002	677,091
Other revenues	39,210	9,786	251,180	334,576
Transfers	564,000	503,750	903,442	706,054
Total governmental activities	<u>11,789,495</u>	<u>11,077,689</u>	<u>12,550,472</u>	<u>13,137,864</u>

Business-type activities:

Investment earnings	430,203	319,671	530,398	988,043
Other revenues	33,838	101,484	191,654	205,319
Transfers	(564,000)	(503,750)	(903,442)	(706,054)
Total business-type activities	<u>(99,959)</u>	<u>(82,595)</u>	<u>(181,390)</u>	<u>487,308</u>
Total primary government	<u>\$11,689,536</u>	<u>\$10,995,094</u>	<u>\$12,369,082</u>	<u>\$13,625,172</u>

Change in Net Assets

Governmental activities	\$1,265,213	\$798,642	(\$768,853)	(\$2,725)
Business-type activities	1,672,413	334,498	(264,637)	153,719
Total primary government	<u>2,937,626</u>	<u>1,133,140</u>	<u>(1,033,490)</u>	<u>150,994</u>

(\$13,361,233)	(\$14,711,199)	(\$17,560,474)	(\$15,728,262)	(\$15,931,660)	(\$15,670,428)
(1,091,958)	(3,231,391)	(2,405,009)	216,981	1,115,288	1,967,249
<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>	<u>(\$13,703,179)</u>

\$7,298,421	7,769,020	7,862,442	7,820,692	7,708,574	7,623,645
4,938,519	3,353,209	2,976,369	2,641,496	3,064,831	3,517,569
827,704	1,936,451	1,993,844	1,713,894	1,719,297	1,751,859
				24,701	
519,912	861,266	526,467	137,801	37,993	21,939
744,259	245,750	95,722	64,690	74,362	
620,527	585,795	461,170	337,467	(858,831)	786,808
<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>	<u>13,701,820</u>

862,651	815,522	373,351	105,723	32,730	31,769
325,647	240,188	186,285	237,886	206,554	220,063
(744,259)	(585,795)	(461,170)	(337,467)	858,831	(786,808)
<u>444,039</u>	<u>469,915</u>	<u>98,466</u>	<u>6,142</u>	<u>1,098,115</u>	<u>(534,976)</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>	<u>\$13,166,844</u>

\$1,588,109	\$40,292	(\$3,644,460)	(\$3,012,222)	(\$4,160,733)	(\$1,968,608)
(647,919)	(2,761,476)	(2,306,543)	223,123	2,213,403	1,432,273
<u>940,190</u>	<u>(2,721,184)</u>	<u>(5,951,003)</u>	<u>(2,789,099)</u>	<u>(1,947,330)</u>	<u>(536,335)</u>

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

	Fiscal Year				
	2003	2004	2005	2006	2007
General Fund					
Reserved	\$5,079,308	\$5,998,550	\$4,756,325	\$5,910,316	\$5,327,266
Unreserved	3,764,811	3,765,739	4,434,814	3,779,653	5,067,584
Restricted					
Committed					
Unassigned					
	\$8,844,119	\$9,764,289	\$9,191,139	\$9,689,969	\$10,394,850
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	\$3,592,720
Permanent fund	284,695	305,451	320,799	340,995	363,816
Nonspendable					
Perpetual Maintenance					
Unassigned					
Total all other governmental funds	\$3,651,437	\$3,707,772	\$3,574,894	\$3,482,221	\$3,956,536

2008	2009	2010	2011	2012
\$4,465,357	\$2,894,718	\$1,872,310		
7,321,962	7,062,954	7,115,736		
			\$2,104,203	\$1,965,729
			3,066,228	3,953,714
			5,203,732	5,096,368
\$11,787,319	\$9,957,672	\$8,988,046	\$10,374,163	\$11,015,811

\$3,607,527	\$3,266,897	\$2,985,427		
390,615	415,774	431,933		
			\$379,344	\$335,789
			3,163	13,580
\$3,998,142	\$3,682,671	\$3,417,360	\$382,507	\$349,369

City of Morganton
Changes in Fund Balances, Governmental Funds,
Last Ten 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	2012
\$7,136,147	\$7,787,684	\$7,811,407	\$7,786,282	\$7,707,971	\$7,630,208
3,111,379	3,353,209	2,984,770	2,649,525	3,064,831	3,517,569
1,827,140	1,936,451	1,996,276	1,851,812	1,863,644	1,891,276
897,398	1,304,340	993,723	1,164,160	1,708,071	1,528,865
61,109	163,289	15,408	58,557	128,474	34,098
208,590	176,939	235,419	168,853	219,976	168,538
1,865,234	1,850,063	2,045,014	1,964,570	2,167,551	2,215,061
827,704	861,266	526,467	137,801	37,993	21,939
557,160	137,725	212,665	64,690	74,362	73,517
16,491,861	17,570,966	16,821,149	15,846,250	16,972,873	17,081,071
2,712,591	5,741,643	3,922,209	3,266,881	3,126,601	3,479,442
6,590,915	7,032,648	8,477,428	6,693,223	7,221,357	6,908,659
1,122,564	1,601,674	1,243,638	1,160,742	1,183,133	1,230,622
1,186,814	1,344,758	1,208,846	1,005,097	1,044,297	1,168,448
4,386,677	3,935,811	6,102,022	4,171,791	3,917,534	3,882,803
50,308	117,668	96,570	233,656	216,413	200,710
577,181	452,798	499,283	672,392	693,644	682,564
50,401	89,346	147,452	214,872	180,022	150,661
16,677,451	20,316,346	21,697,448	17,418,654	17,583,001	17,703,909
620,527	3,593,660	2,320,000		196,540	836,808
1,020,959	1,141,940	1,015,561	749,167	724,676	(50,000)
(276,700)	(556,145)	(554,391)	(411,700)	(1,583,507)	444,540
1,364,786	4,179,455	2,781,170	337,467	(662,291)	1,231,348
\$1,179,196	\$1,434,075	(\$2,095,129)	(\$1,234,937)	(\$1,272,419)	\$608,510
4.42%	3.53%	3.73%	5.37%	5.23%	4.93%

**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>
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
2011-12	1,202,411,351	418,982,896	28,712,849	1,650,107,096	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>
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
2011-12	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.

Components of the total direct rate are not included as individual components are not identifiable throughout the State of North Carolina.

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

<u>Taxpayer</u>	<u>Fiscal Year 2011-2012</u>			<u>Fiscal Year 2002-2003</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.	\$61,674,791	1	3.74%	41,128,873	2	3.06%
SGL Carbon Corp	36,830,901	2	2.23%	58,343,223	1	4.35%
Sypris	33,737,327	3	2.04%			
Gerresheimer	21,433,343	4	1.30%			
Viscotec	19,021,260	5	1.15%			
Case Farms Processing	18,330,736	6	1.11%			
HDM Furniture Indust.	17,452,524	7	1.06%	27,754,398	4	2.07%
Leviton MFG Co Inc.	17,053,517	8	1.03%	16,422,224	5	1.22%
Caterpillar Inc.	16,987,210	9	1.03%	14,149,287	8	1.05%
Grace Properties Inc.	16,107,880	10	0.98%			
BASF Corp.				15,471,705	6	1.15%
Bellsouth Telephone				12,422,941	10	0.93%
Dana Corp.				30,760,029	3	2.29%
James Kirkpatrick Trust				12,779,560	9	0.95%
Rexnord Corp.				15,384,094	7	1.15%
Total	\$258,629,489		15.67%	\$244,616,334		18.23%

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
2002-03	6,178,474	5,958,757	96.44%	208,649	6,167,406	99.82%
2003-04	6,084,089	5,925,246	97.39%	148,726	6,073,972	99.83%
2004-05	6,713,167	6,583,691	98.07%	120,585	6,704,276	99.87%
2005-06	6,838,043	6,702,794	98.02%	125,278	6,828,072	99.85%
2006-07	7,123,752	7,003,027	98.31%	109,100	7,112,127	99.84%
2007-08	7,768,135	7,660,009	98.61%	97,954	7,757,963	99.87%
2008-09	7,893,702	7,776,653	98.52%	103,232	7,879,885	99.82%
2009-10	7,860,584	7,744,751	98.53%	97,368	7,842,119	99.77%
2010-11	7,778,447	7,660,545	98.48%	85,289	7,745,834	99.58%
2011-12	7,695,934	7,588,040	98.60%	N/A	7,588,040	98.60%

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 Ten 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
2011-12		4,284,305	2,895,000	2,048,835	9,228,140	Not available	545

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

**City of Morganton
Ratios of General Bonded Debt Outstanding,
Last Ten 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
2011-12	2,895,000	0.02%	171

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

**City of Morganton
Direct and Overlapping Debt
As of June 30, 2012**

Governmental Unit	Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$54,327,034	25.15%	\$13,663,249
City of Morganton	<u>4,284,305</u>	100.00%	<u>\$4,284,305</u>
Total direct and overlapping debt	\$58,611,339		\$17,947,554

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, 2012

Legal Debt Margin Calculation for Fiscal Year 2010-11	
Assessed Value	\$1,652,807,065
Debt Limit 8% of Assessed Value	132,224,565
Debt Applicable to Debt Limit:	
Total bonded debt and notes payable	9,073,395
Less: Other Deductions Allowed by Law (Water and Wastewater bonds)	<u>(2,740,255)</u>
Total Amount of Debt Applicable to Debt Limit	<u>6,333,140</u>
Legal Debt Margin	<u>125,891,425</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 Ten 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	465,430,270	27,322	13.0%
2011	16,935	Not available	Not available	12.5%
2012	16,917	Not available	Not available	10.9%

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

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

Fiscal Year 2011 - 2012

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
State of North Carolina	2,500	1	6.30%
Burke Public Schools	2,200	2	5.54%
Blue Ridge Healthcare / Grace Hosp.	1,400	3	3.53%
Turning Point Services	1,000	4	2.52%
Case Farms	725	5	1.83%
Western Piedmont College	560	6	1.41%
Leviton	520	7	1.31%
City of Morganton	516	8	1.30%
Burke County	499	9	1.26%
Continental Teves Inc.	350	10	0.88%
Total	<u>10,270</u>		<u>25.88%</u>

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

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

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

Full-time Equivalent Employees as of June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government	58	57	57	57	57	62	51	51	48	48
Public Safety	101.5	102.5	101.5	102	103	104	100	97.58	92	91
Transportation	31	31	31	31	31	31	24	22	23	22
Environmental Protection	16	13	13	13	13	13	17	16	13	13
Cultural & Recreation	20	20	22.25	23.25	23.25	23.25	24.5	24.17	23.5	20.5
IRMS	5	5	5	5	5	6	6	6	5	5
Electric	26	26	26	26	26	26	25	26	24	22
Cable	8	8	8	8	8	8	8	8	8	8
Water	21	21	22	22	22	22	22	22	21	20
Wastewater	27	27	27	27	27	27	24	23	21	21
Community House	3	3	3	3	3	3	2	2		2
Total	316.5	313.5	315.75	317.25	318.25	325.25	303.5	297.75	278.5	272.5

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.

City of Morganton
Operating Indicators by Function / Program
Fiscal Year Ended June 30, 2012

Fiscal Year 2011-12

General Government

Building Permits Issued	631
Building Inspections Conducted	2,077
Total City Employees - Full-time	272.50
Total City Employees - Part-time	319.00

Police

Physical Arrests (18 years and over) (annual)	1,746
Parking Violations	273
Number of Police Employees - Officers	58
Number of Police Employees - Civilians	16
Number of Police Employees - Reserves	6
Number of Calls Responded	25,081
Number of Traffic Accidents	1,151

Fire Protection

Fire Calls	441
Number of Fire Personnel - Paid	17
Number of Fire Personnel - Volunteer	12
Fire Inspections	632

Electric

Customers	8,173
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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	12,509
Consumptions	3,054,000,000

Wastewater

Customers	6,500
Average Daily Sewage Treatment	4.83

Cable Television

Subscribers / Customers	4,466
Basic Channels	78
Premium Channels	65

Sources: Various City Departments.

City of Morganton
Capital Asset Statistics by Function / Program
Fiscal Year Ended June 30, 2012

Fiscal Year 2011-12

Police	
Stations	1
Patrol units	77
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.

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 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, 2012, which collectively comprises the City of Morganton's basic financial statements dated August 17, 2012. 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

Management of the City of Morganton is responsible for establishing and maintaining effective 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.

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.

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

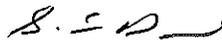
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not 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 2012-1 and 2012-2 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 17, 2012

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, 2012. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

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

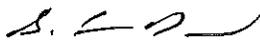
Internal Control Over Compliance

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 17, 2012

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 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 City of Morganton, North Carolina, compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012. 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, 2012.

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

Internal Control Over Compliance

The management of the City of Morganton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Morganton's internal control over compliance with the 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. 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 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.

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 17, 2012

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- * Material weaknesses identified? ___yes Xno
- * Significant deficiencies identified
that are not considered to be
material weaknesses Xyes ___none reported
- Noncompliance material to financial
statements noted ___yes Xno

Federal Awards

Internal control over major federal programs:

- * Material weaknesses identified? ___yes Xno
- * Significant deficiencies identified
that are not considered to be
material weaknesses ___yes Xnone reported
- Type of auditor's report issued on compliance
for major federal programs: Unqualified
- Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of Circular A-133 ___yes Xno

Identification of major federal program:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
14.218	U.S. Department of Housing and Urban Development: Community Development Block Grant

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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 yes X none reported

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

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

Identification of major State programs:

Program Name

Powell Bill Program

Building Reuse and Restoration

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section II.

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

2012-1

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.

2012-2

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 and Cable Fund totaling \$28 001 and \$19 564.

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:

None Reported

CITY OF MORGANTON, NORTH CAROLINA

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2012

Finding: 2012-1

- 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: 2012-2

- 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, 2011

Prior year audit finding 2011-1 has not been corrected because it is not feasible to hire additional staff.

Prior year audit finding 2011-2 has been corrected.

Prior year audit finding 2011-3 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, 2012

<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
CDBG Grant	14.218	B-11-MC-37-0018
Total U.S. Dept. of Housing and Urban Development		
<u>U.S. Department of Justice</u>		
Passed through N.C. Department of Crime Control and Public Safety:		
JAG – Computer Equipment	16.738	DJ-BX- 2091
JAG Grant –Sniper Rifles	16.738	DJ-BX-2091
JAG Grant-Mobile Equipment-Viper Radios	16.738	DJ-BX-2091
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	PT-12-03-15
Railway Improvements	20.205	P-3821
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
FEMA	97.036	FEMA 1871
Total U.S. Dept. of Homeland Security		
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Affordable Health Care – Early Retiree Reinsurance Program	93.546	
Total Federal Cash Awards		

<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
\$ 13 905	\$	\$
<u>169 446</u>	<u> </u>	<u> </u>
<u>183 351</u>	<u> </u>	<u> </u>
47 240		15 747
8 447		2 815
<u>8 640</u>	<u> </u>	<u>8 640</u>
<u>64 327</u>	<u> </u>	<u>27 202</u>
3 480		3 480
<u>2 075</u>	<u>260</u>	<u> </u>
<u>5 555</u>	<u>260</u>	<u>3 480</u>
69 981		
<u>3 989</u>	<u> </u>	<u> </u>
<u>73 970</u>	<u> </u>	<u> </u>
<u>94 809</u>	<u> </u>	<u> </u>
\$ 422 012	\$ 260	\$ 30 682

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

State Awards:

Cash Programs:

N.C. Department of Transportation

Powell Bill

N.C. General Assembly

Building Reuse and Renovation

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>
\$ _____	\$ 539 908	\$ _____
_____	<u>536 706</u>	<u>28 600</u>
_____	<u>1 076 614</u>	<u>28 600</u>
<u>\$ 422 012</u>	<u>\$ 1 076 874</u>	<u>\$ 59 282</u>