

MORGAN CITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2011

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
GOVERNMENT WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	10
STATEMENT OF ACTIVITIES	11
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET-GOVERNMENTAL FUNDS	12
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS.....	13
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS	14
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	15
STATEMENT OF NET ASSETS-PROPRIETARY FUNDS.....	16
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS-PROPRIETARY FUNDS	17
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS.....	18
NOTES TO FINANCIAL STATEMENTS	19
REQUIRED SUPPLEMENTARY INFORMATION:	
BUDGET TO ACTUAL COMPARISON GENERAL FUND	42
BUDGET TO ACTUAL COMPARISON SPECIAL IMPROVEMENT DISTRICT	44
SUPPLEMENTARY INFORMATION:	
COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS	46
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS-NONMAJOR GOVERNMENTAL FUNDS	47
SUPPLEMENTARY REPORTS:	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	48
INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE.....	50
SCHEDULE OF FINDINGS	52

INDEPENDENT AUDITORS' REPORT

**Honorable Mayor and City Council
Morgan City, Utah**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan City, Utah, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morgan City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan City as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, on our consideration of Morgan City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan City's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wizan, Smith, Raebler, & Prescott, LLP

Salt Lake City, Utah
December 13, 2011

**MORGAN CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

This document is a narrative overview and analysis of the financial activities of Morgan City (the City) for the fiscal year ending June 30, 2011. Morgan City management encourages readers to consider the information presented here in conjunction with the financial statements, which follow this section. To help the reader with navigation of this report the City's activities are classified in the following manner: governmental activities include basic services such as public safety, public works, parks and recreation, cemetery and general government administration, while business-type activities include water, sewer, electric, and sanitation. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

Financial Highlights

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. Government activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long-term liabilities.
- The Statement of Activities focuses on gross and net costs of City programs and the extent to which such programs rely upon general taxes and revenues. This statement summarizes the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds." Statements for the City's proprietary funds follow the governmental funds and include net assets, revenues, expenses and changes in net assets, and cash flow.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.
- A budgetary comparison is presented for the general fund and the special improvement district.

Readers desiring additional information on nonmajor funds can find it in the supplementary information section of this report.

The Management's Discussion and Analysis is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

**MORGAN CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

City as a Whole

Government-wide Financial Statements

A condensed version of the Statement of Net Assets at June 30, 2011 and 2010 follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
ASSETS						
Cash and cash equivalents	\$ 452,754	\$ 827,455	\$ 2,645,957	\$ 1,821,461	\$ 3,098,711	\$ 2,648,916
Other current assets	1,289,959	1,515,531	340,215	428,045	1,630,174	1,943,576
Noncurrent assets	<u>3,553,067</u>	<u>3,070,867</u>	<u>6,125,325</u>	<u>5,740,488</u>	<u>9,678,392</u>	<u>8,811,355</u>
TOTAL ASSETS	<u>\$ 5,295,780</u>	<u>\$ 5,413,853</u>	<u>\$ 9,111,497</u>	<u>\$ 7,989,994</u>	<u>\$ 14,407,277</u>	<u>\$ 13,403,847</u>
LIABILITIES						
Other liabilities	\$ 556,241	\$ 634,615	\$ 119,104	\$ 141,564	\$ 675,345	\$ 776,179
Long term liabilities	<u>651,431</u>	<u>702,558</u>	<u>1,824,287</u>	<u>1,107,764</u>	<u>2,475,718</u>	<u>1,810,322</u>
TOTAL LIABILITIES	<u>\$ 1,207,672</u>	<u>\$ 1,337,173</u>	<u>\$ 1,943,391</u>	<u>\$ 1,249,328</u>	<u>\$ 3,151,063</u>	<u>\$ 2,586,501</u>
NET ASSETS						
Invested in capital assets, net of related debt	\$ 2,890,067	\$ 2,958,942	\$ 4,991,011	\$ 4,597,131	\$ 7,881,078	\$ 7,556,073
Restricted	545,474	762,379	486,349	581,405	1,031,823	1,343,784
Unrestricted	<u>652,567</u>	<u>355,359</u>	<u>1,690,746</u>	<u>1,562,130</u>	<u>2,343,313</u>	<u>1,917,489</u>
TOTAL NET ASSETS	<u>\$ 4,088,108</u>	<u>\$ 4,076,680</u>	<u>\$ 7,168,106</u>	<u>\$ 6,740,666</u>	<u>\$ 11,256,214</u>	<u>\$ 10,817,346</u>

During the year ended June 30, 2011 there were several significant events that changed the components of net assets. An explanation of these events follows:

Governmental Activities

- The City saw a reduction in fine revenues of \$11,329.
- The City's sales tax revenue increased by \$28,770.
- The City's property tax revenue decreased by \$3,161.
- The City's Electric fund collections decreased by \$53,286.
- The City's Water fund collections decreased by \$61,046.
- The City purchased a new truck for the electric department for \$24,615.
- The City had improvements for Sewer on the 100 S job for \$340,909.
- The City purchased a building for DATC for \$250,037 pending requirements being held for another entity for the next five years.
- The City constructed new infrastructure with a value of \$412,308 and construction in progress of \$384,064.

**MORGAN CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

A condensed version of the Statement of Activities follows:

Governmental and Business-Type Activities for the years ended June 30, 2011 and 2010:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues						
Charges for services	\$ 175,772	\$ 174,405	\$ 3,154,357	\$ 3,165,046	\$ 3,330,129	\$ 3,339,451
Grants and contributions	268,047	474,084	3,836	717,785	271,883	1,191,869
General revenues						
Taxes	839,216	809,351	-	-	839,216	809,351
Interest	9,730	19,892	9,279	3,971	19,009	23,863
Transfers and misc.	74,239	82,277	-	-	74,239	82,277
Total revenues	1,367,004	1,560,009	3,167,472	3,886,802	4,534,476	5,446,811
Expenses						
General government	349,840	328,037	-	-	349,840	328,037
Public safety	246,402	337,354	-	-	246,402	337,354
Public works	438,603	557,008	-	-	438,603	557,008
Parks and recreation	85,432	51,324	-	-	85,432	51,324
Cemetery	115,402	109,788	-	-	115,402	109,788
Shop	7,292	7,032	-	-	7,292	7,032
Interest	4,187	8,597	-	-	4,187	8,597
Water	-	-	551,409	562,532	551,409	562,532
Sewer	-	-	353,399	388,003	353,399	388,003
Electric	-	-	1,629,997	1,364,331	1,629,997	1,364,331
Sanitation	-	-	205,227	183,946	205,227	183,946
Total expenses	1,247,158	1,399,140	2,740,032	2,498,812	3,987,190	3,897,952
Change in net assets	119,846	160,869	427,440	1,387,990	547,286	1,548,859
Beginning net assets	4,076,680	3,915,811	6,740,666	5,352,676	10,817,346	9,268,487
Prior period adjustments	(108,418)	-	-	-	(108,418)	-
Beginning net assets, as restated	3,968,262	3,915,811	6,740,666	5,352,676	10,708,928	9,268,487
Ending net assets	\$ 4,088,108	\$ 4,076,680	\$ 7,168,106	\$ 6,740,666	\$ 11,256,214	\$ 10,817,346

Governmental activities:

For the year ended June 30, 2011, the total revenues for the governmental activities were \$1,360,308. Program revenues totaled \$437,123. The major sources of program revenues are building permits, impact fees, and grants. General revenues for the year totaled \$923,185. The major sources of general revenues are taxes and interest earnings. Taxes comprise 68% of the City's general fund revenues. Building permits decreased by \$16,915.

**MORGAN CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Business-type activities:

For the year ended June 30, 2011, the total revenues for the business-type activities were \$3,167,472. Program revenues total \$3,158,193. The majority of the revenue is from charges for services of the enterprise funds. The general revenues in the business-type activities consist of \$9,279 in interest income. The City had increases in the purchase of power of \$213,199, while electric fund revenues decreased by \$53,286. The water fund had an operating loss of \$49,309.

There was an over-payment for energy costs for the electric utility that affected revenues by approximately \$77,892 resulting from a pay back from Rocky Mountain Power due to over charges in prior years.

Budgetary Highlights

Over the course of the year the City Council revised the budget twice to make small modifications to accommodate unexpected expenditures. In total, the budget decreased \$34,185 because of revised revenue projections.

Capital Assets

At June 30, 2011 the City had \$9,651,842 invested in capital assets, including park and recreation facilities, buildings, roads, bridges, sanitation, and electric and water and sewer lines. This amount represents a net increase (additions, deductions, and depreciation) of \$860,287, or 9.8% over last year.

	<u>Capital assets at Year-end</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 200,480	\$ 337,823	\$ 43,669	\$ 43,669	\$ 244,149	\$ 381,492
Construction in process	116,085	-	267,979	-	384,064	-
Water stock	-	-	90,114	90,114	90,114	90,114
Improvements	274,174	274,174	-	-	274,174	274,174
Buildings	868,974	618,937	53,187	53,187	922,161	672,124
Equipment	417,075	432,549	560,350	764,383	977,425	1,196,932
Utility systems	-	-	8,093,225	7,837,472	8,093,225	7,837,472
Infrastructure	3,994,358	3,582,050	-	-	3,994,358	3,582,050
Subtotal	5,871,146	5,245,533	9,108,524	8,788,825	14,979,670	14,034,358
Accumulated depreciation	(2,318,079)	(2,174,666)	(3,009,749)	(3,068,137)	(5,327,828)	(5,242,803)
Capital assets, net	<u>\$ 3,553,067</u>	<u>\$ 3,070,867</u>	<u>\$ 6,098,775</u>	<u>\$ 5,720,688</u>	<u>\$ 9,651,842</u>	<u>\$ 8,791,555</u>

The most significant additions to capital assets were \$250,037 for a building, \$334,411 for 100 S Job for infrastructure, and \$116,085 construction in process for the 300 NW job for Governmental activities and \$267,979 for business-type activities. The most significant addition to business-type activities were \$340,909 for the 100 S job and a Dodge Ram purchase for electric utility for \$24,615.

**MORGAN CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Debt Outstanding

At year-end, the City had \$2,729,645 in bonds and notes outstanding versus \$2,058,789 last year, an increase of \$670,856.

There was a total of \$206,793 in debt retired during the year.

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Governmental Activities:					
Series 2002 bonds	\$ 83,000	\$ -	\$ (83,000)	\$ -	\$ -
Special assessment bonds	771,000	-	(108,000)	663,000	98,000
2010 Road bonds	-	101,000	-	101,000	9,000
Total debt	<u>854,000</u>	<u>101,000</u>	<u>(191,000)</u>	<u>764,000</u>	<u>107,000</u>
Compensated absences	<u>81,232</u>	<u>26,649</u>	<u>-</u>	<u>107,881</u>	<u>108,716</u>
Total governmental	<u>\$ 935,232</u>	<u>\$ 127,649</u>	<u>\$ (191,000)</u>	<u>\$ 871,881</u>	<u>\$ 215,716</u>
Business Activities:					
Series 2003 bonds	\$ 1,123,557	\$ -	\$ (15,793)	\$ 1,107,764	\$ 16,477
Sewer 2010 bonds	<u>-</u>	<u>750,000</u>	<u>-</u>	<u>750,000</u>	<u>17,000</u>
Total business	<u>\$ 1,123,557</u>	<u>\$ 750,000</u>	<u>\$ (15,793)</u>	<u>\$ 1,857,764</u>	<u>\$ 33,477</u>

More detailed information on the City's long-term liabilities is presented in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- Property taxes and sales taxes make up 68% of the governmental revenues.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Recorder at 90 W Young, Morgan, Utah 84050.

**MORGAN CITY
STATEMENT OF NET ASSETS
June 30, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 452,754	\$ 2,645,957	\$ 3,098,711
Accounts receivable (net)	840,300	273,201	1,113,501
Accounts receivable - intergovernmental	325,489	-	325,489
Interfund balances	107,850	(107,850)	-
Other current assets	16,320	-	16,320
Inventory	-	174,864	174,864
TOTAL CURRENT ASSETS	<u>1,742,713</u>	<u>2,986,172</u>	<u>4,728,885</u>
NONCURRENT ASSETS			
Unamortized bond issuance costs	-	26,550	26,550
Capital Assets:			
Water shares	-	90,114	90,114
Construction in process	116,085	267,979	384,064
Land	200,480	43,669	244,149
Land improvements	274,174	-	274,174
Buildings	868,974	53,187	922,161
Machinery and equipment	417,075	560,350	977,425
Utility systems	-	8,093,225	8,093,225
Infrastructure	3,994,358	-	3,994,358
Less accumulated depreciation	<u>(2,318,079)</u>	<u>(3,009,749)</u>	<u>(5,327,828)</u>
Total capital assets, net	<u>3,553,067</u>	<u>6,098,775</u>	<u>9,651,842</u>
TOTAL NONCURRENT ASSETS	<u>3,553,067</u>	<u>6,125,325</u>	<u>9,678,392</u>
TOTAL ASSETS	<u>\$ 5,295,780</u>	<u>\$ 9,111,497</u>	<u>\$ 14,407,277</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 56,426	\$ 68,227	\$ 124,653
Other accrued liabilities	146,964	17,400	164,364
Deferred revenue	240,282	-	240,282
Noncurrent liabilities due within one year	<u>112,569</u>	<u>33,477</u>	<u>146,046</u>
TOTAL CURRENT LIABILITIES	556,241	119,104	675,345
NONCURRENT LIABILITIES			
Due in more than one year	<u>651,431</u>	<u>1,824,287</u>	<u>2,475,718</u>
TOTAL NONCURRENT LIABILITIES	<u>651,431</u>	<u>1,824,287</u>	<u>2,475,718</u>
TOTAL LIABILITIES	<u>\$ 1,207,672</u>	<u>\$ 1,943,391</u>	<u>\$ 3,151,063</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,890,067	\$ 4,991,011	\$ 7,881,078
Restricted	545,474	486,349	1,031,823
Unrestricted	<u>652,567</u>	<u>1,690,746</u>	<u>2,343,313</u>
TOTAL NET ASSETS	<u>\$ 4,088,108</u>	<u>\$ 7,168,106</u>	<u>\$ 11,256,214</u>

The accompanying notes are an integral part of the financial statements.

MORGAN CITY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

Functions/programs	Expenses	Program Revenues			Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 349,840	\$ 29,991	\$ 3,413	\$ 154,041	\$ (162,395)	\$ -	\$ (162,395)
Public safety	246,402	96,529	-	-	(149,873)	-	(149,873)
Public works	438,603	3,286	110,593	-	(324,724)	-	(324,724)
Parks and recreation	85,432	12,463	-	-	(72,969)	-	(72,969)
Cemetery	115,402	33,503	-	-	(81,899)	-	(81,899)
Shop	7,292	-	-	-	(7,292)	-	(7,292)
Interest expense	4,187	-	-	-	(4,187)	-	(4,187)
Total Governmental Activities	<u>1,247,158</u>	<u>175,772</u>	<u>114,006</u>	<u>154,041</u>	<u>(803,339)</u>	<u>-</u>	<u>(803,339)</u>
Business-Type Activities							
Water	551,409	497,193	-	3,836	-	(50,380)	(50,380)
Sewer	353,399	368,099	-	-	-	14,700	14,700
Electric	1,629,997	2,066,637	-	-	-	436,640	436,640
Sanitation	205,227	222,428	-	-	-	17,201	17,201
Total Business-Type Activities	<u>2,740,032</u>	<u>3,154,357</u>	<u>-</u>	<u>3,836</u>	<u>-</u>	<u>418,161</u>	<u>418,161</u>
Total government	<u>\$ 3,987,190</u>	<u>\$ 3,330,129</u>	<u>\$ 114,006</u>	<u>\$ 157,877</u>	<u>(803,339)</u>	<u>418,161</u>	<u>(385,178)</u>
General revenues:							
Taxes							
					280,972	-	280,972
					439,337	-	439,337
					40,810	-	40,810
					78,097	-	78,097
					9,730	9,279	19,009
					74,239	-	74,239
					<u>923,185</u>	<u>9,279</u>	<u>932,464</u>
					119,846	427,440	547,286
					4,076,680	6,740,666	10,817,346
					(108,418)	-	(108,418)
					<u>3,968,262</u>	<u>6,740,666</u>	<u>10,708,928</u>
					<u>\$ 4,088,108</u>	<u>\$ 7,168,106</u>	<u>\$ 11,256,214</u>

The accompanying notes are an integral part of the financial statements.

**MORGAN CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	<u>General</u>	<u>Special Improvement District</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 149,512	\$ -	\$ 303,242	\$ 452,754
Due from other funds	150,129	-	-	150,129
Accounts receivable (net)	2,320	827,535	10,445	840,300
Accounts receivable - intergovernmental	325,489	-	-	325,489
Other current assets	<u>16,320</u>	<u>-</u>	<u>-</u>	<u>16,320</u>
TOTAL ASSETS	<u>\$ 643,770</u>	<u>\$ 827,535</u>	<u>\$ 313,687</u>	<u>\$ 1,784,992</u>
LIABILITIES				
Accounts payable	\$ 56,426	\$ -	\$ -	\$ 56,426
Due to other funds	-	42,279	-	42,279
Deferred revenue	240,282	827,535	-	1,067,817
Other accrued liabilities	<u>39,083</u>	<u>-</u>	<u>-</u>	<u>39,083</u>
TOTAL LIABILITIES	<u>335,791</u>	<u>869,814</u>	<u>-</u>	<u>1,205,605</u>
FUND BALANCES				
Restricted for:				
Class C roads	172,888	-	-	172,888
Road impact fees	52,622	-	-	52,622
Park impact fees	6,436	-	-	6,436
Special improvement district	-	(42,279)	-	(42,279)
Redevelopment agency	-	-	51,815	51,815
Perpetual care	-	-	261,713	261,713
Unreserved	<u>76,033</u>	<u>-</u>	<u>159</u>	<u>76,192</u>
TOTAL FUND BALANCES	<u>307,979</u>	<u>(42,279)</u>	<u>313,687</u>	<u>579,387</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 643,770</u>	<u>\$ 827,535</u>	<u>\$ 313,687</u>	<u>\$ 1,784,992</u>

The accompanying notes are an integral part of the financial statements.

**MORGAN CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2011**

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

Total fund balances--total governmental funds	\$ 579,387
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the fund financial statements.	3,553,067

Deferred revenues reported in the Governmental Funds Balance Sheet includes a special assessment receivable. The balance was deferred because funds were not available to pay for current period expenditures.	827,535
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements. Those liabilities consist of:

Special assessment bonds	(663,000)
CIB road 2010 bond	(101,000)
Compensated absences	(107,881)

Net assets of governmental activities	<u>\$ 4,088,108</u>
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The accompanying notes are an integral part of the financial statements.

MORGAN CITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
For the year ended June 30, 2011

	General	Special Improvement District	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 725,964	\$ -	\$ 35,155	\$ 761,119
Licenses and permits	29,991	-	-	29,991
Intergovernmental	365,043	-	-	365,043
Charges for services	81,393	63,643	8,433	153,469
Fines	50,769	-	-	50,769
Other revenues	164,346	124,733	2,906	291,985
Total revenues	<u>1,417,506</u>	<u>188,376</u>	<u>46,494</u>	<u>1,652,376</u>
EXPENDITURES				
Current operating:				
General government	226,437	36,692	52,001	315,130
Public safety	246,402	-	-	246,402
Public works	215,904	-	25,000	240,904
Parks and recreation	73,442	-	-	73,442
Cemetery	114,561	-	-	114,561
Shop	7,292	-	-	7,292
Debt service:				
Principal	83,000	108,000	-	191,000
Interest	4,187	52,636	-	56,823
Capital outlay	785,498	-	-	785,498
Total expenditures	<u>1,756,723</u>	<u>197,328</u>	<u>77,001</u>	<u>2,031,052</u>
Excess of revenues over (under) expenditures	(339,217)	(8,952)	(30,507)	(378,676)
OTHER FINANCING SOURCES (USES)				
Transfers-in	60,754	-	-	60,754
Transfers-out	-	-	(60,754)	(60,754)
Bond proceeds	101,000	-	-	101,000
Total other financing sources (uses)	<u>161,754</u>	<u>-</u>	<u>(60,754)</u>	<u>101,000</u>
Net change in fund balances	(177,463)	(8,952)	(91,261)	(277,676)
Fund balances at beginning of year	<u>485,442</u>	<u>(33,327)</u>	<u>404,948</u>	<u>857,063</u>
Fund balances at end of year	<u>\$ 307,979</u>	<u>\$ (42,279)</u>	<u>\$ 313,687</u>	<u>\$ 579,387</u>

The accompanying notes are an integral part of the financial statements.

MORGAN CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
June 30, 2011

Net change in fund balance, total governmental funds \$ (277,676)

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

Governmental funds report capital outlays as
expenditures. In the statement of activities,
the cost of those assets is allocated over their
estimated useful lives as depreciation expense.
This is the amount by which depreciation expense
exceeded capital outlays in the current period.

Capital outlays	786,956	
Loss on disposal of assets	1,286	
Depreciation expense	<u>(168,699)</u>	619,543

Special assessment revenues are recorded in the statement of
activities when the assessment is set; they are not reported
in the funds until collected or collectible within 60 days of
year-end. (285,372)

Capital received from bond proceeds is not considered a current
resource to the City, and therefore is not reported in the funds.
These contributions, however, are an economic resource and are
recorded as revenues in the statement of activities. (101,000)

Repayment of debt principal and compensated absences
is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement
of net assets. The debt principal repaid is as follows:

Series 2002 bonds	83,000	
Special assessment bonds	108,000	
Net change in compensated absences	<u>(26,649)</u>	

Change in net assets of governmental activities \$ 119,846

The accompanying notes are an integral part of the financial statements.

**MORGAN CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011**

	Water	Sewer	Electric	Sanitation	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ -	\$ 525,492	\$ 1,917,793	\$ 202,672	\$ 2,645,957
Due from other funds	-	-	-	-	-
Accounts receivable (net)	43,101	38,610	168,857	22,633	273,201
Inventory	39,536	1,271	134,057	-	174,864
TOTAL CURRENT ASSETS	82,637	565,373	2,220,707	225,305	3,094,022
NONCURRENT ASSETS					
Unamortized bond issuance costs	19,200	7,350	-	-	26,550
Capital assets:					
Water Shares	90,114	-	-	-	90,114
Construction in progress	-	267,979	-	-	267,979
Land	6,318	19,831	17,520	-	43,669
Buildings	7,125	7,125	31,812	7,125	53,187
Utility Systems	4,319,406	2,057,169	1,716,650	-	8,093,225
Machinery and Equipment	170,490	149,363	240,497	-	560,350
Less Accumulated Depreciation	(1,369,623)	(1,022,389)	(615,303)	(2,434)	(3,009,749)
Total capital assets, net	3,223,830	1,479,078	1,391,176	4,691	6,098,775
TOTAL NONCURRENT ASSETS	3,243,030	1,486,428	1,391,176	4,691	6,125,325
TOTAL ASSETS	\$ 3,325,667	\$ 2,051,801	\$ 3,611,883	\$ 229,996	\$ 9,219,347
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 68,227	\$ -	\$ 68,227
Due to other funds	82,767	7,009	16,967	1,107	107,850
Customer deposits	-	-	17,400	-	17,400
Current portion of long-term obligations	16,477	17,000	-	-	33,477
TOTAL CURRENT LIABILITIES	99,244	24,009	102,594	1,107	226,954
NONCURRENT LIABILITIES					
Long-term obligations, Net of current portion	1,091,287	733,000	-	-	1,824,287
TOTAL LIABILITIES	1,190,531	757,009	102,594	1,107	2,051,241
NET ASSETS					
Invested in capital assets, net of related debt	2,116,066	1,479,078	1,391,176	4,691	4,991,011
Restricted for impact fees	230,151	115,402	140,796	-	486,349
Unrestricted	(211,081)	(299,688)	1,977,317	224,198	1,690,746
TOTAL NET ASSETS	2,135,136	1,294,792	3,509,289	228,889	7,168,106
TOTAL LIABILITIES AND NET ASSETS	\$ 3,325,667	\$ 2,051,801	\$ 3,611,883	\$ 229,996	\$ 9,219,347

The accompanying notes are an integral part of the financial statements.

MORGAN CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the year ended June 30, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 491,585	\$ 362,561	\$ 2,032,331	\$ 219,547	\$ 3,106,024
Other operating revenues	-	-	30,534	2,881	33,415
TOTAL OPERATING REVENUES	<u>491,585</u>	<u>362,561</u>	<u>2,062,865</u>	<u>222,428</u>	<u>3,139,439</u>
OPERATING EXPENSES					
Personnel services	184,557	171,428	398,357	15,008	769,350
Contractual services	-	-	-	77,392	77,392
Purchases water/treatment/power/refuse	31,361	-	965,501	-	996,862
Supplies	102,924	70,377	126,266	94,969	394,536
Professional services	28,989	(3,447)	17,613	-	43,155
Miscellaneous	11,128	3,212	22,380	17,680	54,400
Equipment and maintenance	31,064	49,683	8,241	-	88,988
Depreciation	113,327	51,596	91,639	178	256,740
Amortization - deferred charge	600	150	-	-	750
TOTAL OPERATING EXPENSES	<u>503,950</u>	<u>342,999</u>	<u>1,629,997</u>	<u>205,227</u>	<u>2,682,173</u>
OPERATING INCOME (LOSS)	(12,365)	19,562	432,868	17,201	457,266
OTHER INCOME (EXPENSE)					
Impact fees	4,048	4,638	2,420	-	11,106
Connection fees	1,560	900	1,352	-	3,812
Interest revenue	1,071	7,524	680	4	9,279
Interest expense	(47,459)	(10,400)	-	-	(57,859)
TOTAL OTHER INCOME (EXPENSE)	<u>(40,780)</u>	<u>2,662</u>	<u>4,452</u>	<u>4</u>	<u>(33,662)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	(53,145)	22,224	437,320	17,205	423,604
Capital contributions	3,836	-	-	-	3,836
CHANGE IN NET ASSETS	(49,309)	22,224	437,320	17,205	427,440
Total net assets - beginning	<u>2,184,445</u>	<u>1,272,568</u>	<u>3,071,969</u>	<u>211,684</u>	<u>6,740,666</u>
Total net assets - ending	<u>\$ 2,135,136</u>	<u>\$ 1,294,792</u>	<u>\$ 3,509,289</u>	<u>\$ 228,889</u>	<u>\$ 7,168,106</u>

The accompanying notes are an integral part of the financial statements.

MORGAN CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Sanitation</u>	<u>Total</u>
Cash flows from operating activities					
Cash received from customers	\$ 485,543	\$ 358,444	\$ 2,102,066	\$ 223,502	\$ 3,169,555
Cash paid to suppliers	(228,550)	(134,799)	(1,161,780)	(204,039)	(1,729,168)
Cash paid to employees	(184,557)	(171,428)	(398,357)	(15,008)	(769,350)
Net cash provided by operating activities	72,436	52,217	541,929	4,455	671,037
Cash flows from noncapital financing activities					
Transfers in/out	-	-	-	-	-
Due to/from other funds	1,906	7,009	101,664	1,107	111,686
Net cash provided by noncapital financing activities	1,906	7,009	101,664	1,107	111,686
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(17,769)	(608,888)	(24,615)	-	(651,272)
Bond acquisition costs	-	(7,500)	-	-	(7,500)
Principal payments - bonds	(15,793)	-	-	-	(15,793)
Interest paid	(47,459)	(10,400)	-	-	(57,859)
Impact fees collected	4,048	4,638	2,420	-	11,106
Connection fees collected	1,560	900	1,352	-	3,812
Cash from bonds	-	750,000	-	-	750,000
Net cash provided (used) in capital and related financing activities	(75,413)	128,750	(20,843)	-	32,494
Cash flows from investing activities					
Interest on investments	1,071	7,524	680	4	9,279
Net cash provided by investing activities	1,071	7,524	680	4	9,279
Net increase (decrease) in cash	-	195,500	623,430	5,566	824,496
Cash - July 1, 2010	-	329,992	1,294,363	197,106	1,821,461
Cash - June 30, 2011	\$ -	\$ 525,492	\$ 1,917,793	\$ 202,672	\$ 2,645,957
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (12,365)	\$ 19,562	\$ 432,868	\$ 17,201	\$ 457,266
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	113,327	51,596	91,639	178	256,740
Amortization	600	150	-	-	750
Loss on disposal of fixed assets	-	-	16,445	-	16,445
Changes in assets and liabilities:					
Accounts receivable	(6,042)	(4,117)	22,756	1,074	13,671
Inventory	(12,197)	65	(21,559)	-	(33,691)
Accounts payable	(10,887)	(15,039)	(1,805)	(13,998)	(41,729)
Customer deposits	-	-	1,585	-	1,585
Net cash provided by operating activities	\$ 72,436	\$ 52,217	\$ 541,929	\$ 4,455	\$ 671,037

The accompanying notes are an integral part of the financial statements.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), public utilities (water, sewer, electric, and sanitation), highways and streets, social services, culture-recreation, public improvements, planning and zoning, economic redevelopment, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB).

B. Basic Financial Statements

The City's basic financial statements consist of the government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

Statement of Net Assets - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental activities and those that are considered business-type activities. The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end.

Statement of Activities - The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore are clearly identifiable to a particular function.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (continued)

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts.

The City has two categories of funds: governmental and proprietary.

The following fund types are used by the City:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following describes the major governmental funds of the City:

General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Improvement District is used to account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). This fund was created to finance capital improvements (roads, etc.) to homes and businesses within the district.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (continued)

The following describes the nonmajor governmental funds of the City:

Capital Projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

Redevelopment fund helps eliminate “blighted” areas within the designated project area. The City receives tax increment revenue for the fund. The Redevelopment Fund is a special revenue fund.

Perpetual Care fund is a nonexpendable fund for cemetery care.

Utility Enhancement fund is an expendable fund for utility enhancement.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

Proprietary Funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government’s various departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The following is a description of the proprietary funds of the City.

Enterprise Funds account for those operations that are financed and operated in a manner similar to private business enterprises or where the governing body had decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City’s enterprise funds include the water fund, sewer fund, electric fund, and the sanitation fund.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Government-wide financial statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled utility services which are accrued. Expenses are recognized at the time liability is incurred.

Fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available").

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

3. Receivables and Payables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

4. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Bond Issue Costs

The City incurred bond issue costs in 2003. Those issuance costs are amortized using the straight-line method in the government-wide financial statements and the statement of net assets in the proprietary fund statements for the term of the bonds from which the costs were incurred.

6. 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 and in the fund financial statements for proprietary funds.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities and Equity (continued)

6. Capital Assets (continued)

All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$100,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	39 - 50
Utility Systems	15 - 40
Land Improvements	30 - 50
Infrastructure	15 - 40
Machinery & Equipment	5 - 10

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

7. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay and sick leave are accrued when incurred and are reported as a liability. Amounts not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Assets as a noncurrent liability.

8. Long-term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of notes payable and bonds payable.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities and Equity (continued)

8. Long-term Liabilities (continued)

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

9. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first apply restricted resources rather than unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

10. Interfund Transactions

Interfund services provided and used are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities and Equity (continued)

10. Interfund Transactions (continued)

All other interfund transactions, except quasi-external transactions and reimbursement, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as non-operating transfers.

11. Property Tax

Real property taxes are collected by the County Treasurer and remitted to the City after collection. Taxes are due and payable on November 1st and delinquent after 12 o'clock noon on November 30th of each year. The tax levy is established by June 15th with a lien date of January 1st. Property tax revenue is not recognized when levied, because it is not expected to be collected within 60 days after the end of the fiscal year.

12. Operating Revenues and Expenses

Operating revenues and expenses in the proprietary funds consist of those revenues that result from the ongoing principal operations of the City. Operating revenues consist of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from non-exchange transactions or ancillary activities.

F. Reclassification

Certain prior year items have been reclassified to conform to the current year presentation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Information

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act for Utah Cities" by the Morgan City Municipal Council on or before June 15th for the following fiscal year, which begins on July 1. Budgets may be increased by resolution of the Municipal Council at any time during the year, following a public hearing. Budgets are adopted at sub-department levels; however budget amendments by resolution are generally required only if the department desires to exceed its total budget appropriation.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budget Information (continued)

1. On or before May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to the formal adoption of the budget the City Council will hold budget workshop meetings, which are open to the public.
3. Prior to June 15th the City Council sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the governmental funds and enterprise funds.
5. Budgets for the governmental funds are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgets for the proprietary fund types are prepared using the accrual basis of accounting except that depreciation for all proprietary fund types is not budgeted. Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

B. Fund Equity Restrictions

Reserve for Perpetual Care - The City Council passed an ordinance providing for perpetual care fees to be set aside for maintenance at the City cemetery.

Reserve for Redevelopment - Amounts generated in the redevelopment fund are reserved to be spent to promote urban renewal and economic development.

Reserve for Impact Fees - The City Council passed an ordinance providing for specific impact fees on all new construction. Impact fees include fees for roads, parks, administration, water, sewer, and electric. These fees are to be reserved for current and future costs to help defray a portion of the costs that naturally result from increased development.

Reserve for Class "C" Road - Reserve required for unexpended class "C" road revenues.

Reserve for Special Improvement District - Amounts generated in the special improvement district are reserved to be spent on capital outlay and debt service within the district.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by some of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of city funds in a "qualified depository".

The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2011, \$456,275 of the City's bank balances of \$706,275 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

**MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Deposits and Investments (continued)

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares. As of June 30, 2011, the City had the following investments and maturities:

	Carrying amount	Market value
Investments not subject to categorizations:		
Utah Public Treasurer's Investment Fund	\$ 2,392,436	\$ 2,406,881

The GASB fair value factor at June 30, 2011 was 1.00603813.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s policy for reducing its exposure to credit risk is to comply with the State’s Money Management Act as previously discussed.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City’s policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The City’s investment risk is monitored by the Utah Public Treasurer’s Investment Fund. The City has no concentration of credit risk.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

A. Deposits and Investments (continued)

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk.

The City’s investment in the Utah Public Treasurer’s Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2011, are as follows:

Cash on hand and on deposit:	
Cash on deposit	\$ 706,275
PTIF investment	<u>2,392,436</u>
Total cash and cash equivalents	<u><u>\$ 3,098,711</u></u>

B. Accounts Receivable

Accounts receivable for the City, including the applicable allowance for uncollectible accounts at June 30, 2011, are as follows:

Governmental Activities:	<u>General</u>	<u>Special Revenue</u>	<u>RDA</u>	<u>Perpetual Care</u>	<u>Total</u>
Receivables:					
Accounts	\$ 18,581	\$ -	\$ 1,010	\$ 9,435	\$ 29,026
Special assessment	-	827,535	-	-	827,535
Taxes	<u>325,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>325,489</u>
Gross receivables	344,070	827,535	1,010	9,435	1,182,050
Less: allowance for doubtful accounts	<u>(16,261)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,261)</u>
Net total receivables	<u>\$ 327,809</u>	<u>\$ 827,535</u>	<u>\$ 1,010</u>	<u>\$ 9,435</u>	<u>\$ 1,165,789</u>

Accounts receivable for the City’s Business-type Activities, including the applicable allowance for uncollectible accounts at June 30, 2011 are as follows:

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

B. Accounts Receivable (continued)

Accounts receivable for the City's Business-type Activities, including the applicable allowance for uncollectible accounts at June 30, 2011 are as follows:

Business Type Activities:	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Sanitation</u>	<u>Total</u>
Receivables:					
Accounts	\$ 46,724	\$ 39,444	\$ 194,622	\$ 23,652	\$ 304,442
Less: allowance for doubtful accounts	<u>(3,623)</u>	<u>(834)</u>	<u>(25,765)</u>	<u>(1,019)</u>	<u>(31,241)</u>
Net total receivables	<u>\$ 43,101</u>	<u>\$ 38,610</u>	<u>\$ 168,857</u>	<u>\$ 22,633</u>	<u>\$ 273,201</u>

At June 30, 2011, the City had some interfund receivables and payables. The Water fund, Sewer fund, Electric fund, and Sanitation fund owed \$82,767, \$7,009, \$16,967, and \$1,107 to the General fund, respectively for accrued payroll and payroll liabilities at year end.

C. Capital Assets

A summary of changes in capital assets to the governmental activities follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 337,823	\$ -	\$ (137,343)	\$ 200,480
Construction in progress	<u>-</u>	<u>116,085</u>	<u>-</u>	<u>116,085</u>
Total capital assets, not being depreciated	337,823	116,085	(137,343)	316,565
Capital assets, being depreciated				
Improvements	274,174	-	-	274,174
Buildings	618,937	250,037	-	868,974
Infrastructure	3,582,050	412,308	-	3,994,358
Machinery and equipment	<u>432,549</u>	<u>8,526</u>	<u>(24,000)</u>	<u>417,075</u>
Total capital assets, being depreciated	4,907,710	670,871	(24,000)	5,554,581
Less accumulated depreciation	<u>(2,174,666)</u>	<u>(168,699)</u>	<u>25,286</u>	<u>(2,318,079)</u>
Total capital assets, being depreciated, net	<u>2,733,044</u>	<u>502,172</u>	<u>1,286</u>	<u>3,236,502</u>
Governmental activities capital assets, net	<u>\$ 3,070,867</u>	<u>\$ 618,257</u>	<u>\$ (136,057)</u>	<u>\$ 3,553,067</u>

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

C. Capital Assets (continued)

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

Governmental Activities:

General government	\$ 9,347
Public works	146,521
Parks and recreation	11,990
Cemetery	<u>841</u>
 Total depreciation expense	 <u><u>\$ 168,699</u></u>

A summary of changes in capital assets to the business type activities follows:

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 43,669	\$ -	\$ -	\$ 43,669
Construction in progress	-	267,979	-	267,979
Water stock	<u>90,114</u>	<u>-</u>	<u>-</u>	<u>90,114</u>
Total capital assets, not being depreciated	133,783	267,979	-	401,762
Capital assets, being depreciated				
Buildings	53,187	-	-	53,187
Utility systems	7,837,472	358,678	(102,925)	8,093,225
Machinery and equipment	<u>764,383</u>	<u>24,615</u>	<u>(228,648)</u>	<u>560,350</u>
Total capital assets, being depreciated	8,655,042	383,293	(331,573)	8,706,762
Less accumulated depreciation	<u>(3,068,137)</u>	<u>(256,740)</u>	<u>315,128</u>	<u>(3,009,749)</u>
Total capital assets, being depreciated, net	<u>5,586,905</u>	<u>126,553</u>	<u>(16,445)</u>	<u>5,697,013</u>
Business-type activities capital assets, net	<u><u>\$ 5,720,688</u></u>	<u><u>\$ 394,532</u></u>	<u><u>\$ (16,445)</u></u>	<u><u>\$ 6,098,775</u></u>

**MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

C. Capital Assets (continued)

Depreciation expense was charged to funds as follows:

Business-Type Activities:	
Water fund	\$ 113,327
Sewer fund	51,596
Electric fund	91,639
Sanitation fund	<u>178</u>
 Total depreciation expense	 <u><u>\$ 256,740</u></u>

D. Interfund Transfers

Often, funds are received in a given fund, but those funds are to be used for a purpose in which the expenditures will be made in another fund. However, there were no transfers between funds this year.

E. Long-Term Liabilities

Special Assessment Bonds. Special Assessment bonds are repaid through collection of assessments against property owners who benefited from capital improvements made as a result of the establishment of the Special Improvement District. The City is obligated to pay Special Assessment bonds and interest to the following extent:

Year Ended	Special Assessment Bonds		
	6.05%		
June 30,	Principal	Interest	Total
	<u> </u>	<u> </u>	<u> </u>
2012	\$ 98,000	\$ 42,777	\$ 140,777
2013	103,000	36,603	139,603
2014	109,000	30,114	139,114
2015	116,000	23,247	139,247
2016	123,000	15,939	138,939
2017	<u>114,000</u>	<u>8,190</u>	<u>122,190</u>
Totals	<u><u>\$ 663,000</u></u>	<u><u>\$ 156,870</u></u>	<u><u>\$ 819,870</u></u>

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

E. Long-Term Liabilities (continued)

Interest expense for the Special Assessment bonds of \$45,940 has been charged as a direct expense to the Public Works Department in the Statement of Activities.

Series 2010 Road Bonds: Road bonds are repaid through C road funds that are used to make improvements to roads for the City. Both interest and principal are paid on the 1st of July each year. The bonds mature on July 1, 2020 and the interest rate is 3.5%. The City is obligated to pay Road bonds and interest due July 1st each year to the following extent:

Year Ended	Series 2010 Road Bonds		
	3.50%		
June 30,	Principal	Interest	Total
2012	\$ 9,000	\$ 2,729	\$ 11,729
2013	9,000	3,220	12,220
2014	9,000	2,905	11,905
2015	10,000	2,590	12,590
2016	10,000	2,240	12,240
2017	10,000	1,890	11,890
2018	11,000	1,540	12,540
2019	11,000	1,155	12,155
2020	11,000	770	11,770
2021	11,000	385	11,385
Totals	\$ 101,000	\$ 19,424	\$ 120,424

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

E. Long-Term Liabilities (continued)

Changes in Long-Term Liabilities - During the year, the following changes occurred in long-term liabilities for the governmental activities:

Governmental Activities:	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Series 2002 bonds	\$ 83,000	\$ -	\$ (83,000)	\$ -	\$ -
Special assessment bonds	771,000	-	(108,000)	663,000	98,000
Series 2010 road bonds	-	101,000	-	101,000	9,000
Total debt	854,000	101,000	(191,000)	764,000	107,000
Compensated absences	81,232	26,649	-	107,881	107,881
 Total long term liabilities	 \$ 935,232	 \$ 127,649	 \$ (191,000)	 \$ 871,881	 \$ 214,881

Water Revenue Bond, Series 2003. The government issued a series 2003 bond to provide funds for improvements and construction of a culinary water project. Both interest and principal are paid on the 11th of each month. The bonds mature on August 11, 2043. The interest rate is 4.25%:

Series 2003 Water Revenue Bond			
4.25%			
Year Ended	Principal	Interest	Total
June 30,			
2012	\$ 16,477	\$ 46,775	\$ 63,252
2013	17,191	46,061	63,252
2014	17,936	45,316	63,252
2015	18,714	44,538	63,252
2016 - 2020	106,360	209,900	316,260
2021 - 2025	131,616	184,644	316,260
2026 - 2030	163,017	153,243	316,260
2031 - 2035	203,146	113,114	316,260
2036 - 2040	250,704	65,556	316,260
2041 - 2043	182,603	7,153	189,756
Totals	\$ 1,107,764	\$ 916,300	\$ 2,024,064

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

E. Long-Term Liabilities (continued)

Sewer Revenue Bond, Series 2010. The government issued a series 2010 bond to provide funds for improvements and construction of a sewer project. Interest is due on December 1st and principal and interest are paid on June 1st of each year. The bonds mature on June 1, 2036. The interest rate is 5.61%:

Year Ended June 30,	Series 2010 Sewer Revenue Bond 5.61%		
	Principal	Interest	Total
2012	\$ 17,000	\$ 41,598	\$ 58,598
2013	15,000	40,701	55,701
2014	16,000	39,831	55,831
2015	17,000	38,905	55,905
2016 - 2020	100,000	178,680	278,680
2021 - 2025	132,000	147,309	279,309
2026 - 2030	172,000	103,898	275,898
2031 - 2035	228,000	48,446	276,446
2036	53,000	1,487	54,487
Totals	\$ 750,000	\$ 640,855	\$ 1,390,855

Changes in Long-Term Liabilities - During the year, the following changes occurred in long-term liabilities for the business-type activities:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Business-type activities:					
Series 2003 water bonds	\$ 1,123,557	\$ -	\$ (15,793)	\$ 1,107,764	\$ 16,477
Series 2010 sewer bonds	-	750,000	-	750,000	17,000
Total debt	\$ 1,123,557	\$ 750,000	\$ (15,793)	\$ 1,857,764	\$ 33,477

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (CONTINUED)

F. Redevelopment Agency

The Morgan Redevelopment Agency has one project titled the Commercial Street Redevelopment Project. The Commercial Street Redevelopment Project collected \$35,155 in tax increment monies in the fiscal year ended June 30, 2011. This project did not have any outstanding debt at June 30, 2011, nor did it pay any taxes to a taxing agency.

The actual expenditures for the project consisted of the following:

1. \$52,001 for administrative costs of the project.
2. \$25,000 for improvements.

IV. OTHER INFORMATION

A. Retirement System

Plan Description - Morgan City Corporation contributes to the Local Government Noncontributory Retirement System, which is for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information of the Local Governmental Contributory Retirement System and Local Government Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy - Plan members in Local Government Noncontributory Retirement System are not required to contribute to the Plan but Morgan City is required to contribute 13.37% of their annual covered salary from July 2010 through June 2011. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The contributions by Morgan City to the Local Government Noncontributory Retirement System for the years ended June 30, 2011, 2010, and 2009 were \$101,526, \$79,370, and \$78,248 respectively. The contributions were equal to the required contributions for each year and were paid by the due dates or within 30 days thereafter.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

IV. OTHER INFORMATION (CONTINUED)

A. Retirement System (continued)

The Utah State Retirement Board does not segregate the assets and vested benefits of the individual plans by unit within the system. Therefore, it is not possible to determine the portion of the assets and vested benefits or unfunded liabilities of the plans that are applicable to Morgan City Corporation.

The City also sponsors a defined contribution retirement plan under Internal Revenue Code 401(K) which is administered by the Utah Retirement Systems. The Plan covers all city employees. Participants are fully vested. The 401(K) plan is an elective deferral plan. The City does not make contributions on behalf of the employees. All city employees may contribute a minimum of ½ of 1% up to a maximum of 25% of gross income. The participants' contributions for the years ended June 30, 2011, 2010, and 2009 were as follows: \$13,577, \$13,532, and \$16,648, respectively.

B. Deferred Revenues

Deferred revenues are those revenues where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Morgan City has deferred revenue as of June 30, 2011 as follows:

Special Revenue - Special Assessments	\$827,535
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C. Other Postretirement Health Care Benefits

In 2008, the City implemented a new medical retirement personnel policy. The City will provide certain medical benefits to retiring employees that meet specific criteria. The retiring employee must have been employed by the City for more than 35 years. The medical benefits include the payment of health insurance premiums for the employee up to five years or until the date the employee is eligible for Medicare. The employee will be responsible for any difference in premium for insuring a spouse or other dependents. As of June 30, 2011 there were no amounts paid for health care premiums on behalf of retired employees.

D. Commitments

Business Revenue Sharing Agreement. The City entered into a business revenue sharing agreement with an owner/developer where the agreement calls for the share of increased sales tax payments over base year amounts until the amount of \$185,781 is paid, with interest of 7.75%. In the event the reimbursement outlined isn't made within fifteen (15) years the obligation shall be deemed paid and no other recourse for payment shall be pursued by the owner/developer against the City.

**MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

IV. OTHER INFORMATION (CONTINUED)

E. Risk Management – Claims and Judgments

The City 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 City maintains commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the prior year.

F. Stewardship, Compliance, and Accountability

During the year, one program had expenditures in excess of budgeted amounts.

	Budget	Actual	Actual Over Budget
Parks	\$ 100,650	\$ 125,369	\$ 24,719

For the year ended June 30, 2011, all of the other departments and funds within the City were in compliance.

G. Prior Period Change

The June 30, 2010 financial statements have been restated to reflect the recording of land that was transferred to a company during the previous year. Certain land was being held by the City for an assisted living center until all the requirements were met and the land was transferred on February 23, 2010. The land was incorrectly reflected on the City's fixed asset schedule at \$137,343.

The City had a liability on its financial statements in the prior year for a capital lease on a fire truck. However, the lease agreement was held by a third party service provider, and the payment of the lease was a term of the service agreement. The lease was not a capital lease in nature. The effects of these restatement adjustments on the 2010 financial statements are as follows:

	Statement of Net Assets June 30, 2010		
	As Previously Reported	Restatement Adjustments	As Restated
Land	\$ 337,823	\$ (137,343)	\$ 200,480
Noncurrent liabilities due within one year	\$ (261,599)	\$ 5,368	\$ (256,231)
Due in more than one year	\$ (702,558)	\$ 23,557	\$ (679,001)
Beginning net assets	\$ 4,076,680	\$ (108,418)	\$ 3,968,262

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

IV. OTHER INFORMATION (CONTINUED)

H. Subsequent Events

On September 1, 2011 Morgan City's Justice Court was closed. As of September 1, Morgan County handles all court cases and filings.

REQUIRED SUPPLEMENTARY INFORMATION

**MORGAN CITY
BUDGET TO ACTUAL COMPARISON GENERAL FUND
June 30, 2011**

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Current year property taxes	\$ 265,000	\$ 245,000	\$ 243,540	\$ (1,460)
Redemptions	10,000	12,000	2,277	(9,723)
Fee in lieu	45,000	45,000	40,810	(4,190)
Sales and use taxes	430,000	410,000	439,337	29,337
	<u>750,000</u>	<u>712,000</u>	<u>725,964</u>	<u>13,964</u>
Licenses and permits:				
Business licenses	8,000	10,000	9,360	(640)
Building permits	35,000	20,000	18,808	(1,192)
Other licenses	1,300	2,000	1,823	(177)
	<u>44,300</u>	<u>32,000</u>	<u>29,991</u>	<u>(2,009)</u>
Intergovernmental:				
Grants	300,000	300,000	251,037	(48,963)
Class "C" road fund allotment	140,000	130,000	110,593	(19,407)
State liquor allotment	4,500	4,500	3,413	(1,087)
	<u>444,500</u>	<u>434,500</u>	<u>365,043</u>	<u>(69,457)</u>
Charges for services:				
Ambulance	58,000	50,000	45,760	(4,240)
Fire department	200	200	-	(200)
Parks	500	800	10,513	9,713
Cemetery	17,500	21,500	25,120	3,620
	<u>76,200</u>	<u>72,500</u>	<u>81,393</u>	<u>8,893</u>
Fines and forfeiture:	62,300	50,800	50,769	(31)
Other revenues:				
Interest earnings	8,350	8,350	6,824	(1,526)
Road impact fees	60,000	60,000	3,286	(56,714)
Park impact fees	30,000	30,000	1,950	(28,050)
Telecommunication & fees	60,000	60,000	78,097	18,097
Miscellaneous revenue	421,810	371,810	74,189	(297,621)
	<u>580,160</u>	<u>530,160</u>	<u>164,346</u>	<u>(365,814)</u>
Total revenues	<u>\$ 1,957,460</u>	<u>\$ 1,831,960</u>	<u>\$ 1,417,506</u>	<u>\$ (414,454)</u>

MORGAN CITY
BUDGET TO ACTUAL COMPARISON GENERAL FUND (CONTINUED)
June 30, 2011

	<u>Budgeted amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Unfavorable)
Expenditures:				
General government:				
Administrative	\$ 183,474	\$ 183,474	\$ 144,528	\$ 38,946
Court	46,350	46,350	43,748	2,602
Economic development	30,000	30,000	27,309	2,691
CDBG	300,000	300,000	250,787	49,213
Buildings	97,400	97,400	97,289	111
	<u>657,224</u>	<u>657,224</u>	<u>563,661</u>	<u>93,563</u>
Public safety:				
Police department	186,150	186,150	170,873	15,277
Fire department	28,453	28,453	18,326	10,127
Ambulance	71,500	71,500	63,529	7,971
Animal control	1,000	1,000	126	874
	<u>287,103</u>	<u>287,103</u>	<u>252,854</u>	<u>34,249</u>
Public works				
Building inspection	103,900	103,900	79,315	24,585
Road department	702,152	702,152	608,164	93,988
	<u>806,052</u>	<u>806,052</u>	<u>687,479</u>	<u>118,573</u>
Parks	100,650	100,650	125,369	(24,719)
Recreation	5,507	5,507	5,507	-
Cemetery	118,523	118,523	114,561	3,962
Shop	8,000	8,000	7,292	708
Total expenditures	<u>1,983,059</u>	<u>1,983,059</u>	<u>1,756,723</u>	<u>226,336</u>
Other financing sources (uses):				
Operating transfers in	25,000	50,000	60,754	(10,754)
Bond proceeds	101,099	101,099	101,000	99
Total other financing sources (uses)	<u>126,099</u>	<u>151,099</u>	<u>161,754</u>	<u>(10,655)</u>
Excess (deficiency) of revenues over expenditures	100,500	-	(177,463)	(177,463)
Fund balance - July 1, 2010	<u>-</u>	<u>-</u>	<u>485,442</u>	<u>485,442</u>
Fund balance - June 30, 2011	<u>\$ 100,500</u>	<u>\$ -</u>	<u>\$ 307,979</u>	<u>\$ 307,979</u>

MORGAN CITY
BUDGET TO ACTUAL COMPARISON SPECIAL IMPROVEMENT DISTRICT
June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Favorable
				(Unfavorable)
Revenues:				
Assessment - principal	\$ 92,000	\$ 92,000	\$ 71,367	\$ (20,633)
Interest on assessment	48,573	48,573	52,952	4,379
Administration fee	4,285	4,285	63,643	59,358
Interest	<u>1,000</u>	<u>1,000</u>	<u>414</u>	<u>(586)</u>
Total revenues	145,858	145,858	188,376	42,518
Expenditures:				
Contractual expenses	4,285	4,285	36,692	(32,407)
Debt service - bond principal	92,000	92,000	108,000	(16,000)
Debt service - bond interest	<u>49,573</u>	<u>49,573</u>	<u>52,636</u>	<u>(3,063)</u>
Total expenditures	<u>145,858</u>	<u>145,858</u>	<u>197,328</u>	<u>(51,470)</u>
Other financing sources (uses):				
Excess (deficiency) of revenues over expenditures	-	-	(8,952)	(8,952)
Fund balance - July 1, 2010	<u>-</u>	<u>-</u>	<u>(33,327)</u>	<u>(33,327)</u>
Fund balance - June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,279)</u>	<u>\$ (42,279)</u>

SUPPLEMENTARY INFORMATION

MORGAN CITY
COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	<u>Capital Projects</u>	<u>RDA</u>	<u>Perpetual Care</u>	<u>Utility Enhancement</u>	<u>Total Nonmajor Governmental funds</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ 50,805	\$ 252,278	\$ 159	\$ 303,242
Accounts receivable	<u>-</u>	<u>1,010</u>	<u>9,435</u>	<u>-</u>	<u>10,445</u>
 TOTAL ASSETS	 <u>\$ -</u>	 <u>\$ 51,815</u>	 <u>\$ 261,713</u>	 <u>\$ 159</u>	 <u>\$ 313,687</u>
 FUND BALANCES					
Restricted for:					
Redevelopment	\$ -	\$ 51,815	\$ -	\$ -	\$ 51,815
Perpetual care	-	-	261,713	-	261,713
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>159</u>	<u>159</u>
 TOTAL FUND BALANCES	 <u>\$ -</u>	 <u>\$ 51,815</u>	 <u>\$ 261,713</u>	 <u>\$ 159</u>	 <u>\$ 313,687</u>

MORGAN CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET ASSETS
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	<u>Capital</u>		<u>Perpetual</u>	<u>Utility</u>	<u>Total</u>
	<u>Projects</u>	<u>RDA</u>	<u>Care</u>	<u>Enhancement</u>	<u>Nonmajor</u>
					<u>Governmental</u>
					<u>funds</u>
REVENUES					
Taxes	\$ -	\$ 35,155	\$ -	\$ -	\$ 35,155
Charges for services	-	-	8,383	50	8,433
Interest	-	1,311	1,595	-	2,906
Total revenues	-	36,466	9,978	50	46,494
EXPENDITURES					
Current operating:					
General government	-	52,001	-	-	52,001
Miscellaneous	-	25,000	-	-	25,000
Total expenditures	-	77,001	-	-	77,001
Excess of revenues over (under) expenditures	-	(40,535)	9,978	50	(30,507)
OTHER FINANCING SOURCES (USES)					
Transfers-in	-	-	-	-	-
Transfers-out	(10,754)	-	(50,000)	-	(60,754)
Net change in fund balances	(10,754)	(40,535)	(40,022)	50	(91,261)
Fund balances at beginning of year	10,754	92,350	301,735	109	404,948
Fund balances at end of year	<u>\$ -</u>	<u>\$ 51,815</u>	<u>\$ 261,713</u>	<u>\$ 159</u>	<u>\$ 313,687</u>

**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***

**Honorable Mayor and City Council
Morgan City, Utah**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan City as of and for the year ended June 30, 2011, which collectively comprise the Morgan City basic financial statements and have issued our report thereon dated December 13, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morgan City'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 Morgan City's internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Morgan City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan City'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 do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Morgan City, in a separate letter dated December 13, 2011.

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

Wizam, Smith, Raebler, & Prescott, LLP

Salt Lake City, Utah
December 13, 2011

**INDEPENDENT AUDITORS' REPORT ON STATE
LEGAL COMPLIANCE**

**Honorable Mayor and City Council
Morgan City, Utah**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Morgan City (the City), for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility, matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2011. The City received the following major assistance programs from the State of Utah.

C Road Funds (Department of Transportation)

Our audit, included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Liquor Law Enforcement
Cash Management	Justice Court
Purchasing Requirements	B & C Road Funds
Budgetary Compliance	Other General Compliance Issues
Truth in Taxation and Property Tax Limitation	Uniform Building Code Standards
Retirement Systems	Impact Fees

The City did not receive any non major State grants during the year ended June 30, 2011.

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination on the City's compliance with these requirements.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2011.

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

This report is intended solely for the information and use of management of the City, the Board of Trustees, others within the entity, and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Wizan, Smith, Raebler, & Prescott, LLP

Salt Lake City, Utah
December 13, 2011

SCHEDULE OF FINDINGS

State Compliance Findings:

Finding #11-01: State law requires that expenditures not be incurred in excess of appropriations for any fund. We noted that Parks Program did not comply with this requirement.

Recommendation: Limitations on expenditures and regular analysis of budget status should be instigated to ensure that the City complies with state law.

Response: Morgan City applied for several Foundation grants to help with the installation of new playground equipment in Riverside Park. Not knowing when or if those monies would be awarded, we did not have potential earnings on the revenue side to offset expenses. Grant monies were received, but not until AFTER our budget year-end. Those revenues are in our 2011-2012 budget.

Finding #11-02: The Uniform Fiscal Procedures for Cities requires that personnel and purchasing policies be adopted and followed by the City. WSRP noted that the City's policies are outdated.

Recommendation: The City needs to review and update both the personnel and purchasing policies.

Response: Over the past year, the City has been working to update its Personnel and Purchase Policy Procedures. The City's attorney is currently reviewing the new policies for compliance with legal statutes.

Finding #11-03: According to Utah Code (10-3-117), a City may not incur expenditures in any fund sufficient to create a negative fund balance within that fund. The City's Special Improvement District had a negative fund balance of \$33,328 at year end.

Recommendation: WSRP recognizes the special circumstances relate to the negative fund balance in the Special Improvement District; however, we recommend that the City make the necessary adjustments to revenues and expenditures to get all the funds into a positive fund balance.

Response: The City is currently exercising its full rights in every effort to either sell or make sure that monies earned by the developer are recouped by the City and out towards the full SID debt obligation.