

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2009**

City of Morganton

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2009

City Council

**Mel L. Cohen, Mayor
John H. Cantrell, Jr.
Forrest A. Fleming
Alfred W. Hamer, Jr.
J. Larry Whisnant**

City Manager

Sally W. Sandy, CPA

Finance Director

Karen B. Duncan, CPA

Prepared by the City of Morganton's Finance Department



CITY OF MORGANTON

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CITY OF MORGANTON
NORTH CAROLINA

October 13, 2009

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

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, the comprehensive annual financial report of the City of Morganton for the fiscal year ended June 30, 2009 is hereby issued.

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

Eric Bowman, CPA, a licensed certified public accountant has audited the City of Morganton's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Morganton for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Morganton's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Morganton was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Morganton's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Morganton's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Morganton is located in Western North Carolina in the foothills of the Blue Ridge Mountains. It is the County seat of Burke County (the "County") and was chartered in 1784 and incorporated in 1885.

The City is the largest incorporated area in the County, encompasses approximately 19 square miles, and serves a population of 17,108. All of the major cultural, medical, governmental and financial activities of the County are located in the City.

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

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

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

The City Manager works at the pleasure of the City Council. The City Manager's responsibilities include the implementation of the City Council's policies and ordinances, hiring and supervision of the City's 14 department heads and overall maintenance of the City's day-to-day operations. The City Manager serves as the link between the elected body and the City's employees.

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

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

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

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

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

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

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

Factors Affecting Financial Condition

This information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Morganton operates.

Local economy. The City serves as the retail trade and employment center for a majority of the approximately 90,000 people of the County. Additionally, many people from sections of the surrounding counties of Avery, McDowell, Rutherford and Cleveland work or shop in the City. Eight banks, one savings and loan association and three credit unions serve the City.

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

During the last few years there have been several significant events with a positive impact on the City's economy. Most recently Viscotec, a state-of-the-art textile manufacturer, invested \$55 million in a facility in the City. The expansion of Viscotec symbolizes a renewal of one of the City's economic foundations.

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

A comprehensive Recreation Plan 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.

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

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

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

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, commercial paper and the State Treasurer's investment pool. The maturities of the investments range from 30 days to 3 years, with an average maturity of less than 12 months. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

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

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

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

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

The City of Morganton also provides postretirement health care benefits for retirees and their dependents. These benefits are financed on a pay-as-you-go basis.

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

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. I would like to express my appreciation to all members of the

-v-

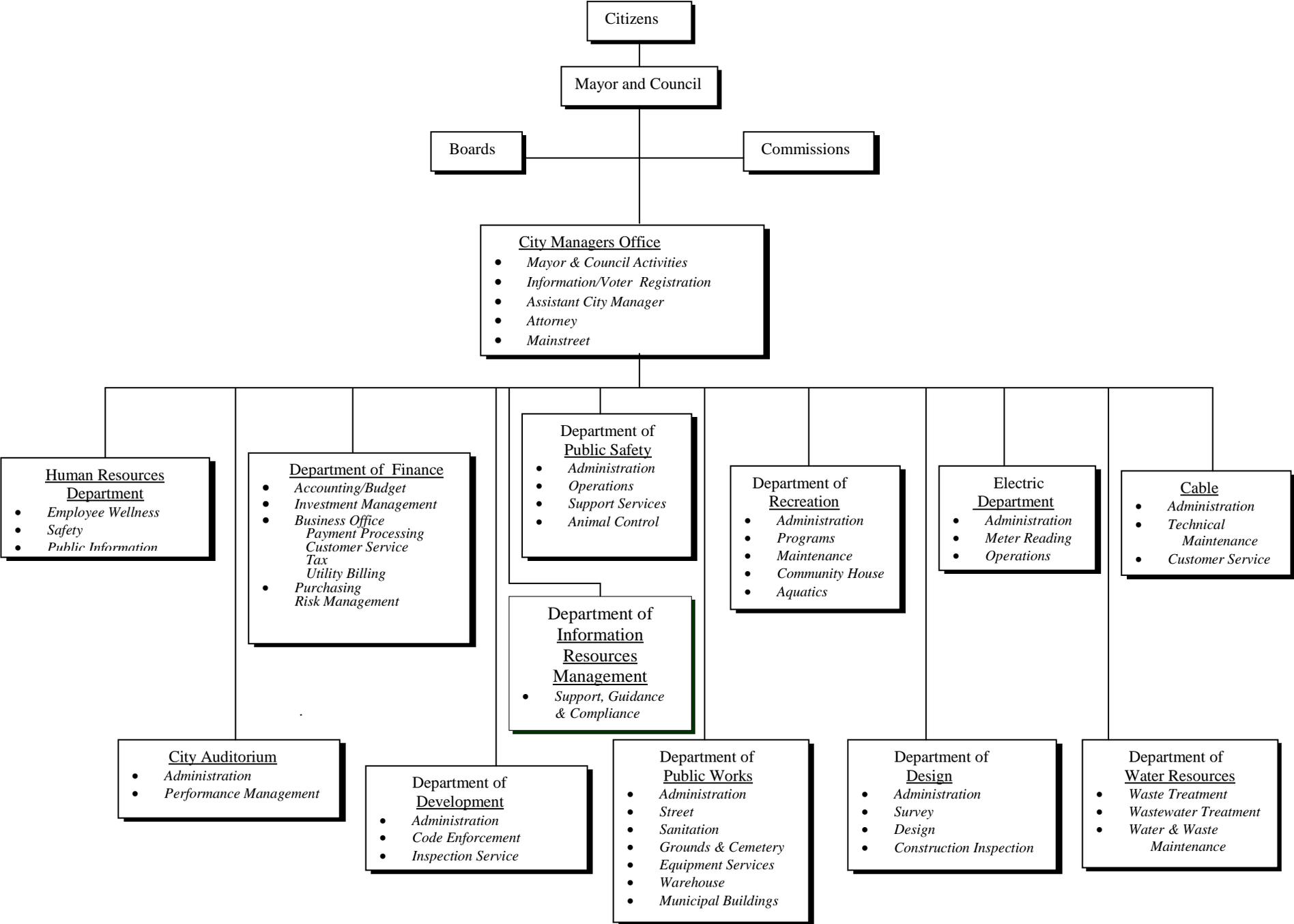
department who assisted and contributed to the preparation of this report. Credit also must be given to the City Manager, Mayor and the City Council for their support for maintaining the highest standards of professionalism in the management of the City of Morganton's finances.

Respectfully submitted,

A handwritten signature in black ink that reads "Karen B. Duncan, CPA". The signature is written in a cursive, flowing style.

Karen B. Duncan, CPA
Finance Director

**CITY OF MORGANTON
ORGANIZATION CHART**



S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morganton, North Carolina, as of and for the year ended June 30, 2009 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morganton's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the City of Morganton ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Morganton ABC Board, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of City of Morganton ABC Board were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, of the City of Morganton, North Carolina as of June 30, 2009, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and the Capital Reserve Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2009 on our consideration of City of Morganton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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


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

Morganton, North Carolina
August 14, 2009

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, 2009. 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.

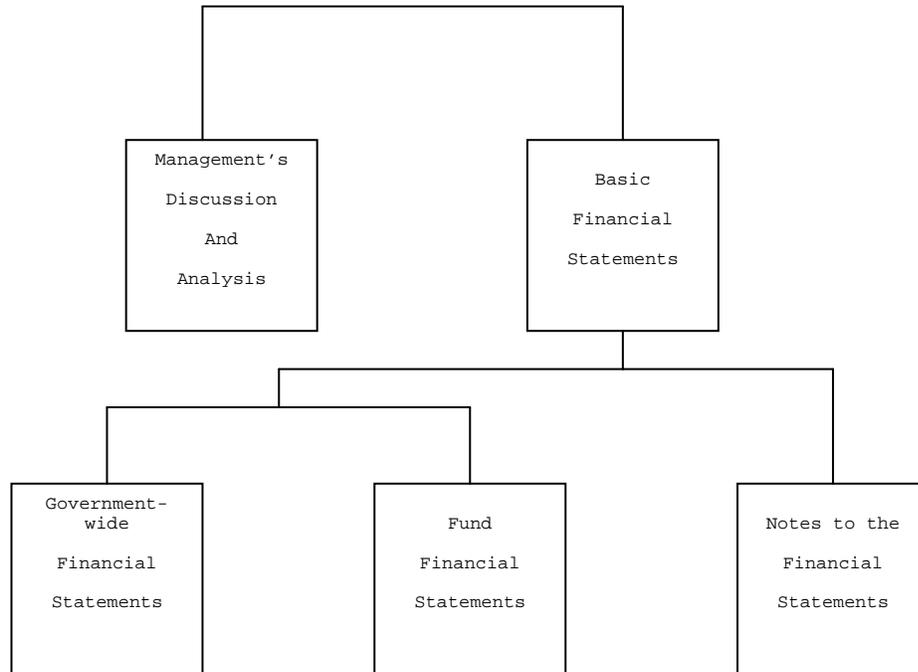
Financial Highlights

- The assets of the City of Morganton exceeded its liabilities at the close of the fiscal year by \$116,595,542 (*net assets*).
- The government's total net assets decreased by \$5,951,003 split between decreases in governmental activities and business-type activities net assets.
- As of the close of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balances of \$13,640,343 a decrease of \$2,145,118 in comparison with the prior year. Approximately 79 percent of this amount, or \$10,745,625, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, undesignated fund balance for the General Fund was \$5,077,383, or 24 percent of total general fund expenditures for the fiscal year.
- The City of Morganton's total debt increased by \$1,121,908 (7%) during the current fiscal year.
- Standard & Poors and Moody's Investors Service reviewed the City of Morganton bond ratings in April 2003. The City maintained its ratings of A+/A2.

Overview of the Financial Statements

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

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



Summary → Detail

Basic Financial Statements

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

The next statements (Exhibits 3 through 10) are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statues also can be found in this part of the statements.

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units.

The governmental activities include most of the City's basic services such as public safety, culture and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities.

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

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

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

The City of Morganton adopts an annual budget for its General Fund and Capital Reserve Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to

finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in these funds; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are an integral part of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Morganton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found after the financial statements in this report.

Government-Wide Financial Analysis

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

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

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

	Governmental-type		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Current and other assets	\$18,406,617	\$19,396,233	\$17,020,499	\$20,598,029	\$35,427,116	\$39,994,262
Capital assets	44,996,082	44,326,038	58,953,703	59,310,746	103,949,785	103,636,784
Total assets	63,402,699	63,722,271	75,974,202	79,908,775	139,376,901	143,631,046
L T liabilities outstanding	7,464,756	4,796,375	9,752,855	11,299,328	17,217,611	16,095,703
Other liabilities	2,450,834	1,794,327	3,112,914	3,194,471	5,563,748	4,988,798
Total liabilities	9,915,590	6,590,702	12,865,769	14,493,799	22,781,359	21,084,501
Net assets:						
Invested in capital assets, net of related debt	39,304,208	40,439,879	49,662,413	48,204,805	88,966,621	88,644,684
Restricted	1,134,780	1,404,040		48,204,805	1,134,780	1,404,040
Unrestricted	13,048,121	15,287,650	13,446,020	17,210,171	26,494,141	32,497,821
Total net assets	53,487,109	57,131,569	63,108,433	113,619,781	\$116,595,542	122,546,545

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 \$116,595,542 as of June 30, 2009. 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 (\$1,134,780) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$26,494,141 is unrestricted.

City of Morganton's Changes in Net Assets

	Governmental-type		Business-type		Total	
	Activities		Activities			
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$2,972,438	\$2,027,002	\$36,915,926	\$35,292,783	\$39,888,364	\$37,319,785
Operating grants and						
Contributions	286,720	1,100,958	20,980	21,734	307,700	1,122,692
Capital grants and						
Contributions	12,291	258,646			12,291	258,646
General revenues:						
Ad valorem taxes	7,862,442	7,769,020			7,862,442	7,769,020
Other taxes	2,976,369	3,353,209			2,976,369	3,353,209
Unrestricted Intergovernmental	1,993,844	1,936,451			1,993,844	1,936,451
Investment earnings	526,467	861,266	373,351	815,522	899,818	1,676,788
Other	95,722	245,750	186,285	240,188	282,007	485,938
Total revenues	16,726,293	17,552,302	37,496,542	36,370,227	54,222,835	53,922,529
Expenses:						
General government	3,607,537	2,853,101			3,607,537	2,853,101
Public safety	8,483,992	7,094,187			8,483,992	7,094,187
Transportation	2,468,048	2,476,434			2,468,048	2,476,434
Economic and physical development	96,570	117,668			96,570	117,668
Environmental protection	1,307,076	1,216,620			1,307,076	1,216,620
Culture and recreation	4,655,871	4,236,367			4,655,871	4,236,367
Interest on long-term debt	212,829	103,428			212,829	103,428
Water			4,075,486	3,634,869	4,075,486	3,634,869
Wastewater			4,113,272	4,077,418	4,113,272	4,077,418
Electric			26,798,280	26,505,211	26,798,280	26,505,211
Cable			4,009,621	4,015,776	4,009,621	4,015,776
Community House			345,256	312,634	345,256	312,634
Total expenses	20,831,923	18,097,805	39,341,915	38,545,908	60,173,838	56,643,713
Increase (decrease) in net assets before transfers	(4,105,630)	(545,503)	(1,845,373)	(2,175,681)	(5,951,003)	(2,721,184)
Transfers	461,170	585,795	(461,170)	(585,795)		
Increase(decrease) in net assets	(3,644,460)	40,292	(2,306,543)	(2,761,476)	(5,951,003)	(2,721,184)
Net assets, July 1	57,131,569	57,091,277	65,414,976	68,176,452	122,546,545	125,267,729
Net assets, June 30	\$53,487,109	\$57,131,569	\$63,108,433	\$65,414,976	\$116,595,542	\$122,546,545

Governmental activities: Governmental activities decreased the City's net assets by \$3,644,460, thereby accounting for a reduction in the net assets of the City of Morganton.

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

- Sales tax revenue decreased during this fiscal year.
- Interest earnings decreased during the fiscal year.
- Operating costs increased this year.

Business-type activities: Business-type activities decreased the City of Morganton's net assets by \$2,306,543, accounting for a reduction in net assets.

The most significant element of this decrease is in the electric fund which experienced an operating loss \$3,218,552. This loss is due to the increase of the cost of purchasing power.

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

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

As of the end of the current fiscal year, the City of Morganton's governmental funds reported combined ending fund balance of \$13,640,343, a decrease of \$2,145,118 in comparison with the prior year. Approximately 79% of this total amount (\$10,745,625) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed

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

The general fund is the chief operating fund of the City of Morganton. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,062,954, while total fund balance reached \$9,957,672. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 33 percent of total General Fund expenditures, while total fund balance represents 46 percent of that same amount.

At June 30, 2009, the governmental funds of the City of Morganton reported a combined fund balance of \$13,640,343.

General Fund Budgetary Highlights: During the fiscal year, there was a \$3,299,987 increase in appropriations between the original and final amended budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

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

- Purchase order rollover's from previous year (\$2,892,599)
- Purchase of a building (\$252,500)
- Purchase of property (\$100,000)
- Façade improvements/demolition (\$47,388)
- Marketing program (\$7,500)

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

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

Proprietary Funds. The City of Morganton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds amounted to \$13,446,019. 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, 2009 totals \$103,949,785 (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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land and Buildings	\$19,828,142	\$19,973,442	\$15,066,346	\$23,608,079	\$34,894,488	\$43,581,521
Plant and system			\$38,362,110	\$31,460,149	\$38,362,110	\$31,460,149
Equipment	\$10,282,446	\$8,373,064	\$5,525,247	\$4,242,518	\$15,807,693	\$12,615,582
Infrastructure	14,885,494	15,979,532			\$14,885,494	\$15,979,532
Total assets	44,996,082	44,326,038	58,953,703	59,310,746	103,949,785	103,636,784

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, 2009 the City of Morganton had total bonded debt outstanding of \$6,810,000 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>2009</u>	<u>2008</u>
G O Bonds	<u>\$6,810,000</u>	<u>\$8,175,000</u>

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

North Carolina general statutes limit the amount of general obligation debt a unit of government can issue to 8 percent of total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Morganton is \$141,336,740.

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

Economic Factors and Next Year's Budgets and Rates

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

- Viscotec, a state-of-the-art textile manufacturer, invested \$40 million in Phase 1 of a facility in the City. Phase 2, a \$15 million investment, is currently underway. The opening of Viscotec symbolized a renewal of one of the City's economic foundations.
- 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 15.3% is higher than the State's rate of 11.0% and the national rate of 9.5%. The MSA's labor force of 172,483 continues to remain virtually constant. Increased unemployment can be directly attributed to industry slow-downs and plant closings throughout the MSA.

Budget Highlights for the Fiscal Year Ending June 30, 2009

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 2009-2010 represents a decrease of 27% or \$7,034,681 over the 2008-2009 budget.

Business-type Activities: Sales and services revenues are based on estimated usage or consumption multiplied by the applicable rates. The 2009-2010 business-type activities budget overall is 5% or \$2,145,152 lower than the 2008-2009 budget.

Requests for Information

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

CITY OF MORGANTON
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Morganton ABC Board	Morganton Redevelopment Commission
ASSETS					
Cash and cash equivalents	\$2,288,454	\$2,808,224	\$5,096,678	\$176,225	\$51,238
Investments	13,178,168	10,476,890	23,655,058		
Taxes receivable (net)	71,372		71,372		
Accrued interest receivable-taxes	3,024		3,024		
Interest receivable-investments	139,934	65,881	205,815		
Accounts receivable (net)	1,189,031	3,657,645	4,846,676		
Expendable restricted cash	521,741		521,741		
Nonexpendable restricted cash		11,859	11,859		
Inventories	910,859		910,859	181,017	
Notes receivable (net)	104,034		104,034		
Capital assets (net of accumulated depreciation):					
Land	11,642,717	15,066,345			
Buildings	8,185,425	8,170,860	16,356,285	65,931	1,067,840
Plant and system		30,191,251	30,191,251		
Equipment	10,282,446	5,525,247	15,807,693	39,585	
Infrastructure	14,885,494		14,885,494		
Total assets	63,402,699	75,974,202	139,376,901	462,758	1,119,078
LIABILITIES					
Accounts payable and current liabilities	2,295,615	2,725,319	5,020,934	234,823	
Customer deposits		375,736	375,736		10,062
Unearned revenue	69,178		69,178		
Matured bonds and coupons outstanding		11,859	11,859		
Accrued interest payable	86,041		86,041		
Noncurrent liabilities:					
Due within one year:					
Installment purchases payable	683,437	1,362,463	2,045,900		
Bonds payable		1,257,627	1,257,627		
Notes payable	15,000		15,000		34,989
Compensated absences payable	357,814	108,287	466,101		
Due in more than one year:					
Installment purchases payable	5,008,439	1,493,832	6,502,271		
Bonds payable		5,165,509	5,165,509		
Notes payable			0		
Compensated absences payable	437,328	132,350	569,678		
Net pension obligation	300,192				
OPEB	662,546	232,787	895,333		
Total liabilities	9,915,590	12,865,769	22,781,359	234,823	45,051
NET ASSETS					
Invested in capital assets, net of related debt	39,304,208	49,662,413	88,966,621	105,516	1,032,851
Restricted for:					
Expendable:					
Public Safety	95,847		95,847	32,935	
Transportation	1,038,933		1,038,933		
Unrestricted	13,048,121	13,446,020	26,494,141	89,484	41,176
Total net assets	\$53,487,109	\$63,108,433	\$116,595,542	\$227,935	\$1,074,027

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, 2009

<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	\$3,607,537	\$46,347	\$15,957	
Public Safety	8,483,992	472,980	116,312	12,291
Transportation	2,468,048	529,095		
Economic and physical development	146,559		152,019	
Environmental protection	1,307,076	1,035,070	2,432	
Culture and recreation	4,655,871	888,946		
Interest on long-term debt	212,829			
Total governmental activities	<u>20,881,912</u>	<u>2,972,438</u>	<u>286,720</u>	<u>12,291</u>
Business-type activities:				
Water	4,075,486	4,662,378		
Wastewater	4,113,272	4,288,210		
Electric	26,798,280	23,925,934		
Cable	4,009,621	3,823,539		
Community house	345,256	215,865	20,980	
Total business-type activities	<u>39,341,915</u>	<u>36,915,926</u>	<u>20,980</u>	
Total primary government	<u>\$60,223,827</u>	<u>\$39,888,364</u>	<u>\$307,700</u>	<u>\$12,291</u>
Component units:				
Morganton ABC board	780,238	779,147		
Morganton redevelopment commission	<u>2,600</u>			
Total component units	<u>782,838</u>	<u>779,147</u>		
General revenues:				
Ad valorem taxes				
Privilege licenses				
Occupancy tax				
One-half cent sales tax				
One cent sales tax				
Unrestricted intergovernmental revenues				
Investment earnings				
Other revenues				
Gain on sale of capital asset				
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
(\$3,545,233)		(\$3,545,233)		
(7,882,409)		(7,882,409)		
(1,938,953)		(1,938,953)		
5,460		5,460		
(269,574)		(269,574)		
(3,766,925)		(3,766,925)		
(212,829)		(212,829)		
<u>(17,610,463)</u>		<u>(17,610,463)</u>		
	586,892	586,892		
	174,938	174,938		
	(2,872,346)	(2,872,346)		
	(186,082)	(186,082)		
	(108,411)	(108,411)		
	<u>(2,405,009)</u>	<u>(2,405,009)</u>		
<u>(17,610,463)</u>	<u>(2,405,009)</u>	<u>(20,015,472)</u>		
			(\$1,091)	
				(\$2,600)
			<u>(1,091)</u>	<u>(2,600)</u>
7,862,442		7,862,442		
58,436		58,436		
76,618		76,618		
1,958,999		1,958,999		
882,316		882,316		
1,993,844		1,993,844		
526,467	373,351	899,818	1,091	
145,711	186,285	331,996		
				7,247
461,170	(461,170)			
<u>13,966,003</u>	<u>98,466</u>	<u>14,064,469</u>	<u>1,091</u>	<u>7,247</u>
(3,644,460)	(2,306,543)	(5,951,003)		4,647
<u>57,131,569</u>	<u>65,414,976</u>	<u>122,546,545</u>	<u>227,935</u>	<u>1,069,380</u>
<u>\$53,487,109</u>	<u>\$63,108,433</u>	<u>\$116,595,542</u>	<u>\$227,935</u>	<u>\$1,074,027</u>

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CITY OF MORGANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	CDBG Entitlement Fund	Capital Reserve Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$579,459		\$153,611	\$103,242	\$836,312
Restricted cash	521,741				521,741
Investments	9,810,561		3,057,932	309,675	13,178,168
Taxes receivable (net)	71,372				71,372
Accounts receivable (net)	1,184,709	4,322			1,189,031
Interest receivable	84,756		52,321	2,857	139,934
Notes receivable (net)	104,034				104,034
Total assets	<u>\$12,356,632</u>	<u>\$4,322</u>	<u>\$3,263,864</u>	<u>\$415,774</u>	<u>\$16,040,592</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	2,258,410	1,289			2,259,699
Deferred revenue	140,550				140,550
Total liabilities	<u>2,398,960</u>	<u>1,289</u>			<u>2,400,249</u>
Fund Balances:					
Reserved for:					
State statute	1,174,417				1,174,417
Encumbrances	583,228				583,228
Canteen operations	2,293				2,293
Streets - Powell Bill	1,038,933				1,038,933
Drug enforcement	66,470				66,470
Explorers program	2,778				2,778
DARE programs	26,599				26,599
Unreserved, reported in:					
Designated for CIP	1,985,571				1,985,571
Undesignated	5,077,383	3,033			5,080,416
Capital Reserve fund			3,263,864		3,263,864
Permanent fund				415,774	415,774
Total fund balances	<u>\$9,957,672</u>	<u>\$3,033</u>	<u>\$3,263,864</u>	<u>\$415,774</u>	<u>13,640,343</u>
Total liabilities and fund balances	<u>\$12,356,632</u>	<u>\$4,322</u>	<u>\$3,263,864</u>	<u>\$415,774</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.	44,616,283
Other assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	3,024
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	2,632,877
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(7,390,749)
Other liabilities not reported in the funds	(14,669)
Net assets of governmental activities	<u>53,487,109</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, 2009

REVENUES	General	CDBG Entitlement Fund	Capital Reserve Fund	Permanent Fund	Total Governmental Funds
Ad valorem taxes	\$7,811,407				\$7,811,407
Other taxes and licenses	2,984,770				2,984,770
Unrestricted intergovernmental revenues	1,996,276				1,996,276
Restricted intergovernmental revenues	841,704	\$152,019			993,723
Other restricted revenues	15,408				15,408
Permits and fees	235,419				235,419
Sales and services	2,029,057			\$15,957	2,045,014
Investment earnings	417,094		\$100,171	9,202	526,467
Other revenues	208,712	3,953			212,665
Total revenues	<u>16,539,847</u>	<u>155,972</u>	<u>100,171</u>	<u>25,159</u>	<u>16,821,149</u>
EXPENDITURES					
Current					
General government	3,922,209				3,922,209
Public safety	8,477,428				8,477,428
Transportation	1,243,638				1,243,638
Environmental protection	1,208,846				1,208,846
Cultural and recreational	6,102,022				6,102,022
Economic and physical development		96,570			96,570
Debt service					
Principal retirement	459,283	40,000			499,283
Interest and fees	144,929	2,523			147,452
Total expenditures	<u>21,558,355</u>	<u>139,093</u>			<u>21,697,448</u>
Revenues over (under) expenditures	<u>(5,018,508)</u>	<u>16,879</u>	<u>100,171</u>	<u>25,159</u>	<u>(4,876,299)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of debt	2,320,000				2,320,000
Paid to State of NC		(49,989)			(49,989)
Transfers - in	1,015,561				1,015,561
Transfers - out	(146,700)	(25,291)	(382,400)		(554,391)
Total other financing sources (uses)	<u>3,188,861</u>	<u>(75,280)</u>	<u>(382,400)</u>		<u>2,731,181</u>
Net change in fund balances	(1,829,647)	(58,401)	(282,229)	25,159	(2,145,118)
Fund balances - beginning	<u>11,787,319</u>	<u>61,434</u>	<u>3,546,093</u>	<u>390,615</u>	<u>15,785,461</u>
Fund balances - ending	<u>\$9,957,672</u>	<u>\$3,033</u>	<u>\$3,263,864</u>	<u>\$415,774</u>	<u>\$13,640,343</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, 2009

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

Net change in fund balances - total governmental funds	(\$2,145,118)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	758,633
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	48,011
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.	(1,820,717)
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.	(968,642)
The net revenue of certain activities of the internal service fund is reported with governmental activities.	<u>483,373</u>
Change in net assets of governmental activities.	<u><u>(\$3,644,460)</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, 2009

	2009			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Ad valorem taxes				
Current year	\$7,626,782	\$7,626,782	\$7,723,138	\$96,356
Prior years	60,000	60,000	43,227	(16,773)
Special tax - Main Street	105,500	105,500	107,800	2,300
Interest	48,500	48,500	22,588	(25,912)
Discounts	(81,950)	(81,950)	(85,346)	(3,396)
Total	<u>7,758,832</u>	<u>7,758,832</u>	<u>7,811,407</u>	<u>52,575</u>
Other taxes and licenses				
Privilege licenses	57,700	57,700	58,436	736
Carbon city fire tax	6,810	6,810	8,401	1,591
Occupancy tax	58,400	58,400	76,618	18,218
One-half cent sales tax	2,227,388	2,227,388	1,958,999	(268,389)
One cent sales tax	925,207	925,207	882,316	(42,891)
Total	<u>3,275,505</u>	<u>3,275,505</u>	<u>2,984,770</u>	<u>(290,735)</u>
Unrestricted intergovernmental revenues				
Urban renewal in lieu of taxes	25,000	25,000	31,136	6,136
Section eight in lieu of taxes	3,200	3,200	4,515	1,315
Electric in lieu of taxes	94,795	94,795	94,795	
Franchise tax	1,476,419	1,476,419	1,507,695	31,276
Beer and wine	84,615	84,615	76,782	(7,833)
Solid waste disposal			2,432	2,432
Alcohol Beverage Commission	363,000	363,000	278,921	(84,079)
Total	<u>2,047,029</u>	<u>2,047,029</u>	<u>1,996,276</u>	<u>(50,753)</u>
Restricted intergovernmental revenues				
Fire protection - state facilities	107,911	107,911	107,911	
Drug restitution	2,500	2,500	150	(2,350)
ABC restitution	1,500	1,500		(1,500)
School resource officer	174,625	174,625	192,257	17,632

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	2009			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Restricted intergovernmental revenues - (continued)				
Department of Justice grant	\$45,000	\$452,588	\$12,291	(\$440,297)
Powell bill street aid allocation	545,150	545,150	529,095	(16,055)
Total	<u>876,686</u>	<u>1,284,274</u>	<u>841,704</u>	<u>(442,570)</u>
Other restricted revenues				
Restricted contributions	100,000	107,500	15,408	(92,092)
Shared curb & gutter	5,000	5,000		(5,000)
Total	<u>105,000</u>	<u>112,500</u>	<u>15,408</u>	<u>(97,092)</u>
Permits and fees				
Building permits	70,000	70,000	59,989	(10,011)
Plumbing permits	30,000	30,000	39,811	9,811
Electric permits	70,000	70,000	94,969	24,969
Variance request	1,000	1,000	1,800	800
Fire inspection revenue	15,000	15,000	38,850	23,850
Total	<u>186,000</u>	<u>186,000</u>	<u>235,419</u>	<u>49,419</u>
Sales and services				
Parking revenue	21,600	21,600	19,227	(2,373)
Reimbursement for services	5,000	5,000	4,400	(600)
Solid waste user fees	1,055,000	1,055,000	1,018,822	(36,178)
Solid waste late charges	13,000	13,000	16,248	3,248
Curb cuts	8,000	8,000	2,360	(5,640)
Civil citations	500	500	50	(450)
Rent	1,500	1,500	7,235	5,735
Fire protection	10,000	10,000	1,000	(9,000)
Recreation revenue	593,000	593,000	502,029	(90,971)
Bad check charges	7,000	7,000	4,804	(2,196)
Canteen sales	1,480	1,480	1,976	496
Main street revenue	23,313	23,313	22,235	(1,078)
Façade loan program	5,675	5,675	16,639	10,964
Explorers program			3,158	3,158
DARE program	7,500	7,500	4,038	(3,462)
Municipal auditorium ticket sales	235,000	235,000	386,917	151,917

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	2009			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES - (continued)				
Vision incentive program	10,000	10,000		(10,000)
Reimbursements				
Election - fees	120	120		(120)
Morganton/Lenoir airport			238	238
Court cost and fees	19,000	19,000	17,681	(1,319)
Total	<u>2,016,688</u>	<u>2,016,688</u>	<u>2,029,057</u>	<u>12,369</u>
Investment earnings	<u>342,280</u>	<u>342,280</u>	<u>417,094</u>	<u>74,814</u>
Other revenue				
Miscellaneous	272,200	272,200	208,712	(63,488)
Contributions	500	500		(500)
Total	<u>272,700</u>	<u>272,700</u>	<u>208,712</u>	<u>(63,988)</u>
Total revenue	<u>16,880,720</u>	<u>17,295,808</u>	<u>16,539,847</u>	<u>(755,961)</u>
EXPENDITURES				
General government				
Legislative - city council				
Salaries and employee benefits			55,066	
Operating expenditures			159,263	
Donations/economic development			598,376	
Elections			8,550	
Capital outlay			123,262	
Pro rata administrative services			(412,725)	
Total	<u>464,331</u>	<u>638,131</u>	<u>531,792</u>	<u>106,339</u>
Legal				
Salaries and employee benefits			189,380	
Operating expenditures			28,040	
Pro rata administrative services			(169,406)	
Total	<u>56,469</u>	<u>56,469</u>	<u>48,014</u>	<u>8,455</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, 2009

	2009			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Executive - city manager				
Salaries and employee benefits			\$439,327	
Operating expenditures			77,550	
Pro rata administrative services			(421,324)	
Total	\$99,331	\$99,331	95,553	\$3,778
Executive - human resources				
Salaries and employee benefits			196,855	
Operating expenditures			565,727	
Pro rata administrative services			(377,407)	
Total	377,783	377,783	385,175	(\$7,392)
Purchasing				
Salaries and employee benefits			53,934	
Operating expenditures			617,515	
Pro rata administrative services			(377,547)	
Total	308,902	308,902	293,902	15,000
Main Street				
Salaries and employee benefits			\$125,476	
Operating expenditures			244,255	
Total	490,418	562,608	369,731	192,877
Canteen operations				
Operating expenditures	2,025	2,025	1,775	250
Finance				
Salaries and employee benefits			229,931	
Operating expenditures			100,113	
Pro rata administrative services			(275,999)	
Total	67,740	67,740	54,045	13,695
Business office				
Salaries and employee benefits			335,313	
Operating expenditures			208,769	
Pro rata administrative services			(471,828)	
Total	45,836	80,836	72,254	8,582

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	2009			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
General government (continued)				
Development				
Salaries and employee benefits			\$531,275	
Operating expenditures			142,257	
Capital outlay			130,806	
Total	\$1,184,101	\$1,209,129	804,338	\$404,791
Municipal buildings				
Operating expenditures			142,481	
Capital Outlay			291,820	
Total	277,422	529,922	434,301	95,621
Design				
Salaries and employee benefits			447,634	
Operating expenditures			130,924	
Pro rata administrative services			(382,862)	
Total	255,241	283,241	195,696	87,545
Public works				
Salaries and employee benefits			132,755	
Operating expenditures			31,035	
Total	176,414	176,414	163,790	12,624
Cemetery and grounds				
Salaries and employee benefits			414,411	
Operating expenditures			57,432	
Total	586,938	586,938	471,843	115,095
Total general government	4,392,951	4,979,469	3,922,209	1,057,260
Public safety				
Police, fire and administrative operations				
Salaries and employee benefits			6,012,382	
Operating expenditures			1,302,441	
Pro rata administrative services			(19,200)	
Capital outlay			1,181,805	
Total public safety	9,349,095	9,588,506	8,477,428	1,111,078

CITY OF MORGANTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>2009</u>			Variance Favorable (Unfavorable)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
Transportation				
Street department				
Salaries and employee benefits			\$693,834	
Operating expenditures			114,071	
Total	<u>\$1,090,752</u>	<u>\$1,090,752</u>	<u>807,905</u>	<u>\$282,847</u>
Powell bill				
Salaries and employee benefits			165,735	
Operating expenditures			202,988	
Capital outlay			67,010	
Total	<u>585,756</u>	<u>608,201</u>	<u>435,733</u>	<u>172,468</u>
Total transportation	<u>1,676,508</u>	<u>1,698,953</u>	<u>1,243,638</u>	<u>455,315</u>
Environmental protection - sanitation				
Salaries and employee benefits			725,122	
Operating expenditures			296,491	
Capital outlay			187,233	
Total environmental protection	<u>1,392,336</u>	<u>1,396,754</u>	<u>1,208,846</u>	<u>187,908</u>
Cultural and recreational				
Municipal auditorium				
Salaries and employee benefits			279,026	
Operating expenditures			639,595	
Capital outlay			189,639	
Total	<u>952,711</u>	<u>1,017,727</u>	<u>1,108,260</u>	<u>(90,533)</u>
Recreation				
Salaries and employee benefits			1,601,431	
Operating expenditures			1,839,945	
Capital outlay			1,552,386	
Total	<u>3,879,365</u>	<u>6,261,544</u>	<u>4,993,762</u>	<u>1,267,782</u>
Total cultural and recreational	<u>4,832,076</u>	<u>7,279,271</u>	<u>6,102,022</u>	<u>1,177,249</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, 2009

	2009			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
EXPENDITURES (continued)				
Debt Service				
Principal retirement	\$459,263	\$459,263	\$459,283	(\$20)
Interest	144,718	144,718	144,929	(211)
Total debt service	<u>603,981</u>	<u>603,981</u>	<u>604,212</u>	<u>(231)</u>
Total expenditures	<u>22,246,947</u>	<u>25,546,934</u>	<u>21,558,355</u>	<u>3,988,579</u>
Revenues over (under) expenditures	<u>(5,366,227)</u>	<u>(8,251,126)</u>	<u>(5,018,508)</u>	<u>3,232,618</u>
OTHER FINANCING SOURCES (USES)				
Appropriated fund balance	1,964,766	4,893,465		(4,893,465)
Installment purchase proceeds	2,320,000	2,320,000	2,320,000	
Transfers out	(146,700)	(146,700)	(146,700)	
Transfers in	<u>1,228,161</u>	<u>1,184,361</u>	<u>1,015,561</u>	<u>(168,800)</u>
Total other financing sources	<u>5,366,227</u>	<u>8,251,126</u>	<u>3,188,861</u>	<u>(5,062,265)</u>
Revenues and other sources over (under) expenditures and other uses	<u>Nil</u>	<u>Nil</u>	<u>(1,829,647)</u>	<u>(\$1,829,647)</u>
Net change in fund balances			(1,829,647)	
Fund balances - beginning			<u>11,787,319</u>	
Fund balances - ending			<u>\$9,957,672</u>	

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

CITY OF MORGANTON
CAPITAL RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	2009			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Interest earned	\$100,000	\$100,000	\$100,171	\$171
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>100,171</u>	<u>171</u>
OTHER FINANCING SOURCES (USES)				
Transfer from general fund		282,400		(282,400)
Transfer to general fund	(100,000)	(382,400)	(382,400)	
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(382,400)</u>	<u>(282,400)</u>
Excess of revenues over (under) expenditures		<u>Nil</u>	<u>(282,229)</u>	<u>(282,229)</u>
Net change in fund balances			(282,229)	
Fund balances - beginning			<u>3,546,093</u>	
Fund balances - ending			<u>\$3,263,864</u>	

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

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CITY OF MORGANTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

Business-type Activities - Enterprise Funds

	Business-type Activities - Enterprise Funds					Totals June 30, 2009	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
ASSETS							
CURRENT ASSETS :							
Cash and cash equivalents	\$1,215,317	\$543,099	\$1,049,808			\$2,808,224	\$1,452,142
Investments	4,635,410	900,198	4,941,282			10,476,890	
Accounts receivable (net)	453,241	423,596	2,452,068	328,740		3,657,645	
Interest receivable	31,977	17,179	16,725			65,881	
Inventories							910,859
Due from other funds			3,357,442			3,357,442	
Restricted Cash	995	10,864				11,859	
Total current assets	6,336,940	1,894,936	11,817,325	328,740		20,377,941	2,363,001
NONCURRENT ASSETS :							
Land	912,017	14,067,068	55,950	5,586	25,725	15,066,346	33,317
Other capital assets (net)	16,102,374	11,691,721	10,346,668	5,574,741	171,854	43,887,358	346,482
Capital assets (net)	17,014,391	25,758,789	10,402,618	5,580,327	197,579	58,953,704	379,799
Total noncurrent assets	17,014,391	25,758,789	10,402,618	5,580,327	197,579	58,953,704	379,799
TOTAL ASSETS	23,351,331	27,653,725	22,219,943	5,909,067	197,579	79,331,645	2,742,800
LIABILITIES							
CURRENT LIABILITIES :							
Accounts payable and accrued liabilities	38,413	174,808	2,293,231	205,219	13,649	2,725,320	25,619
Due to other funds				2,987,926	369,516	3,357,442	
Customer deposits	56,987	34,543	284,206			375,736	
Compensated absences- current	25,167	35,935	35,808	9,365	2,012	108,287	17,187
G O Bonds payable - current maturities	264,102	993,525				1,257,627	
Installment purchase - current maturities	137,149	168,385	10,500	1,046,429		1,362,463	
Matured bonds payable	995	10,864				11,859	
Total current liabilities	522,813	1,418,060	2,623,745	4,248,939	385,177	9,198,734	42,806
NONCURRENT LIABILITIES :							
Other postemployment benefits	71,627	62,673	71,627	17,907	8,953	232,787	35,813
Compensated absences- noncurrent	30,760	43,920	43,765	11,445	2,460	132,350	21,007
G O Bonds payable - noncurrent	1,084,754	4,080,755				5,165,509	
Installment purchase - noncurrent maturities	291,107	580,011	99,500	523,214		1,493,832	
Total noncurrent liabilities	1,478,248	4,767,359	214,892	552,566	11,413	7,024,478	56,820
TOTAL LIABILITIES	2,001,061	6,185,419	2,838,637	4,801,505	396,590	16,223,212	99,626
NET ASSETS							
Invested in capital assets, net of related debt	15,236,284	19,925,249	10,292,618	4,010,684	197,579	49,662,414	379,799
Unrestricted	6,113,986	1,543,057	9,088,688	(2,903,122)	(396,590)	13,446,019	2,263,375
TOTAL NET ASSETS	\$21,350,270	\$21,468,306	\$19,381,306	\$1,107,562	(\$199,011)	63,108,433	\$2,643,174

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

CITY OF MORGANTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds					Totals June 30, 2009	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
OPERATING REVENUES :							
Charges for services	\$4,662,378	\$4,288,210	\$23,925,934	\$3,823,539	\$215,865	\$36,915,926	\$2,433,669
OPERATING EXPENSES :							
Water treatment and maintenance	3,213,203					3,213,203	
Wastewater treatment and maintenance		3,169,785				3,169,785	
Operations and construction			26,125,521			26,125,521	
Operations and maintenance				2,878,090		2,878,090	
Community House operations					328,505	328,505	
MIS, Garage and Warehouse operations							1,845,332
Depreciation	767,144	654,430	672,759	1,073,847	16,751	3,184,931	98,884
Total	3,980,347	3,824,215	26,798,280	3,951,937	345,256	38,900,035	1,944,216
OPERATING INCOME (LOSS)	682,031	463,995	(2,872,346)	(128,398)	(129,391)	(1,984,109)	489,453
NONOPERATING REVENUES (EXPENSES) :							
Interest on investments	158,810	63,562	150,978			373,350	
Private contributions					20,980	20,980	
Interest expense				(57,684)		(57,684)	
Sale of materials							4,217
Interest on bonds	(78,891)	(227,932)				(306,823)	
Amortization of deferred charge on refundings	(16,248)	(61,125)				(77,373)	
Miscellaneous	10,657	3,962	16,487	155,180		186,286	
Total	74,328	(221,533)	167,465	97,496	20,980	138,736	4,217
INCOME (LOSS) BEFORE TRANSFERS	756,359	242,462	(2,704,881)	(30,902)	(108,411)	(1,845,373)	493,670
TRANSFERS :							
In		207,237	104,490	126,960	36,700	475,387	
Out	(318,396)		(618,161)			(936,557)	
Total	(318,396)	207,237	(513,671)	126,960	36,700	(461,170)	
Change in net assets	437,963	449,699	(3,218,552)	96,058	(71,711)	(2,306,543)	493,670
TOTAL NET ASSETS - beginning	20,912,307	21,018,607	22,599,858	1,011,504	(127,300)		2,149,504
TOTAL NET ASSETS - ending	\$21,350,270	\$21,468,306	\$19,381,306	\$1,107,562	(\$199,011)		\$2,643,174
Change in net assets of business-type activities						(2,306,543)	

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, 2009

	Business-type Activities - Enterprise Funds					Totals June 30, 2009	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
CASH FLOWS FROM OPERATING ACTIVITIES :							
Receipts from customers	\$4,662,378	\$4,288,210	\$23,925,934	\$3,823,539	\$215,865	\$36,915,926	\$2,433,669
Payments to suppliers	(2,198,699)	(1,780,881)	(24,835,912)	(2,471,779)	(180,315)	(31,467,586)	(1,182,661)
Payments to employees	(1,048,548)	(1,168,876)	(1,384,047)	(389,948)	(141,754)	(4,133,173)	(638,316)
Net cash provided (used) by operating activities	<u>1,415,131</u>	<u>1,338,453</u>	<u>(2,294,025)</u>	<u>961,812</u>	<u>(106,204)</u>	<u>1,315,167</u>	<u>612,692</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES :							
Transfers - in		207,237	104,491	126,960	36,700	475,388	
Transfers - (out)	(318,396)		(618,161)			(936,557)	
Interfund borrowings			(104,062)	55,538	48,524		
Noncapital contributions received (used)	10,657	3,962	16,486	155,180	20,980	207,265	4,217
Net cash provided (used) by noncapital financing activities	<u>(307,739)</u>	<u>211,199</u>	<u>(601,246)</u>	<u>337,678</u>	<u>106,204</u>	<u>(253,904)</u>	<u>4,217</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets	(935,153)	(1,013,718)	(683,638)	(\$195,377)		(2,827,886)	(\$10,297)
Principal paid on capital debt	(418,485)	(1,127,111)		(1,046,429)		(2,592,025)	
Interest paid on capital debt	(78,891)	(227,932)		(57,684)		(364,507)	
Net cash provided (used) by capital and related financing activities	<u>(1,432,529)</u>	<u>(2,368,761)</u>	<u>(683,638)</u>	<u>(1,299,490)</u>		<u>(5,784,418)</u>	<u>(10,297)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :							
Proceeds from capital debt		590,000	110,000				
Proceeds from sales and maturities of investments	5,864,271	1,323,485	8,827,399			16,015,155	
Purchases of investments	(4,635,410)	(900,198)	(4,941,282)			(10,476,890)	
Interest on investments	176,476	69,081	209,259			454,816	
Net cash provided (used) by investing activities	<u>1,405,337</u>	<u>1,082,368</u>	<u>4,205,376</u>			<u>6,693,081</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS							
	1,080,200	263,259	626,467	Nil	Nil	1,969,926	606,612
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
	<u>136,112</u>	<u>290,704</u>	<u>423,341</u>	<u>Nil</u>	<u>Nil</u>	<u>850,157</u>	<u>845,530</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR							
	<u>\$1,216,312</u>	<u>\$553,963</u>	<u>\$1,049,808</u>	<u>Nil</u>	<u>Nil</u>	<u>2,820,083</u>	<u>\$1,452,142</u>

CITY OF MORGANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds					Totals June 30, 2009	Governmental Activities - Internal Service Fund
	Water Fund	Wastewater Fund	Electric Fund	Cable Fund	Community House Fund		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED)							
BY OPERATING ACTIVITIES:							
Operating income (loss)	\$682,031	\$463,995	(\$2,872,346)	(\$128,400)	(\$129,391)	(\$1,984,111)	\$489,453
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :							
Depreciation	767,144	654,430	672,759	1,073,847	16,751	3,184,931	98,884
Changes in assets and liabilities :							
(Increase) decrease in accounts receivable	(105,668)	12,901	52,818	(32,327)		(72,276)	814
(Increase) decrease in inventories							(10,752)
Increase (decrease) in accounts payable and accrued liabilities	(6,657)	134,611	(182,944)	36,517	(1,065)	(19,538)	(2,982)
Increase (decrease) in customer deposits	(3,701)	(2,260)	(44,856)	(11,200)		(62,017)	
Increase (decrease) in OPEB	71,627	62,673	71,627	17,907	8,953	232,787	35,813
Increase (decrease) in accrued vacation pay	10,355	12,103	8,917	5,468	(1,452)	35,391	1,462
Net cash provided (used) by operating activities	<u>\$1,415,131</u>	<u>\$1,338,453</u>	<u>(\$2,294,025)</u>	<u>\$961,812</u>	<u>(\$106,204)</u>	<u>\$1,315,167</u>	<u>\$612,692</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:							
Increase in fair value of investments	5,711	2,556	5,432			13,699	
Amortization of deferred charges on refunding	(16,248)	(61,125)				(77,373)	
Total noncash investing, capital and financing activities	<u>(\$10,537)</u>	<u>(\$58,569)</u>	<u>\$5,432</u>			<u>(\$63,674)</u>	

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies

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

A. Reporting entity

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

City of Morganton ABC Board

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

City of Morganton Redevelopment Commission

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

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.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies (continued)

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.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies (continued)

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 2008 through February 2009 apply to the fiscal year ended June 30, 2009. 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.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City has two special revenue funds, those being the CDBG Entitlement Fund and the Capital Reserve Fund. The CDBG Entitlement Fund accounts for federal funds used to benefit low and moderate-income individuals. The Capital Reserve Fund is used to record funds received from the sale of property to the State of North Carolina.

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies (continued)

The government reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund type:

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

D. Budgetary data

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

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, 2009 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.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies (continued)

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, 2008. 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.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies (continued)

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.

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies (continued)

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/fund balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

I. Summary of significant accounting policies (continued)

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

The governmental fund types classify fund balance as follows:

RESERVED

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

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

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

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

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

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

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

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

UNRESERVED

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

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

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

II. Reconciliation of government-wide and fund financial statements

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes 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 \$758,633 difference are as follows:

Capital outlay	\$3,917,010
Depreciation expense	<u>(3,158,377)</u>

Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 758,633</u>
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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 \$1,820,717 difference are as follows:

Debt issuance	(2,320,000)
Principal repayments:	
Installment purchase/GO Bonds	459,283
HUD Loan	<u>40,000</u>

Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of Governmental activities	<u>\$(1,820,717)</u>
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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 \$968,642 difference are as follows:

Compensated Absences, Pension Obligation and OPEB	\$(906,289)
Accrued Interest	<u>(62,353)</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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

Net adjustment to net changes in fund balances - total Governmental funds to arrive at changes in net assets of Governmental activities	<u>\$(968,642)</u>
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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 \$48,011 are as follows:

Recording of tax receipts deferred in the fund statements	<u>\$48,011</u>
Net adjustment to revenues	<u>\$48,011</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>\$483,373</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.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

At June 30, 2009, the City's deposits had a carrying amount of \$15,499,942 and a bank balance of \$16,151,831. Of the bank balance, \$250,000 was insured by federal depository insurance and \$15,901,831 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 \$176,225 and the bank balance was 266,547. The bank balance was covered by an institution using the Pooling Method. The carrying amount of deposits for the Redevelopment Commission was \$51,238 and the bank balance was \$51,238. All of the bank balance was covered by Federal depository insurance.

Investments

At June 30, 2009 the City's investments were as follows:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1-3 Years
US Government Agencies	\$2,018,440			\$2,018,440
NC Capital Management Trust - Cash Portfolio	11,764,459	\$11,764,459		
Total:	\$13,782,899	\$11,764,459		\$2,018,440

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%

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

III. Detail notes on all funds (continued)

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

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

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

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

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

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

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

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

Receivables - allowance for doubtful accounts

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

General Fund:	
Allowance for uncollectible property taxes	\$164,092
Enterprise Funds:	
Allowance for uncollectible charges	<u>\$205,000</u>
Total	<u>\$369,092</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Capital assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$11,232,335	\$377,065		\$11,609,400
Capital assets being depreciated:				
Buildings	\$21,859,872	130,400		\$21,990,272
Equipment	16,338,472	3,409,544		19,748,016
Infrastructure	44,242,623			44,242,623
Total capital assets				
Being depreciated	82,440,967	3,539,944		85,980,911
Less accumulated Depreciation for:				
Buildings	13,323,245	639,356		13,962,601
Equipment	8,229,314	1,424,985		9,654,299
Infrastructure	28,263,091	1,094,037		29,357,128
Total accumulated depreciation	49,815,650	\$3,158,378		52,974,028
Total capital assets being depreciated, net	32,625,317	381,566		33,006,883
Governmental activity Capital assets, net	\$43,857,652	\$758,631		\$44,616,283

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Internal Service Fund:

Capital assets not
being depreciated:

Land	\$ 33,318	\$ 33,318
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Capital assets being
depreciated:

Buildings	621,212	621,212
-----------	---------	---------

Equipment	646,745	10,297
-----------	---------	--------

Total capital assets being depreciated	1,267,957	10,297
-------------------------------------------	-----------	--------

Less accumulated

Depreciation for:

Buildings	450,050	13,409
-----------	---------	--------

Equipment	382,839	85,475
-----------	---------	--------

Total accumulated depreciation	832,889	98,884
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Total capital assets being depreciated, net	435,068	(88,587)
---------------------------------------------------	---------	----------

Internal Service Fund capital
assets, net

	\$ 468,386	\$(88,587)
--	------------	------------

	\$ 379,799
--	------------

Depreciation expense was charged to functions/programs as follows:

General Government	\$414,923
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Public Safety	598,544
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Transportation	1,270,272
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Environmental Protection	234,395
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Culture and Recreational	640,244
--------------------------	---------

Total depreciation expense	\$3,158,378
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	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water Fund				
Capital assets not being depreciated:				
Land	\$ 912,017			\$ 912,017
Capital assets being depreciated:				
Buildings	10,143,543			10,143,543
Plant and System	16,190,070	\$578,147		16,768,217
Equipment	1,614,812	357,006		1,971,818
Total capital assets being depreciated	27,948,425	935,153		28,883,578

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Less accumulated depreciation for:			
Buildings	5,161,812	195,740	5,357,552
Plant and System	6,088,473	358,431	6,446,904
Equipment	<u>763,775</u>	<u>212,973</u>	<u>976,748</u>
Total accumulated depreciation	<u>12,014,060</u>	<u>767,144</u>	<u>12,781,204</u>
Total capital assets being depreciated, net	<u>15,934,365</u>	<u>168,009</u>	<u>16,102,374</u>
Water Fund capital assets, net	<u>\$16,846,382</u>	<u>\$168,009</u>	<u>\$17,014,391</u>
Wastewater Fund Capital assets not being depreciated:			
Land	<u>\$14,067,068</u>		<u>\$14,067,068</u>
Capital assets being depreciated:			
Buildings	4,072,991		4,072,991
Plant and System	18,246,162	18,529	18,264,691
Equipment	<u>2,505,946</u>	<u>995,189</u>	<u>3,501,135</u>
Total capital assets being depreciated	<u>24,825,099</u>	<u>1,013,718</u>	<u>25,838,817</u>
Less accumulated Depreciation for:			
Buildings	2,425,947	76,023	2,501,970
Plant and System	9,418,110	271,133	9,689,243
Equipment	<u>1,648,610</u>	<u>307,274</u>	<u>1,955,884</u>
Total accumulated depreciation	<u>13,492,667</u>	<u>654,430</u>	<u>14,147,097</u>
Total capital assets being depreciated, net	<u>11,332,432</u>	<u>359,288</u>	<u>11,691,720</u>
Wastewater Fund capital assets, net	<u>\$25,399,500</u>	<u>\$359,288</u>	<u>\$25,758,788</u>
Electric Fund Capital assets not being depreciated:			
Land	<u>\$55,950</u>		<u>\$55,950</u>
Capital assets being depreciated:			
Buildings	2,731,417		2,731,417

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Plant and System	13,618,378	500,521	14,118,899
Equipment	<u>4,733,158</u>	<u>183,116</u>	<u>4,916,274</u>
Total capital assets being depreciated	<u>21,082,953</u>	<u>683,637</u>	<u>21,766,590</u>
Less accumulated Depreciation for:			
Buildings	1,452,791	65,041	1,517,831
Plant and System	7,387,398	340,891	7,728,290
Equipment	<u>1,906,974</u>	<u>266,827</u>	<u>2,173,801</u>
Total accumulated depreciation	<u>10,747,163</u>	<u>672,759</u>	<u>11,419,922</u>
Total capital assets being depreciated, net	<u>10,335,789</u>	<u>(10,878)</u>	<u>10,346,668</u>
Electric Fund capital assets, net	<u>\$10,391,739</u>	<u>\$(10,878)</u>	<u>10,402,618</u>
 Cable Fund			
Capital assets not being depreciated:			
Land	<u>5,586</u>		<u>5,586</u>
Total capital assets not being depreciated	<u>5,586</u>		<u>5,586</u>
Capital assets being depreciated:			
Buildings	793,076		793,076
Plant and System	11,277,684		11,277,684
Equipment	<u>369,774</u>	<u>195,379</u>	<u>565,153</u>
Total capital assets being depreciated	<u>12,440,534</u>	<u>195,379</u>	<u>12,635,913</u>
Less accumulated Depreciation for:			
Buildings	315,782	24,703	340,485
Plant and System	5,370,983	1,002,822	6,373,805
Equipment	<u>300,560</u>	<u>46,323</u>	<u>346,883</u>
Total accumulated depreciation	<u>5,987,325</u>	<u>1,073,848</u>	<u>7,061,173</u>
Total capital assets being depreciated, net	<u>6,453,209</u>	<u>(878,469)</u>	<u>5,574,740</u>
Cable Fund capital assets, net	<u>6,458,795</u>	<u>(\$878,469)</u>	<u>5,580,326</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Community House Fund

Capital assets not
being depreciated:

Land \$25,725 \$25,725

Capital assets being
depreciated:

Buildings 410,920 410,920

Equipment 44,156 44,156

Total capital assets
being depreciated 455,076 455,076

Less accumulated

Depreciation for:

Buildings 253,882 9,366 263,248

Equipment 12,589 7,385 19,974

Total accumulated
depreciation 266,471 16,751 283,222

Total capital
assets being
depreciated, net 188,605 (16,751) 171,854

Community House Fund

Capital assets, net 214,330 \$(16,751) 197,579

Business-type activities

capital assets, net \$59,310,746 \$(357,042) \$58,953,704

Depreciation expense in the amount of \$3,184,931 was charged to business type activities.

Construction commitments

The City has no active construction projects as of June 30, 2009.

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2009, was as follows:

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Capital assets being depreciated:			
Buildings	77,980		77,980
Improvements	151,153		151,153
Equipment	143,892	3,634	<u>147,526</u>
Total capital assets being depreciated	<u>373,025</u>	<u>3,634</u>	<u>376,659</u>
Less accumulated Depreciation for:			
Buildings	77,980		77,980
Improvements	88,892	7,330	96,222
Equipment	92,986	14,955	<u>107,941</u>
Total accumulated depreciation	<u>259,858</u>	<u>22,285</u>	<u>282,143</u>
Total capital assets being depreciated, net	<u>\$113,167</u>	<u>\$ (18,651)</u>	<u>\$94,516</u>
ABC Board capital assets, net	<u>\$124,167</u>	<u>\$ (18,651)</u>	<u>\$105,516</u>

Activity for the Morganton Redevelopment Commission for the year ended June 30, 2009, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Capital assets not being depreciated:				
Land	<u>\$1,069,967</u>		<u>\$(2,127)</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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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 4.8% and 4.86%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement and law enforcement officers is 4.94% and 4.86% 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, 2009, 2008 and 2007 were \$577,605, \$540,430, and \$508,741, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$8,908, \$8,666, and \$9,753, 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, 2008, the Separation Allowance's membership consisted of:

Retirees receiving benefits	17
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>73</u>
Total	<u>90</u>

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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 6.5% per year. Both (a) and (b) included an inflation component of 5.0%. The assumptions did not include postretirement benefit increases.

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	\$ 140,725
Interest on net pension obligation	(3,168)
Adjustment to annual required contribution	<u>2,672</u>
Annual pension cost	140,229
Contributions made for fiscal year ended 6-30-09	<u>-</u>
Increase (decrease) in net pension obligation	140,229
Net pension obligation beginning of year	<u>159,963</u>
Net pension obligation end of year	<u>\$ 300,192</u>

3 YEAR TREND INFORMATION

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/06	\$139,864	133.18%	\$ 81,567
6/30/07	\$129,291	147.58%	\$ 20,044
6/30/08	\$141,888	-	\$159,963
6/30/09	\$140,229	-	\$300,192

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

V. Detail notes on all funds (continued)

Funding Status and Funding Progress.

As if December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$1,639,390. The covered payroll (annual payroll of active employees covered by the plan) was \$3,014,309, and the ratio of the UAAL to the covered payroll was 54.4 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, 2009 were \$258,145, which consisted of \$145,266 from the City and \$112,879 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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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, 2007, the date of the latest actuarial valuation.

Retirees and dependents receiving benefits	73
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	
Law Enforcement Officers	63
Firefighters	17
General Employees	<u>226</u>
Total	379

The following schedule became effective July 1, 1997:

<u>Years of service with the</u> <u>City of Morganton</u>	<u>% of Retiree Health</u> <u>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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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

Annual required contribution	\$895,333
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	\$895,333
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	\$895,333
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$895,333</u>

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$895,333	0	\$895,333

Funded Status and Funding Progress.

As of December 31, 2007, 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 \$10,919,744. The covered payroll (annual payroll of active employees covered by the plan) was \$10,858,443 and the ratio of the UAAL to the covered payroll was 100.6%. 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

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007 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 11.00 to 5.00 percent annually. The investment rate included at 3.75 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, 2007, 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, 2009 is composed of the following elements:

	<u>Deferred</u>	<u>Unearned</u>
Taxes Receivable (Net)	\$71,372	
Auditorium advance ticket sales	61,178	61,178
Burke Partnership	<u>8,000</u>	<u>8,000</u>
Total deferred revenue	<u>\$140,550</u>	<u>\$69,178</u>

Risk Management

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

The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The City carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. With the recent occurrences of flooding in various parts of North Carolina, flood risk management is a concern. To mitigate this concern the City of Morganton has obtained flood insurance coverage.

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.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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.

Long-Term Obligations

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

Installment Purchase Obligations

In 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, 2009, including \$12,724 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	52,708	5,992
2011	54,561	4,139
2012	56,479	2,221
2013	<u>28,560</u>	<u>372</u>
Present value of the minimum		
Lease payments	<u>\$192,308</u>	
Total interest payments		<u>\$ 12,724</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 future minimum payments of the installment purchase as of June 30, 2009, including \$826,876 of interest, are as follows:

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	222,647	115,938
2011	222,647	107,188
2012	222,647	98,438
2013	222,647	89,688
2014-2018	1,113,235	317,188
2019-2023	1,001,907	98,436
Present value of the minimum Lease payments	<u>\$3,005,730</u>	
Total interest payments		<u>\$826,876</u>

In December 2007, the City entered into an installment purchase contract to finance the purchase of Public Safety vehicles. \$253,960 was borrowed for 3 years at an interest rate of 3.225%.

The future minimum payments of the installment purchase as of June 30, 2009, including \$6,356 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	85,525	4,572
2011	88,313	1,784
Present value of the minimum Lease payments	<u>\$173,838</u>	
Total interest payments		<u>\$6,356</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, 2009, including \$272,237 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	139,500	49,385
2011	139,500	44,570
2012	139,500	39,618
2013	139,500	34,666
2014	139,500	29,714
2015-2019	692,500	74,284
Present value of the minimum Lease payments	<u>\$1,390,000</u>	
Total interest payments		<u>\$272,237</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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, 2009, including \$52,271 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	48,636	18,197
2011	56,047	10,786
2012	58,006	8,827
2013	60,033	6,800
2014	62,132	4,702
2015	64,303	2,531
2016	<u>32,990</u>	<u>428</u>
Present value of the minimum		
Lease payments	<u>\$382,147</u>	
Total interest payments		<u>\$52,271</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, 2009, including \$36,638 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	34,090	12,755
2011	39,284	7,560
2012	40,657	6,187
2013	42,078	4,766
2014	43,549	3,296
2015	45,071	1,774
2016	<u>23,124</u>	<u>300</u>
Present value of the minimum		
Lease payments	<u>\$267,853</u>	
Total interest payments		<u>\$36,638</u>

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

The future minimum payments of the installment purchase as of June 30, 2009, including \$14,117 of interest, are as follows:

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	89,831	8,208
2011	93,786	4,252
2012	<u>96,383</u>	<u>1,657</u>
Present value of the minimum Lease payments	<u>\$280,000</u>	
Total interest payments		<u>\$14,117</u>

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

The future minimum payments of the installment purchase as of June 30, 2008, including \$38,457 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	1,046,429	32,047
2011	<u>523,213</u>	<u>6,410</u>
Present value of the minimum Lease payments	<u>\$1,569,642</u>	
Total interest payments		<u>\$38,457</u>

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

The future minimum payments of the installment purchase as of June 30, 2008, including \$38,547 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	187,876	20,524
2011	195,449	12,951
2012	<u>203,328</u>	<u>5,072</u>
Present value of the minimum Lease payments	<u>\$586,653</u>	
Total interest payments		<u>\$38,547</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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, 2009, including \$20,491 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	10,500	3,717
2011	10,500	3,355
2012	10,500	2,982
2013	10,500	2,609
2014	10,500	2,237
2015-2019	<u>57,500</u>	<u>5,591</u>
Present value of the minimum Lease payments	<u>\$110,000</u>	
Total interest payments		<u>\$20,491</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, 2009, including \$58,387 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	117,659	26,427
2011	129,109	14,977
2012	133,727	10,359
2013	138,511	5,575
2014	<u>70,994</u>	<u>1,049</u>
Present value of the minimum Lease payments	<u>\$590,000</u>	
Total interest payments		<u>\$58,387</u>

Notes payable

HUD Section 108 Loan/Note Payable \$15,000

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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, 2009 are comprised of the following individual issues:

\$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 \$7,710,763 is net of the amortized deferred loss on the defeasance of \$464,237.

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2010	1,335,000	238,069
2011	1,305,000	198,019
2012	1,275,000	157,237
2013	1,245,000	115,800
2014	1,225,000	66,000
2015	<u>425,000</u>	<u>17,000</u>
Total	<u>\$6,810,000</u>	<u>\$792,125</u>

Debt Margin

At June 30, 2009, the City of Morganton had a legal debt margin of \$141,336,740.

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Changes in long-term liabilities

	<u>Balance</u> <u>30-Jun-08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>30-Jun-09</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
Governmental activities:					
Installment purchase	\$3,831,159	\$2,320,000	\$459,283	\$5,691,876	\$683,437
Compensated absences	750,253	356,782	311,893	795,142	357,814
Other postemployment benefits		662,546		662,546	
Net pension obligation	159,963	140,229		300,192	
HUD Loan (notes payable)	55,000		40,000	15,000	15,000
Governmental activity long-term liabilities	<u>\$4,796,375</u>	<u>\$3,479,557</u>	<u>\$811,176</u>	<u>\$7,464,756</u>	<u>\$1,056,251</u>
Business-type activities:					
General obligation bonds	\$8,175,000		\$1,365,000	\$6,810,000	\$1,335,000
Less deferred amount for loss on defeasance	464,237		77,373	386,864	77,373
Total general obligation bonds	<u>7,710,763</u>		<u>1,287,627</u>	<u>6,423,136</u>	<u>1,257,627</u>
Installment purchase	3,383,319	700,000	1,227,024	2,856,295	1,362,463
Other postemployment benefits		232,787		232,787	
Compensated absences	205,246	173,617	138,226	240,637	108,287
Business-type activity long-term liabilities	<u>\$11,299,328</u>	<u>\$1,106,404</u>	<u>\$2,652,877</u>	<u>\$9,752,855</u>	<u>\$2,728,377</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 \$38,194 of internal service funds compensated absences are included in the above amounts. Also, for governmental activities, compensated absences are generally liquidated by the general fund.

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

	<u>Principal</u>	<u>Interest</u>
2009	<u>\$ 34,989</u>	<u>\$ -</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

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, 2009 are composed as follows:

	<u>Receivables</u>	<u>Payables</u>
Electric fund - receivable from Cable fund	\$2,987,926	
Electric fund - receivable from Community House fund	369,516	
Cable fund - payable to Electric fund Community House fund - payable to Electric Fund	_____	\$2,987,926
		<u>369,516</u>
Total interfund receivables and payables	<u>\$3,357,442</u>	<u>\$3,357,442</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, 2009 transfers were used to:

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

A summary of interfund transfers by fund for the year ended June 30, 2009 is as follows:

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$618,161	
From Water Fund	15,000	
From Capital Reserve Fund	382,400	
To Cable Fund		110,000
To Community House Fund		<u>36,700</u>
Total	<u>1,015,561</u>	<u>146,700</u>
Capital Reserve Fund:		
To General Fund		<u>382,400</u>
Total		<u>382,400</u>
Water Fund :		
To Electric Fund		96,159
To General Fund		15,000
To Wastewater Fund		<u>207,237</u>
Total		<u>318,396</u>

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

IV. Detail notes on all funds (continued)

Wastewater Fund :			
From Water Fund		207,237	
Total		<u>207,237</u>	
Cable Fund :			
From General Fund		110,000	
From Entitlement Fund		<u>16,960</u>	
Total		<u>126,960</u>	
Community House Fund :			
From General Fund		<u>36,700</u>	
Total		<u>36,700</u>	
Entitlement Fund:			
To Cable Fund		16,960	
To Electric Fund		<u>8,331</u>	
Total		<u>25,291</u>	
Electric Fund :			
From Water Fund		96,159	
From Entitlement Fund		8,331	
To General Fund		<u>618,161</u>	
Total		<u>104,490</u>	<u>618,161</u>
Grand Totals		<u>\$1,490,948</u>	<u>\$1,490,948</u>

V. Summary Disclosure of Significant Contingencies:

Federal and State Assisted Programs

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

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

I. Jointly Governed Organization

The City, in conjunction with twenty other local governments, is a member of the North Carolina Municipal Power Agency #1 (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The twenty-one

CITY OF MORGANTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

VI. Summary Disclosure of Significant Contingencies (continued):

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, 2009 were \$22,673,615.

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 \$19,378 to WPCOG during the fiscal year ended June 30, 2009.

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 \$67,320 to the Airport during the fiscal year ended June 30, 2009. 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, 2009. Complete financial statements for the Airport can be obtained from the Airport's administrative offices at 305 East Union Street, City of Morganton, NC. 28655.

III. Related Organization

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

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

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b - a) / c)
	Value of Assets (a)	Projected Unit Credit (b)				
12-31-08	\$- 0 -	\$1,639,390	\$1,639,390	0.00%	\$3,014,309	54.39%
12-31-07	- 0 -	1,556,859	1,556,859	0.00%	2,558,119	60.87%
12-31-06	- 0 -	1,530,232	1,530,232	0.00%	2,853,281	53.63%
12-31-05	- 0 -	1,370,938	1,370,938	0.00%	2,654,728	51.64%
12-31-04	- 0 -	1,517,793	1,517,793	0.00%	2,484,357	61.09%
12-31-03	- 0 -	1,480,131	1,480,131	0.00%	2,191,061	67.55%
12-31-02	- 0 -	1,470,769	1,470,769	0.00%	2,339,997	62.85%
12-31-01	- 0 -	1,531,574	1,531,574	0.00%	2,298,795	66.63%
12-31-00	- 0 -	1,493,376	1,493,376	0.00%	2,324,590	64.24%

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

Year Ended <u>June 30.</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2007	\$129,291	147.58%
2008	141,689	.000%
2009	140,725	.000%

Notes to the Required Schedules:

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

Valuation date	12/31/08
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay
Remaining amortization period	22 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5% - 12.3%
Includes inflation at	3.75%
Cost-of-living adjustments	None

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

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

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%

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	12/31/07
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	11.00% - 5.00%
Year of Ultimate trend rate	2016
Includes inflation at	3.75%

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, 2009

	<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	\$2,848,894	\$2,487,451	\$152,019	\$2,639,470
Program income	7,006	73,029	3,953	76,982
Total revenues	<u>2,855,900</u>	<u>2,560,480</u>	<u>155,972</u>	<u>2,716,452</u>
EXPENDITURES				
Economic and physical development				
Land acquisition	304,673	171,423		171,423
Rehabilitation	309,423	525,117		525,117
Construction	470,777	276,232	46,187	322,419
Administration	452,742	424,383	28,183	452,566
Credit counseling	32,253	32,253		32,253
Deposit assistance	19,162	19,162		19,162
Grant assistance	278,550	254,196	22,200	276,396
Interest expense	132,609	116,437	2,523	118,960
Small business loan	180,801	75,045		75,045
Section 108 loan repayment	365,000	320,000	40,000	360,000
Total expenditures	<u>2,545,990</u>	<u>2,214,248</u>	<u>139,093</u>	<u>2,353,341</u>
Excess of revenues over (under) expenditures	<u>309,910</u>	<u>346,232</u>	<u>16,879</u>	<u>363,111</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds - Section 108	375,000	375,000		375,000
Paid to State of North Carolina			(49,989)	(49,989)
Transfers from general fund	3,439	3,439		3,439
Transfer to electric fund	(8,332)		(8,331)	(8,331)
Transfer to cable fund	(16,960)		(16,960)	(16,960)
Transfer to component unit				
Redevelopment commission	(663,057)	(663,237)		(663,237)
Total other financing sources (uses)	<u>(309,910)</u>	<u>(284,798)</u>	<u>(75,280)</u>	<u>(\$360,078)</u>
Excess of revenues over (under) expenditures and other financial uses	<u>Nil</u>	<u>\$61,434</u>	<u>(\$58,401)</u>	<u>\$3,033</u>
Net change in fund balances			(\$58,401)	
Fund balances - beginning			<u>61,434</u>	
Fund balances - ending			<u>\$3,033</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, 2009

	<u>2009</u>			Variance Favorable (Unfavorable)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales and services:				
New cemetery lot sales	\$6,000	\$6,000	\$15,564	\$9,564
Cemetery lot marker service	700	700	393	(307)
Total	<u>6,700</u>	<u>6,700</u>	<u>15,957</u>	<u>9,257</u>
Investment earnings - interest earned	9,240	9,240	9,202	(38)
Total revenues	<u>15,940</u>	<u>15,940</u>	<u>25,159</u>	<u>9,219</u>
EXPENDITURES				
Cemetery improvements	<u>15,940</u>	<u>15,940</u>		<u>15,940</u>
Excess of revenues over expenditures	<u>Nil</u>	<u>Nil</u>	25,159	<u>25,159</u>
Net change in fund balances		<u>Nil</u>	25,159	<u>\$25,159</u>
Fund balances - beginning			<u>390,615</u>	
Fund balances - ending			<u>\$415,774</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
State grant	\$655,974	\$203,046	(\$452,928)
Reimbursement for services	15,000	22,150	7,150
Water rents	4,160,000	3,959,544	(200,456)
Penalties	46,500	49,829	3,329
Water taps	125,000	58,772	(66,228)
Reconnect fees	17,000	7,275	(9,725)
Restricted contribution	200,000	200,000	
Rental income	120,000	161,762	41,762
Total	<u>5,339,474</u>	<u>4,662,378</u>	<u>(677,096)</u>
Nonoperating revenues (expenditures) :			
Interest on investments	150,650	158,810	8,160
Miscellaneous	38,500	10,657	(27,843)
Interest expenditures	(78,892)	(78,891)	1
Total	<u>110,258</u>	<u>90,576</u>	<u>(19,682)</u>
Total revenues	<u>5,449,732</u>	<u>4,752,954</u>	<u>(696,778)</u>
EXPENDITURES :			
Water treatment and maintenance :			
Salaries and employee benefits		1,048,548	
Operating expenditures		2,056,387	
Total	<u>3,500,821</u>	<u>3,104,935</u>	<u>395,886</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$418,485	\$418,485	
Capital outlay	2,245,703	935,153	\$1,310,550
Total budgetary appropriations	<u>2,664,188</u>	<u>1,353,638</u>	<u>1,310,550</u>
Total expenditures	<u>6,165,009</u>	<u>4,458,573</u>	<u>1,706,436</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(715,277)</u>	<u>294,381</u>	<u>1,009,658</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	1,048,673		(1,048,673)
Operating transfers - in (out) :			
To Electric Fund	(96,159)	(\$96,159)	
To General Fund	(30,000)	(15,000)	15,000
To Wastewater Fund	(207,237)	(207,237)	
Total other financing sources (uses)	<u>715,277</u>	<u>(318,396)</u>	<u>(1,033,673)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$24,015)</u>	<u>(\$24,015)</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, 2009

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$24,015)
Add :		
Cost of expenditures which were capitalized	\$935,153	
Payment of debt principal	<u>418,485</u>	1,353,638
Less :		
Depreciation	(767,144)	
Increase in accrued vacation pay	(10,355)	
Increase in OPEB	(71,627)	
Amortization of deferred charge on refunding	(16,248)	
Bad debts	<u>(26,286)</u>	<u>(891,660)</u>
Total Change in Net Assets		437,963
NET ASSETS - Beginning of Year		<u>20,912,307</u>
NET ASSETS - End of Year		<u><u>\$21,350,270</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, 2009

	2009		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Reimbursement for services	\$5,000	\$2,492	(\$2,508)
Sewer rents	4,474,100	4,190,050	(284,050)
Late payment penalties	45,000	44,488	(512)
Sewer taps	51,000	23,000	(28,000)
Septage revenue	12,000	18,700	6,700
Sale of sludge	4,000	9,480	5,480
Total	4,591,100	4,288,210	(302,890)
Nonoperating revenues (expenditures) :			
Interest earned	47,075	63,562	16,487
Miscellaneous	22,500	3,962	(18,538)
Interest expenditures	(227,932)	(227,932)	
Total	(158,357)	(160,408)	(2,051)
Total revenues	4,432,743	4,127,802	(304,941)
EXPENDITURES :			
Wastewater treatment and maintenance :			
Salaries and employee benefits		1,168,876	
Operating expenditures		1,900,928	
Total wastewater treatment	3,240,800	3,069,804	170,996

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, 2009

	2009		
	Budget	Actual	Variance
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Debt principal	\$1,127,111	\$1,127,111	
Capital outlay	2,229,717	1,013,718	\$1,215,999
Total budgetary appropriations	3,356,828	2,140,829	1,215,999
Total expenditures	6,597,628	5,210,633	1,386,995
REVENUES OVER (UNDER) EXPENDITURES	(2,164,885)	(1,082,831)	1,082,054
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	917,648		(917,648)
Installment purchase proceeds	790,000	590,000	(200,000)
Operating transfers - in (out) :			
From Capital Reserve Fund	250,000		(250,000)
From Water Fund	207,237	207,237	
Total other financing sources (uses)	2,164,885	797,237	(1,367,648)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	Nil	(\$285,594)	(\$285,594)

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, 2009

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$285,594)
Add :		
Cost of expenditures which were capitalized	\$1,013,718	
Payment of debt principal	<u>1,127,111</u>	2,140,829
Less :		
Depreciation	(654,430)	
Amortization of deferred charge on refunding	(61,125)	
Installment purchase proceeds	(590,000)	
Increase in OPEB	(62,673)	
Increase in accrued vacation pay	(12,103)	
Bad debts	<u>(25,205)</u>	<u>(1,405,536)</u>
Total Change in Net Assets		449,699
NET ASSETS - Beginning of Year		<u>21,018,607</u>
NET ASSETS - End of Year		<u><u>\$21,468,306</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, 2009

	2009		
	Budget	Actual	Variance
REVENUES :			
Operating revenues :			
Reimbursement for services	\$203,000	\$89,245	(\$113,755)
Sale of current	6,222,000	6,573,900	351,900
Sale of power	18,299,254	16,443,822	(1,855,432)
Late payment penalties	320,000	275,688	(44,312)
Security light rental	473,000	431,176	(41,824)
Street lighting	75,000	74,000	(1,000)
Reconnection fees	45,000	23,435	(21,565)
Pole rental	30,000	14,668	(15,332)
Total	<u>25,667,254</u>	<u>23,925,934</u>	<u>(1,741,320)</u>
Nonoperating revenues (expenditures) :			
Interest earned	311,799	150,978	(160,821)
Cash over (short)		(62)	(62)
Miscellaneous	42,000	16,548	(25,452)
Total	<u>353,799</u>	<u>167,464</u>	<u>(186,335)</u>
Total revenues	<u>26,021,053</u>	<u>24,093,398</u>	<u>(1,927,655)</u>
EXPENDITURES :			
Operations and construction :			
Salaries and employee benefits		1,384,047	
Operating expenditures		1,887,926	
Purchases of power		22,673,615	
Total	<u>26,354,414</u>	<u>25,945,588</u>	<u>408,826</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Capital outlay	<u>1,718,684</u>	<u>683,638</u>	<u>1,035,046</u>
Total budgetary appropriations	<u>1,718,684</u>	<u>683,638</u>	<u>1,035,046</u>
Total expenditures	<u>28,073,098</u>	<u>26,629,226</u>	<u>1,443,872</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,052,045)</u>	<u>(2,535,828)</u>	<u>(483,783)</u>
OTHER FINANCING SOURCES (USES) :			
Appropriated retained earnings	1,255,715		(1,255,715)
Installment purchase proceeds	1,310,000	110,000	(1,200,000)
Operating transfers - in (out) :			
To General Fund	(618,161)	(618,161)	
From Entitlement Fund	8,332	8,332	
From Water Fund	<u>96,159</u>	<u>96,159</u>	
Total other financing sources (uses)	<u>2,052,045</u>	<u>(403,670)</u>	<u>(2,455,715)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$2,939,498)</u>	<u>(\$2,939,498)</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, 2009

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$2,939,498)
Add :		
Cost of expenditures which were capitalized	<u>\$683,638</u>	683,638
Less :		
Bad debts	(99,389)	
Depreciation	(672,759)	
Installment purchase proceeds	(110,000)	
Increase in OPEB	(71,627)	
Increase in accrued vacation payable	<u>(8,917)</u>	<u>(962,692)</u>
Total Change in Net Assets		(3,218,552)
NET ASSETS - Beginning of Year		<u>22,599,858</u>
NET ASSETS - End of Year		<u>\$19,381,306</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Reimbursement for services	\$40,000	\$387	(\$39,613)
Internet revenues	788,000	751,364	(36,636)
Cable rents	<u>3,311,235</u>	<u>3,071,788</u>	<u>(239,447)</u>
Total	<u>4,139,235</u>	<u>3,823,539</u>	<u>(315,696)</u>
Nonoperating revenues (expenditures) :			
Interest expenditures	(57,685)	(57,684)	1
Penalties	45,000	45,180	180
Reconnect fees	29,000	19,890	(9,110)
Ad sales	150,000	73,209	(76,791)
Bad check charges	2,500	1,820	(680)
Franchise tax		1,032	1,032
Miscellaneous revenue	<u>47,500</u>	<u>14,049</u>	<u>(33,451)</u>
Total	<u>216,315</u>	<u>97,496</u>	<u>(118,819)</u>
Total revenues	<u>4,355,550</u>	<u>3,921,035</u>	<u>(434,515)</u>
EXPENDITURES :			
Cable operations and maintenance :			
Salaries and employee benefits		389,448	
Operating expenditures		<u>2,400,295</u>	
Total cable operations and maintenance	<u>3,252,569</u>	<u>2,789,743</u>	<u>462,826</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES (Continued) :			
Budgetary appropriations :			
Appropriated Retained Earnings	(\$16,488)		(16,488)
Capital outlay	200,000	195,377	4,623
Debt principal - installment purchase notes	<u>1,046,429</u>	<u>\$1,046,429</u>	
Total budgetary appropriations	<u>1,229,941</u>	<u>1,241,806</u>	<u>(11,865)</u>
Total expenditures	<u>4,482,510</u>	<u>4,031,549</u>	<u>450,961</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(126,960)</u>	<u>(110,514)</u>	<u>16,446</u>
OTHER FINANCING SOURCES (USES) :			
Operating transfer in - General Fund	110,000	110,000	
Operating transfer in - Entitlement Fund	<u>16,960</u>	<u>16,960</u>	
Total other financing sources (uses)	<u>126,960</u>	<u>126,960</u>	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>\$16,446</u>	<u>\$16,446</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, 2009

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		\$16,446
Add :		
Cost of expenditures which were capitalized	\$195,379	
Payment of debt principal	<u>1,046,429</u>	1,241,808
Less :		
Increase in OPEB	(17,907)	
Increase in accrued vacation payable	(5,468)	
Depreciation	(1,073,847)	
Bad debts	<u>(64,974)</u>	<u>(1,162,196)</u>
Total Change in Net Assets		96,058
NET ASSETS - Beginning of Year		<u>1,011,504</u>
NET ASSETS - End of Year		<u><u>\$1,107,562</u></u>

CITY OF MORGANTON
COMMUNITY HOUSE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
Food sales and room rent	<u>\$244,635</u>	<u>215,865</u>	<u>(28,770)</u>
Nonoperating revenues :			
Fund Raising	10,000		(10,000)
Contribution - Cobb estate	<u>20,000</u>	<u>20,980</u>	<u>980</u>
Total	<u>30,000</u>	<u>20,980</u>	<u>(9,020)</u>
Total revenues	<u>274,635</u>	<u>236,845</u>	<u>(37,790)</u>
EXPENDITURES :			
Community House operations :			
Salaries and employee benefits		141,754	
Operating expenditures		<u>179,250</u>	
Total operations	<u>311,335</u>	<u>321,004</u>	<u>(9,669)</u>
Total expenditures	<u>311,335</u>	<u>321,004</u>	<u>(9,669)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(\$36,700)</u>	<u>(\$84,159)</u>	<u>(\$47,459)</u>
OTHER FINANCING SOURCES (USES) :			
Operating transfers - in (out) :			
From General Fund	<u>36,700</u>	<u>36,700</u>	
Total other financing sources (uses)	<u>36,700</u>	<u>36,700</u>	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>Nil</u>	<u>(\$47,459)</u>	<u>(\$47,459)</u>

CITY OF MORGANTON
COMMUNITY HOUSE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (NON GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

RECONCILIATION OF MODIFIED ACCRUAL
BASIS TO FULL ACCRUAL BASIS :

Revenues and Other Sources Over (Under)		
Expenditures and Other Uses		(\$47,459)
Add :		
Decrease in accrued vacation pay	<u>1,452</u>	\$1,452
Less :		
Increase in OPEB	(8,953)	
Depreciation	<u>(16,751)</u>	<u>(25,704)</u>
Total Change in Net Assets		(71,711)
NET ASSETS - Beginning of Year		<u>(127,300)</u>
NET ASSETS - End of Year		<u><u>(\$199,011)</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES :			
Operating revenues :			
IRMS :			
General Fund	1,009,575	1,002,914	(6,661)
Electric Fund	126,024	126,024	
Water Fund	66,913	66,913	
Wastewater Fund	73,262	73,262	
Cable Fund	80,243		(80,243)
Community House Fund	6,746	6,746	
Warehouse/Garage	11,746	11,746	
Total	<u>1,374,509</u>	<u>1,287,605</u>	<u>(86,904)</u>
Warehouse :			
General Fund sales	31,851	37,146	5,295
Electric Fund sales	207,027	468,715	261,688
Water Fund sales	79,626	60,652	(18,974)
Wastewater Fund sales	39,813	2,726	(37,087)
Cable Fund sales	39,813	21,695	(18,118)
Garage Fund sales	26,806	26,806	
Total	<u>424,936</u>	<u>617,740</u>	<u>192,804</u>
Garage :			
General Fund sales	112,200	129,276	17,076
Electric Fund sales	17,000	22,365	5,365
Water Fund sales	17,000	8,991	(8,009)
Wastewater Fund sales	17,000	9,452	(7,548)
Cable Fund sales	8,633	10,376	1,743
IRMS sales	3,400		(3,400)
Sale of fuel	500,000	347,864	(152,136)
Total	<u>675,233</u>	<u>528,324</u>	<u>(146,909)</u>
Total operating revenues	<u>2,474,678</u>	<u>2,433,669</u>	<u>(41,009)</u>
Nonoperating revenues :			
Sale of materials		4,217	4,217
Total revenues	<u>2,474,678</u>	<u>2,437,886</u>	<u>(36,792)</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES :			
IRMS :			
Salaries and employee benefits		\$335,273	
Operating expenditures		441,042	
Total IRMS	<u>1,406,011</u>	<u>776,315</u>	<u>629,696</u>
Warehouse :			
Salaries and employee benefits		97,328	
Operating expenditures		56,139	
Purchases of inventory		591,624	
Pro rata administrative services		(158,934)	
Total warehouse	<u>398,667</u>	<u>586,157</u>	<u>(187,490)</u>
Garage :			
Salaries and employee benefits		205,715	
Operating expenditures		62,524	
Purchases of inventory		167,396	
Purchases of fuel		353,747	
Pro rata administrative services		(333,045)	
Total garage	<u>638,000</u>	<u>456,337</u>	<u>181,663</u>
Budgetary appropriations :			
Capital outlay	<u>32,000</u>	<u>10,297</u>	<u>21,703</u>
Total expenditures	<u>2,474,678</u>	<u>1,829,106</u>	<u>645,572</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, 2009

	<u>2009</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>Nil</u>	<u>\$608,780</u>	<u>\$608,780</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS :			
Revenues and Other Sources Over (Under) Expenditures and Other Uses			\$608,780
Add :			
Increase in inventory		10,752	
Cost of expenditures which were capitalized		<u>\$10,297</u>	\$21,049
Less :			
Depreciation		(98,884)	
Increase in OPEB		(35,813)	
Increase in accrued vacation pay		<u>(1,462)</u>	<u>(136,159)</u>
Total Change in Net Assets			493,670
NET ASSETS - Beginning of Year			<u>2,149,504</u>
NET ASSETS - End of Year			<u><u>\$2,643,174</u></u>

CITY OF MORGANTON
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2009

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2008</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2009</u>
2008-2009		\$7,893,702	\$7,776,653	\$117,049
2007-2008	\$108,126		84,117	24,009
2006-2007	25,347		8,425	16,922
2005-2006	15,232		2,350	12,882
2004-2005	11,818		1,304	10,514
2003-2004	12,599		1,199	11,400
2002-2003	13,401		819	12,582
2001-2002	11,053		473	10,580
2000-2001	11,341		296	11,045
1999-2000	8,621		140	8,481
1998-1999	8,270		8,270	
TOTAL	<u>\$225,808</u>	<u>\$7,893,702</u>	<u>\$7,884,046</u>	\$235,464
Less Allowance for Doubtful Accounts				164,092
Net Property Tax Receivable (Exhibit 1)				<u>\$71,372</u>
RECONCILEMENT WITH REVENUES :				
Taxes - ad valorem - General Fund (Exhibit 4)		\$7,811,407		
Less interest collected		<u>(22,588)</u>	\$ 7,788,819	
Discounts			85,346	
Releases - Prior years			1,852	
Amount written off for tax year 1998-1999 per statute of limitations			<u>8,029</u>	
TOTAL COLLECTIONS AND CREDITS			<u>\$ 7,884,046</u>	

CITY OF MORGANTON
SCHEDULE OF CURRENT TAX LEVY
JUNE 30, 2009

	<u>Total Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Excluding Vehicles</u>	<u>Motor Vehicles</u>
TAX LEVY :					
City-wide	\$1,554,443,696	0.46	\$7,150,441	\$7,150,441	
Special district	77,341,429	0.14	108,278	108,278	
Vehicle Taxes	101,343,043	0.46	466,178		\$466,178
 PENALTIES			 14,332	 14,332	
 ADD DISCOVERIES :					
Current year	33,801,087	0.46	155,485	154,752	733
Prior year	4,361,957	0.46	20,065	20,065	
 LESS RELEASES	 <u>(4,581,957)</u>		 <u>(21,077)</u>	 <u>(11,951)</u>	 <u>(9,126)</u>
 TOTAL	 <u><u>\$1,766,709,255</u></u>		 <u><u>\$7,893,702</u></u>	 <u><u>\$7,435,917</u></u>	 <u><u>\$457,785</u></u>
 LESS UNCOLLECTED TAXES AT June 30, 2008			 <u>117,049</u>	 <u>60,719</u>	 <u>56,330</u>
 CURRENT YEAR'S TAXES COLLECTED			 <u><u>\$7,776,653</u></u>	 <u><u>\$7,375,198</u></u>	 <u><u>\$401,455</u></u>
 PERCENT CURRENT YEAR COLLECTED			 <u><u>98.52%</u></u>	 <u><u>99.18%</u></u>	 <u><u>87.70%</u></u>

CITY OF MORGANTON
SCHEDULE OF TRANSFERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Transfers From</u>	<u>Transfers To</u>
General Fund :		
From Electric Fund	\$618,161	
From Water Fund	15,000	
From Capital Reserve Fund	382,400	
To Cable Fund		110,000
To Community House Fund		36,700
Total	<u>1,015,561</u>	<u>146,700</u>
Capital Reserve Fund:		
To General Fund		382,400
Total		<u>382,400</u>
Water Fund :		
To Electric Fund		96,159
To General Fund		15,000
To Wastewater Fund		207,237
Total		<u>318,396</u>
Wastewater Fund :		
From Water Fund	207,237	
Total	<u>207,237</u>	
Cable Fund :		
From General Fund	110,000	
From Entitlement Fund	16,960	
Total	<u>126,960</u>	
Community House Fund :		
From General Fund	36,700	
Total	<u>36,700</u>	
Entitlement Fund:		
To Cable Fund		16,960
To Electric Fund		8,331
Total		<u>25,291</u>
Electric Fund :		
From Water Fund	96,159	
From Entitlement Fund	8,331	
To General Fund		618,161
Total	<u>104,490</u>	<u>618,161</u>
Grand Totals	<u><u>\$1,490,948</u></u>	<u><u>\$1,490,948</u></u>

CITY OF MORGANTON
SCHEDULE OF CASH AND INVESTMENT BALANCES
YEAR ENDED JUNE 30, 2009

	<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>15,499,942</u>	<u>15,499,942</u>	<u>15,499,942</u>
Total cash	<u>15,502,437</u>	<u>15,502,437</u>	<u>15,502,437</u>
INVESTMENTS :			
North Carolina Capital Management Trust	11,764,459	11,764,459	11,764,459
Government Agencies :			
Federal Home Loan Bank Bonds (1)	1,017,810	1,000,000	1,017,810
Federal Farm Credit Bank Bonds (1)	1,000,630	1,000,000	1,000,630
Total investments (including cash equivalents)	<u>13,782,899</u>	<u>13,764,459</u>	<u>13,782,899</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$29,285,336</u></u>	 <u><u>\$29,266,896</u></u>	 <u><u>\$29,285,336</u></u>



CITY OF MORGANTON

STATISTICAL SECTION

JUNE 30, 2009

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.	90-99
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	100-103
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.	104-107
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.	108-109
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.	110-112

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 Seven Fiscal Years
(accrual basis of accounting)

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

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

Fiscal Year				
2005	2006	2007	2008	2009
\$42,225,042	\$41,695,614	\$41,831,482	\$40,439,879	\$39,304,208
716,926	1,260,371	745,287	1,404,040	1,134,780
12,207,920	12,339,129	14,704,160	15,287,650	13,048,121
<u>\$55,149,888</u>	<u>\$55,295,114</u>	<u>\$57,280,929</u>	<u>\$57,131,569</u>	<u>\$53,487,109</u>
46,132,330	45,875,917	56,874,381	48,204,805	49,218,328
22,771,585	23,181,717	11,302,071	17,210,171	13,890,105
<u>\$68,903,915</u>	<u>\$69,057,634</u>	<u>\$68,176,452</u>	<u>\$65,414,976</u>	<u>\$63,108,433</u>
\$88,357,372	\$87,571,531	\$98,705,863	\$88,644,684	\$88,522,536
716,926	1,260,371	745,287	1,404,040	1,134,780
34,979,505	35,520,846	26,006,231	32,497,821	26,938,226
<u>\$124,053,803</u>	<u>\$124,352,748</u>	<u>\$125,457,381</u>	<u>\$122,546,545</u>	<u>\$116,595,542</u>

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

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

Fiscal Year				
2005	2006	2007	2008	2009
\$3,391,972	\$2,759,135	\$2,742,806	\$2,853,101	\$3,607,537
6,448,234	6,613,948	6,590,390	7,094,187	8,483,992
2,375,152	2,209,624	2,244,130	2,476,434	2,468,048
146,743	121,415	10,308	117,668	96,570
1,075,471	1,114,664	1,123,568	1,216,620	1,307,076
2,826,391	3,276,853	3,637,977	4,236,367	4,655,871
58,467	47,554	44,385	103,428	212,829
<u>16,322,430</u>	<u>16,143,193</u>	<u>16,393,564</u>	<u>18,097,805</u>	<u>20,831,923</u>
2,739,467	2,864,899	3,169,593	3,634,869	4,075,486
3,307,399	3,401,640	3,380,132	4,077,418	4,113,272
22,871,668	24,664,921	25,241,193	26,505,211	26,798,280
3,511,824	3,874,683	4,001,462	4,015,776	4,009,621
312,556	296,857	323,251	312,634	345,256
<u>32,742,914</u>	<u>35,103,000</u>	<u>36,115,631</u>	<u>38,545,908</u>	<u>39,341,915</u>
<u>49,065,344</u>	<u>51,246,193</u>	<u>52,509,195</u>	<u>56,643,713</u>	<u>60,173,838</u>
\$193,064	\$387,459	\$283,089	\$232,411	\$46,347
53,167	37,253	24,793	46,702	472,980
340,468	4,796	4,797	7,656	529,095
200,736	351,808	1,093,367	1,062,990	1,035,070
577,595	638,779	628,181	677,243	888,946
654,103	873,196	998,104	1,100,958	286,720
983,972	709,313		258,646	12,291
<u>3,003,105</u>	<u>3,002,604</u>	<u>3,032,331</u>	<u>3,386,606</u>	<u>3,271,449</u>
3,616,616	4,078,099	3,945,198	4,011,287	4,662,378
3,889,286	4,309,576	4,353,978	4,138,754	4,288,210
22,227,843	23,116,052	23,094,949	23,422,320	23,925,934
2,691,868	3,046,581	3,367,112	3,496,493	3,823,539
211,852	199,688	241,420	223,929	215,865
22,202	19,415	21,016	21,734	20,980
<u>32,659,667</u>	<u>34,769,411</u>	<u>35,023,673</u>	<u>35,314,517</u>	<u>36,936,906</u>
<u>\$35,662,772</u>	<u>\$37,772,015</u>	<u>\$38,056,004</u>	<u>\$38,701,123</u>	<u>\$40,208,355</u>

Net (Expense)/Revenue

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

General Revenues and Other Changes in Net Assets

Governmental activities:

Ad valorem taxes	\$6,096,559	\$6,045,738
Other taxes and licenses	2,371,323	2,765,497
Unrestricted intergovernmental revenues	2,432,232	1,534,419
Investment earnings	286,171	218,499
Other revenues	39,210	9,786
Transfers	564,000	503,750
Total governmental activities	<u>11,789,495</u>	<u>11,077,689</u>

Business-type activities:

Investment earnings	430,203	319,671
Other revenues	33,838	101,484
Transfers	(564,000)	(503,750)
Total business-type activities	<u>(99,959)</u>	<u>(82,595)</u>
Total primary government	<u>\$11,689,536</u>	<u>\$10,995,094</u>

Change in Net Assets

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

(\$13,319,325)	(\$13,140,589)	(\$13,361,233)	(\$14,711,199)	(\$17,560,474)
<u>(83,247)</u>	<u>(333,589)</u>	<u>(1,091,958)</u>	<u>(3,231,391)</u>	<u>(2,405,009)</u>
<u>(\$13,402,572)</u>	<u>(\$13,474,178)</u>	<u>(\$14,453,191)</u>	<u>(\$17,942,590)</u>	<u>(\$19,965,483)</u>
\$6,628,096	\$6,815,478	\$7,298,421	7,769,020	7,862,442
2,898,950	2,980,248	4,938,519	3,353,209	2,976,369
1,554,802	1,624,417	827,704	1,936,451	1,993,844
314,002	677,091	519,912	861,266	526,467
251,180	334,576	744,259	245,750	95,722
903,442	706,054	620,527	585,795	461,170
<u>12,550,472</u>	<u>13,137,864</u>	<u>14,949,342</u>	<u>14,751,491</u>	<u>13,916,014</u>
530,398	988,043	862,651	815,522	373,351
191,654	205,319	325,647	240,188	186,285
<u>(903,442)</u>	<u>(706,054)</u>	<u>(744,259)</u>	<u>(585,795)</u>	<u>(461,170)</u>
<u>(181,390)</u>	<u>487,308</u>	<u>444,039</u>	<u>469,915</u>	<u>98,466</u>
<u>\$12,369,082</u>	<u>\$13,625,172</u>	<u>\$15,393,381</u>	<u>\$15,221,406</u>	<u>\$14,014,480</u>
(\$768,853)	(\$2,725)	\$1,588,109	\$40,292	(\$3,644,460)
<u>(264,637)</u>	<u>153,719</u>	<u>(647,919)</u>	<u>(2,761,476)</u>	<u>(2,306,543)</u>
<u>(1,033,490)</u>	<u>150,994</u>	<u>940,190</u>	<u>(2,721,184)</u>	<u>(5,951,003)</u>

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

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

Fiscal Year				
2005	2006	2007	2008	2009
\$4,756,325	\$5,910,316	\$5,327,266	\$4,465,357	\$2,894,718
4,434,814	3,779,653	5,067,584	7,321,962	7,062,954
<u>\$9,191,139</u>	<u>\$9,689,969</u>	<u>\$10,394,850</u>	<u>\$11,787,319</u>	<u>\$9,957,672</u>
\$3,254,095	3,141,226	3,592,720	3,607,527	3,266,897
320,799	340,995	363,816	390,615	415,774
<u>\$3,574,894</u>	<u>\$3,482,221</u>	<u>\$3,956,536</u>	<u>\$3,998,142</u>	<u>\$3,682,671</u>

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

	Fiscal Year	
	2003	2004
Revenues		
Ad valorem taxes	\$6,048,001	\$6,040,286
Other taxes and licenses	2,377,453	2,775,661
Unrestricted intergovernmental revenues	1,537,227	1,534,419
Restricted intergovernmental revenues	1,312,634	2,284,280
Other restricted revenues	17,612	126,584
Permits and fees	230,810	224,614
Sales and services	1,915,634	1,015,936
Investment earnings	286,171	218,499
Other revenues	39,210	9,786
Total revenues	<u>13,764,752</u>	<u>14,230,065</u>
Expenditures		
General government	2,228,024	3,040,850
Public safety	5,134,812	5,513,212
Transportation	892,680	1,026,053
Environmental protection	952,116	1,123,085
Cultural and recreational	2,723,914	2,547,194
Economic and physical development	178,229	116,972
Debt service		
Principal	411,851	505,267
Interest	75,431	61,441
Total expenditures	<u>12,597,057</u>	<u>13,934,074</u>
Other Financing Sources (Uses)		
Installment purchase proceeds	240,000	278,352
Paid to State of NC		
Transfers in	954,780	603,750
Transfers out	<u>(390,780)</u>	<u>(184,740)</u>
Total other financing sources (uses)	<u>804,000</u>	<u>697,362</u>
Net change in fund balances	<u>\$1,971,695</u>	<u>\$993,353</u>
Debt service as a percentage of noncapital expenditures	4.30%	4.60%

Fiscal Year				
2005	2006	2007	2008	2009
\$6,663,201	\$6,797,506	\$7,136,147	\$7,787,684	\$7,811,407
2,906,817	2,988,551	3,111,379	3,353,209	2,984,770
1,554,802	1,624,417	1,827,140	1,936,451	1,996,276
1,780,311	1,532,197	897,398	1,304,340	993,723
52,415	42,009	61,109	163,289	15,408
139,672	267,267	208,590	176,939	235,419
1,022,840	1,152,828	1,865,234	1,850,063	2,045,014
314,002	677,091	827,704	861,266	526,467
251,180	334,576	557,160	137,725	212,665
<u>14,685,240</u>	<u>15,416,442</u>	<u>16,491,861</u>	<u>17,570,966</u>	<u>16,821,149</u>
4,069,987	2,892,163	2,712,591	5,741,643	3,922,209
6,589,215	6,857,152	6,590,915	7,032,648	8,477,428
1,194,636	1,068,305	1,122,564	1,601,674	1,243,638
1,110,305	962,287	1,186,814	1,344,758	1,208,846
2,852,031	3,805,386	4,386,677	3,935,811	6,102,022
186,743	121,415	50,308	117,668	96,570
521,106	603,254	577,181	452,798	499,283
48,963	47,554	50,401	89,346	147,452
<u>16,572,986</u>	<u>16,357,516</u>	<u>16,677,451</u>	<u>20,316,346</u>	<u>21,697,448</u>
292,269	641,177	620,527	3,593,660	2,320,000
1,243,442	987,754	1,020,959	1,141,940	1,015,561
<u>(340,000)</u>	<u>(281,700)</u>	<u>(276,700)</u>	<u>(556,145)</u>	<u>(554,391)</u>
<u>1,195,711</u>	<u>1,347,231</u>	<u>1,364,786</u>	<u>4,179,455</u>	<u>2,731,181</u>
<u>(\$692,035)</u>	<u>\$406,157</u>	<u>\$1,179,196</u>	<u>\$1,434,075</u>	<u>(\$2,145,118)</u>
3.87%	4.48%	4.42%	3.53%	3.73%

**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>
1999-00	615,543,915	338,210,223	22,046,315	975,800,453	0.46
2000-01	646,390,212	413,945,569	21,876,880	1,082,212,661	0.50
2001-02	887,200,094	422,064,942	26,791,327	1,336,056,363	0.46
2002-03	897,247,348	418,468,674	26,455,745	1,342,171,767	0.46
2003-04	912,047,348	375,130,039	26,160,554	1,313,337,941	0.46
2004-05	923,771,236	378,698,392	25,680,434	1,328,150,062	0.50
2005-06	932,615,658	408,756,364	22,733,688	1,364,105,710	0.50
2006-07	941,205,056	442,488,854	24,582,696	1,408,276,606	0.50
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

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>
1999-00	0.46	0.14	0.59
2000-01	0.50	0.14	0.59
2001-02	0.46	0.14	0.59
2002-03	0.46	0.14	0.59
2003-04	0.46	0.14	0.59
2004-05	0.50	0.14	0.59
2005-06	0.50	0.14	0.59
2006-07	0.50	0.14	0.59
2007-08	0.46	0.14	0.52
2008-09	0.46	0.14	0.52

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

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

<u>Taxpayer</u>	<u>Fiscal Year 2008-2009</u>			<u>Fiscal Year 1999-2000</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.	\$92,447,804	1	5.47%			
Viscotec	31,698,112	2	1.88%			
HDM Furniture	30,967,408	3	1.83%	19,227,685	4	1.97%
SGL Carbon Corp	30,046,327	4	1.78%	44,696,245	1	4.58%
Sypris	24,033,082	5	1.42%			
Gerresheimer Glass	18,794,248	6	1.11%			
Leviton	18,512,598	7	1.10%	11,872,858	7	1.22%
Caterpillar Inc.	16,885,235	8	1.00%	11,882,523	6	1.22%
Grace Properties	16,107,880	9	0.95%			
Fiddlers Run LLC	15,572,373	10	0.92%			
MC Group Acquisition				7,813,493	10	0.80%
Dana Corp.				28,807,549	2	2.95%
Drexel Heritage				23,425,917	3	2.40%
BASF				14,723,838	5	1.51%
Bellsouth Telephone				11,236,269	8	1.15%
Owens Illinois Inc.				9,021,149	9	0.92%
Total	\$295,065,067		17.47%	\$182,707,526		18.72%

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
1999-00	4,471,664	4,366,584	97.65%	96,599	4,463,183	99.81%
2000-01	5,279,323	5,179,975	98.12%	88,303	5,268,278	99.79%
2001-02	6,128,460	5,981,901	97.61%	135,979	6,117,880	99.83%
2002-03	6,178,474	5,958,757	96.44%	207,135	6,165,892	99.80%
2003-04	6,084,089	5,925,246	97.39%	147,443	6,072,689	99.81%
2004-05	6,713,167	6,583,691	98.07%	118,962	6,702,653	99.84%
2005-06	6,838,043	6,702,794	98.02%	122,367	6,825,161	99.81%
2006-07	7,123,752	7,003,027	98.31%	103,803	7,106,830	99.76%
2007-08	7,768,135	7,660,009	98.61%	84,117	7,744,126	99.69%
2008-09	7,893,702	7,776,653	98.52%	N/A	7,776,653	98.52%

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 Seven 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	Not available	898

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

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

**City of Morganton
Ratios of General Bonded Debt Outstanding,
Last Seven 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

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

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

**City of Morganton
Direct and Overlapping Debt
As of June 30, 2009**

Governmental Unit	Debt Outstanding	Percentage Applicable to the City of Morganton	City of Morganton's Share of Debt
Burke County	\$69,047,992	26.72%	\$18,449,623
City of Morganton	<u>14,986,307</u>	100.00%	<u>14,986,307</u>
Total direct and overlapping debt	\$84,034,299		\$33,435,930

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, 2009

Legal Debt Margin Calculation for Fiscal Year 2007-08	
Assessed Value	\$1,766,709,255
Debt Limit 8% of Assessed Value	141,336,740
Debt Applicable to Debt Limit:	
Total bonded debt and notes payable	6,423,136
Less: Other Deductions Allowed by Law (Water and Wastewater bonds)	<u>(6,423,136)</u>
Total Amount of Debt Applicable to Debt Limit	<u>0</u>
Legal Debt Margin	<u>141,336,740</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%

**City of Morganton
Demographic and Economic Statistics
Last Seven 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	Not available	Not available	14.9%

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

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

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

Fiscal Year 2008 - 2009

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Burke County Employment</u>
State of North Carolina	2,355	1	5.85%
Burke Public Schools	2,100	2	5.22%
Blue Ridge Healthcare / Grace Hospital	1,700	3	4.23%
Turning Point Services	1,000	4	2.49%
Case Farms	729	5	1.81%
Leviton Manufacturing Co.	617	6	1.53%
Burke County	550	7	1.37%
Western Piedmont College	550	8	1.37%
City of Morganton	514	9	1.28%
Continental Teves Inc.	457	10	1.14%
Total	10,572		26.28%

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

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

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

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

Full-time Equivalent Employees as of June 30

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

Source: City Budget Office

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

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

City of Morganton
Operating Indicators by Function / Program
Fiscal Year Ended June 30, 2009

Fiscal Year 2008-09	
General Government	
Building Permits Issued	275
Building Inspections Conducted	4,085
Total City Employees - Full-time	303.50
Total City Employees - Part-time	210.75
Police	
Physical Arrests (18 years and over) (annual)	2,219
Parking Violations	1,408
Number of Police Employees - Officers	65
Number of Police Employees - Civilians	33
Number of Police Employees - Reserves	1
Number of Calls Responded	28,293
Number of Traffic Accidents	1,089
Fire Protection	
Fire Calls	401
Number of Fire Personnel - Paid	16
Number of Fire Personnel - Volunteer	15
Fire Inspections	791
Electric	
Customers	8,230
Public Works	
Refuse Collection (tons per day)	32
Recyclables Collected (tons per day)	2
Residential Collection Trucks	3
Water Treatment Facility	
Customers	12,500
Consumptions	3,225,000,000
Wastewater	
Customers	6,600
Average Daily Sewage Treatment	4,405
Cable Television	
Subscribers / Customers	4,712
Basic Channels	78
Premium Channels	65

Sources: Various City Departments.

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

City of Morganton
Capital Asset Statistics by Function / Program
Fiscal Year Ended June 30, 2009

Fiscal Year 2008-09

Police	
Stations	1
Patrol units	79
Fire Protection	
Fire Stations	3
Electric	
Miles of Service	269
Public Works	
Miles of Streets	87.88
Primary Streets	86.79
Secondary Streets	1.09
Streetlights	3,415
Traffic Signals	58
Water Treatment Facility	
Plants	17
Miles of Distribution Lines	320
Fire Hydrants	1,200
Storage Capacity (millions of gallons)	8.85
Wastewater	
Plants	1
Miles of Collection Lines	200
Cable Television	
Miles of plant	161
Parks and Recreation	
Acreage	680
Playgrounds	9
Parks	13
Baseball fields	15
Soccer fields	4
Community Centers	2
Aquatic Facilities	2

Sources: Various City of Morganton Departments.

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

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregated remaining fund information of the City of Morganton, North Carolina, as of and for the year ended June 30, 2009, which collectively comprises the City of Morganton's basic financial statements dated August 14, 2009. We did not audit the financial statements of the City of Morganton ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the City of Morganton ABC Board, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The financial statements of the City of Morganton ABC Board were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Morganton's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Morganton's financial statements that is more than inconsequential will not be prevented or detected by the City of Morganton's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

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

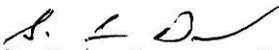
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose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

Compliance and Other Matters

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

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

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


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

Morganton, North Carolina
August 14, 2009

S. Eric Bowman, P.A.

CERTIFIED PUBLIC ACCOUNTANT

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

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

Compliance

We have audited the compliance of the City of Morganton, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to its major federal program for the year ended June 30, 2009. The City of Morganton's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Morganton's management. Our responsibility is to express an opinion on the City of Morganton's compliance based on our audit.

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

In our opinion, the City of Morganton complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

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

Internal Control Over Compliance

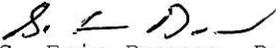
The management of the City of Morganton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Morganton's internal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

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

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

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

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


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

Morganton, North Carolina
August 14, 2009

S. Eric Bowman, P.A.

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

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

Compliance

We have audited the compliance of the City of Morganton, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2009. The City of Morganton's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program is the responsibility of the City of Morganton's management. Our responsibility is to express an opinion on the City of Morganton's compliance based on our audit.

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

In our opinion, the City of Morganton complied, in all material respects, with the requirements referred to above that are applicable to its major State program for the year ended June 30, 2009.

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

Internal Control Over Compliance

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

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

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

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

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


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

Morganton, North Carolina
August 14, 2009

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial
statements noted yes X no

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal program:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
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, 2009

Section I. Summary of Auditor's Results

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

Auditee qualified as low-risk auditee? X yes no

State Awards

Internal control over major State programs:

* Material weakness(es) identified? yes X no

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

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

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

Identification of major State program:

Program Name

Powell Bill Program

CITY OF MORGANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

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

2009-1

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.

2009-2

Condition: Bank reconciliations are being performed but not always on a timely basis.

Criteria: Bank reconciliations should be performed within a reasonable period of time.

Effect: Any errors in general ledger accounts can not be detected and thus financial statement amounts may not be correct.

Cause: The City has not implemented proper controls in this area.

Recommendation: We recommend all bank statements be reconciled by the 20th day of the following month.

Management Response: We agree with this finding.

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

None Reported.

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

None Reported.



CITY OF MORGANTON

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

<u>Grantor Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-Through Grantor's Number</u>
Federal Awards: Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u> Direct Program: CDBG Grant	14.218	
<u>U.S. Department of Justice</u> Passed through N.C. Department of Crime Control and Public Safety: JAG Grant	16.738	BH - 274
<u>U.S. Department of Transportation</u> Passed through N.C. Department of Transportation: Governor's Highway Safety Program	20.601	K8-09-02-33

Total Federal Cash Awards

<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>\$ 152 019</u>	<u>\$</u>	<u>\$</u>
<u>6 939</u>	<u></u>	<u>2 313</u>
<u>5 352</u>	<u></u>	<u></u>
<u>\$ 164 310</u>	<u>\$</u>	<u>\$ 2 313</u>

CITY OF MORGANTON

SCHEDULE OF EXPENDITURES FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

State Awards:

Cash Programs:

N.C. Department of Transportation

Powell Bill

N.C. Department of Public Instruction

Intervention/Prevention Program

N.C. Department of Commerce

Clean Water Bond

Total State Cash Awards

Total Federal and State Awards

Note 1 – Basis of Presentation:

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

Note 2 – Loans Outstanding:

The City of Morganton had the following loan balance outstanding at June 30, 2009.

<u>Program Title</u>	<u>Federal CFDA</u>	<u>Amount Outstanding</u>
Section 108 HUD Loan	14.218	\$ 15 000

<u>Federal</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Local</u> <u>Expenditures</u>
\$	\$ 435 733	\$
	192 257	
<u> </u>	<u>203 046</u>	<u> </u>
<u> </u>	<u>831 036</u>	<u> </u>
<u>\$ 164 310</u>	<u>\$ 831 036</u>	<u>\$ 2 313</u>