

**CITY OF MORGANTOWN, WEST VIRGINIA
A CLASS II MUNICIPALITY IN MONONGALIA COUNTY**

**INDEPENDENT AUDITOR'S REPORT AND
RELATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2012
RFP #12-050 (Monongalia County)

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**CITY OF MORGANTOWN, WEST VIRGINIA
MUNICIPAL OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2012**

Office	Name	Term
	Elective	
Mayor	James Marilla	07/01/11 - 06/30/13
Deputy Mayor	Ron L. Bane	07/01/11 - 06/30/13
Council Members:	Wes Nugent	07/01/11 - 06/30/13
	Marti Shamberger	07/01/11 - 06/30/13
	Jennifer Selin	07/01/11 - 06/30/13
	William Bryne	07/01/11 - 06/30/13
	Lind Herbst	07/01/11 - 06/30/13
	Appointed	
City Manager	Terrence Moore	
Finance Director	Joseph R. Sabatelli	
City Clerk	Linda Little	
Staff Attorney	Stephen Fanok	

CITY OF MORGANTOWN, WEST VIRGINIA
INDEX OF FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

GOVERNMENTAL FUND TYPES

General Fund

Special Revenue Funds

Coal Severance Fund
Community Development Block Grant
Board of Parks and Recreation Commissioners
Police Forfeiture
Special Grants
Local Law Enforcement Grant
Small Cities Block Grant
Property Auction
Life and Health Fund
I. C. White Coal Severance
OPEB Trust Fund

Capital Projects Funds

Capital Reserve Fund
Tax Increment Financing
Business Improvement District
Economic Development Grant
Airport Access Road
Board of Parks and Recreation
Capital Projects

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PROPRIETARY FUND TYPES

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CITY OF MORGANTOWN, WEST VIRGINIA
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Policemen's Pension and Relief
Firemen's Pension and Relief
Employee's Retirement and Benefit

DISCRETELY PRESENTED COMPONENT UNITS

Morgantown Utility Board

Morgantown Public Library
Library Expendable Trust

Capital Projects Funds
Capital Project – Clay Battelle Branch

Fiduciary Fund Types
Library Nonexpendable Trust
Library Endowment Fund



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Council
City of Morgantown
Morgantown, West Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Morgantown, West Virginia, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morgantown, West Virginia'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 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morgantown, West Virginia, as of June 30, 2012, and the respective changes in financial position and where applicable cash flows, thereof and the respective budgetary comparison for the General Fund and the Coal Severance Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2013, on our consideration of the City of Morgantown, West Virginia'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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress – Policemen's Pension and Relief Fund (PPRF), Firemen's Pension and Relief Fund (FPRF) and Employee's Pension and Relief Fund (EPRF) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morgantown, West Virginia's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purposes of additional analysis as specified in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the

financial statements. The combining and individual nonmajor fund financial statements, the schedule of expenditures of passenger facility charges and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dietrich + Boudett, PLLC

February 23, 2013

CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Unit	
	Governmental Activities	Business Type Activities	Total	Morgantown Utility Board	Morgantown Public Library
Assets					
Cash	\$ 3,155,142	\$ 408,149	\$ 3,563,291	\$ 1,604,837	\$ 457,474
Investment	1,467,459	1,001,739	2,469,198	6,151,345	1,233,882
Receivables	4,049,907	1,040,262	5,090,169	2,163,627	-0-
Internal balances	483,605	(483,605)	-0-	-0-	-0-
Inventory	49,730	33,210	82,940	982,303	-0-
Prepaid expenses	7,405	32,038	39,443	115,887	3,415
Restricted assets	906,943	1,635,410	2,542,353	5,784,971	1,154,349
Capital assets, net	20,560,990	50,971,372	71,532,362	179,750,006	2,469,466
Deferred financing costs	-0-	-0-	-0-	2,200,044	-0-
Accrued utility revenue	-0-	-0-	-0-	1,242,881	-0-
Other, net	-0-	-0-	-0-	35,065	-0-
Unamortized bond discount and issue costs	<u>814,719</u>	<u>458,598</u>	<u>1,273,317</u>	<u>-0-</u>	<u>-0-</u>
Total assets	<u>31,495,900</u>	<u>55,097,173</u>	<u>86,593,073</u>	<u>200,030,966</u>	<u>5,318,586</u>
Liabilities					
Accounts payable	372,566	319,599	692,165	1,387,430	5,471
Accrued payroll	339,369	25,066	364,435	501,974	-0-
Accrued expenses	-0-	-0-	-0-	-0-	22,568
Billing services payable	-0-	-0-	-0-	268,279	-0-
Disallowed charges payable	68,158	-0-	68,158	-0-	-0-
Accrued interest payable	602,472	5,575	608,047	30,742	-0-
Deferred revenue	440,762	-0-	440,762	55,946	-0-
Other accrued liabilities	-0-	-0-	-0-	146,150	-0-
Customer deposits	-0-	-0-	-0-	657,254	-0-
Accrued administrative costs on bonds	-0-	-0-	-0-	6,786	-0-
Accrued compensated absences	-0-	89,959	89,959	-0-	44,526
Long-term liabilities					
Due within one year	231,850	949,779	1,181,629	3,547,925	1,722
Due in more than one year	<u>37,458,143</u>	<u>11,801,601</u>	<u>49,259,744</u>	<u>96,933,669</u>	<u>39,032</u>
Total liabilities	<u>39,513,320</u>	<u>13,191,579</u>	<u>52,704,899</u>	<u>103,536,155</u>	<u>113,319</u>
Net Assets					
Invested in capital assets, net of related debt	18,742,218	38,219,992	56,962,210	90,429,350	2,428,712
Restricted	906,943	1,635,410	2,542,353	2,570,594	1,161,349
Unrestricted	<u>(27,666,581)</u>	<u>2,050,192</u>	<u>(25,616,389)</u>	<u>3,494,867</u>	<u>1,615,206</u>
Total net assets	<u>\$ (8,017,420)</u>	<u>\$ 41,905,594</u>	<u>\$ 33,888,174</u>	<u>\$ 96,494,811</u>	<u>\$ 5,205,267</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Net (Expenses) Revenues and Changes in Net Assets									
	Program Revenues			Primary Government			Component Unit			
	Charges For	Operating Grants and	Capital Grants and	Governmental Activities	Business Type Activities	Total	Morgantown Utility Board	Morgantown Public Library		
	Services	Contributions	Contributions	Activities	Activities	Total	Board	Library		
Governmental Activities										
General government	\$ 6,398,899	\$ 474,272	\$ -	\$ (5,756,292)	\$ -	\$ (5,756,292)	\$ -	\$ -	\$ -	\$ -
Public safety	13,338,143	2,942,382	-	(9,999,921)	-	(9,999,921)	-	-	-	-
Highways and streets	4,437,066	-	-	(4,437,066)	-	(4,437,066)	-	-	-	-
Culture and recreation	4,070,219	1,496,493	57,354	(2,119,573)	-	(2,119,573)	-	-	-	-
Community development	2,912,701	-	-	(2,541,765)	-	(2,541,765)	-	-	-	-
Debt service	1,209,702	-	-	(1,209,702)	-	(1,209,702)	-	-	-	-
Benefits payments	3,453,087	-	-	993,970	-	993,970	-	-	-	-
Total governmental activities	<u>35,819,817</u>	<u>4,913,147</u>	<u>57,354</u>	<u>(25,070,349)</u>	<u>-</u>	<u>(25,070,349)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-Type Activities										
Airport	3,855,203	2,684,269	586,650	-	(569,284)	(569,284)	-	-	-	-
Parking	2,483,348	2,393,268	-	-	(90,080)	(90,080)	-	-	-	-
Building commission	856,489	942,991	-	-	86,502	86,502	-	-	-	-
Total business-type activities	<u>7,195,040</u>	<u>6,020,528</u>	<u>586,650</u>	<u>-</u>	<u>(572,862)</u>	<u>(572,862)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 42,546,783</u>	<u>\$ 10,933,675</u>	<u>\$ 644,004</u>	<u>(25,070,349)</u>	<u>(572,862)</u>	<u>(25,643,211)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Component Unit										
Morgantown Utility Board	\$ 16,753,231	\$ 18,963,715	\$ -	-	-	-	2,210,484	-	-	-
Morgantown Public Library	<u>1,609,986</u>	<u>47,003</u>	<u>1,455,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107,889)</u>
Total component units	<u>\$ 18,363,217</u>	<u>\$ 19,010,718</u>	<u>\$ 1,455,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,210,484</u>	<u>-</u>	<u>-</u>	<u>(107,889)</u>

**CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF ACTIVITIES (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Net (Expenses) Revenues and Changes in Net Assets									
	Program Revenues			Primary Government				Component Unit		
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total	Morgantown Utility Board	Morgantown Public Library		
General Revenues										
Taxes and licenses	\$ 19,705,103	\$ -0-	\$ 19,705,103	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Franchise fees	385,915	-0-	385,915	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Interest and investment earnings	25,636	16,032	41,668	16,032	41,668	191,563	24,451	24,451	-0-	-0-
Gain (loss) on disposal of capital assets	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	149,482	-0-	149,482	-0-	149,482	439,999	3,848	3,848	-0-	-0-
Total general revenues	<u>20,266,136</u>	<u>16,032</u>	<u>20,282,168</u>	<u>16,032</u>	<u>20,282,168</u>	<u>631,562</u>	<u>28,299</u>	<u>28,299</u>	<u>-0-</u>	<u>-0-</u>
Change in net assets before contributed capital	(4,804,213)	(556,830)	(5,361,043)	(556,830)	(5,361,043)	2,842,046	(79,590)	(79,590)	-0-	-0-
Contributed capital	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,736,668</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net change in net assets	(4,804,213)	(556,830)	(5,361,043)	(556,830)	(5,361,043)	4,578,714	(79,590)	(79,590)	-0-	-0-
Net assets – beginning - restated	<u>(3,213,207)</u>	<u>42,462,424</u>	<u>39,249,217</u>	<u>42,462,424</u>	<u>39,249,217</u>	<u>91,916,097</u>	<u>5,284,857</u>	<u>5,284,857</u>	<u>-0-</u>	<u>-0-</u>
Net assets – ending	<u>\$ (8,017,420)</u>	<u>\$ 41,905,594</u>	<u>\$ 33,888,174</u>	<u>\$ 41,905,594</u>	<u>\$ 33,888,174</u>	<u>\$ 96,494,811</u>	<u>\$ 5,205,267</u>	<u>\$ 5,205,267</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF MORGANTOWN, WEST VIRGINIA
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Primary Government					Component Unit					
	General Fund	Coal Severance	Capital Reserve	Life and Health	Tax Incremental Financing Debt Service	Other Governmental Funds	Total Governmental Funds	Morgantown Public Library	Library Expendable Trust	Other Governmental Funds	Total
ASSETS											
Cash	\$ 142,494	\$ 42,156	\$ 392,821	\$ 1,105,443	\$ -	\$ 1,472,228	\$ 3,155,142	\$ 457,474	\$ -	\$ -	\$ 457,474
Investments	-0-	-0-	1,049,444	314,687	-0-	103,328	1,467,459	1,005,538	-0-	228,344	1,233,882
Receivables, net of allowances:											
Taxes	3,677,797	-0-	-0-	-0-	-0-	147,138	3,824,935	-0-	-0-	-0-	-0-
Accounts	115,782	-0-	-0-	-0-	-0-	8,445	124,227	-0-	-0-	-0-	-0-
Other	11,708	-0-	-0-	-0-	-0-	200	11,908	-0-	-0-	-0-	-0-
Grants	84,229	-0-	-0-	-0-	-0-	2,958	87,187	-0-	-0-	-0-	-0-
Interest	-0-	-0-	1,650	-0-	-0-	-0-	1,650	-0-	-0-	-0-	-0-
Bond proceeds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Due from/(to) other funds	235,093	-0-	2,015,850	-0-	-0-	(1,767,338)	483,605	2,916	-0-	(2,916)	-0-
Inventory	49,730	-0-	-0-	-0-	-0-	-0-	49,730	-0-	-0-	-0-	-0-
Restricted assets	-0-	-0-	-0-	-0-	906,943	-0-	906,943	-0-	1,154,349	-0-	1,154,349
Prepaid expenses	7,405	-0-	-0-	-0-	-0-	-0-	7,405	3,415	-0-	-0-	3,415
TOTAL ASSETS	\$ 4,324,238	\$ 42,156	\$ 3,459,765	\$ 1,420,130	\$ 906,943	\$ (33,041)	\$ 10,120,191	\$ 1,469,343	\$ 1,154,349	\$ 225,428	\$ 2,849,120

LIABILITIES AND FUND BALANCES											
Liabilities											
Accounts payable	\$ 144,200	\$ -	\$ 129,831	\$ 1,866	\$ -	\$ 161,861	\$ 437,758	\$ 5,471	\$ -	\$ -	\$ 5,471
Accrued interest payable	-0-	-0-	-0-	-0-	602,472	-0-	602,472	-0-	-0-	-0-	-0-
Accrued expenses	-0-	-0-	-0-	-0-	-0-	-0-	-0-	22,568	-0-	-0-	22,568
Accrued payroll and compensated absences	226,836	-0-	-0-	-0-	-0-	47,341	274,177	44,526	-0-	-0-	44,526
Disallowed charges payable	-0-	-0-	-0-	-0-	-0-	68,158	68,158	-0-	-0-	-0-	-0-
Deferred revenue	833,897	-0-	-0-	-0-	-0-	103,466	937,363	-0-	-0-	-0-	-0-
Total liabilities	<u>1,204,933</u>	<u>-0-</u>	<u>129,831</u>	<u>1,866</u>	<u>602,472</u>	<u>380,826</u>	<u>2,319,928</u>	<u>72,565</u>	<u>-0-</u>	<u>-0-</u>	<u>72,565</u>
Fund Balances											
Restricted	84,229	-0-	-0-	-0-	304,471	91,908	480,608	7,000	1,154,349	-0-	1,161,349
Assigned	49,730	42,156	3,329,934	1,418,264	-0-	1,340,186	6,180,270	-0-	-0-	225,428	225,428
Unassigned	2,985,346	-0-	-0-	-0-	-0-	(1,845,961)	1,139,385	1,389,778	-0-	-0-	1,389,778
Total fund balances	<u>3,119,305</u>	<u>42,156</u>	<u>3,329,934</u>	<u>1,418,264</u>	<u>304,471</u>	<u>(413,867)</u>	<u>7,800,263</u>	<u>1,396,778</u>	<u>1,154,349</u>	<u>225,428</u>	<u>2,776,555</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,324,238	\$ 42,156	\$ 3,459,765	\$ 1,420,130	\$ 906,943	\$ (33,041)	\$ 10,120,191	\$ 1,469,343	\$ 1,154,349	\$ 225,428	\$ 2,849,120

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF MORGANTOWN, WEST VIRGINIA
RECONCILIATION OF FUND BALANCE SHEETS OF
GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<i>Primary Government</i>	<i>Component Unit <u>Morgantown Public Library</u></i>
Fund balance, fund level statement June 30, 2012	\$ 7,800,263	\$ 2,776,555
<p>The total fund balance of the City of Morgantown's governmental funds differs from net assets of the governmental activities reported on the Statement of Net Assets as follows:</p> <p>Some liabilities are not due and payable in the current period and therefore, are not reported in the fund level statements:</p>		
Accrued compensated absences	(1,058,210)	-0-
Obligations under capital lease	(1,818,772)	(40,754)
Net pension obligation	(11,795,011)	-0-
Bonds payable	(18,630,000)	-0-
Accrued other post employment benefits	(4,388,000)	-0-
Capital assets, that are used in governmental activities and are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those assets and their associated accumulated depreciation.	20,560,990	2,469,466
<p>Some assets do not provide current financial resources and are reported as deferred revenues in the fund level statements.</p>		
Unamortized bond discount and issue costs	814,719	-0-
Deferred revenue	<u>496,601</u>	<u>-0-</u>
Net assets of governmental activities	\$ (<u>8,017,420</u>)	\$ <u>5,205,267</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF MORGANTOWN, WEST VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN NET ASSETS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Primary Government							Component Unit			
	General Fund	Coal Severance	Capital Reserve	Life and Health	Financing Debt Service	Other Governmental Funds	Total Governmental Funds	Morgantown Public Library	Library Expendable Trust	Other Governmental Funds	Total
Revenues	\$ 17,994,674	\$ -	\$ -	\$ -	\$ -	\$ 1,489,956	\$ 19,484,630	\$ -	\$ -	\$ -	\$ -
Taxes and special assessments	362,598	-	-	-	-	-	362,598	-	-	-	-
Licenses and permits	2,680,966	-	-	-	-	1,581,664	4,262,630	-	-	-	-
Charges for services	582,320	-	-	-	-	68,197	650,517	47,003	-	-	47,003
Fines and forfeits	385,915	-	-	-	-	-	385,915	-	-	-	-
Franchise fees	8,451	382	9,471	4,300	1,069	2,345	26,018	24,067	(3,758)	4,142	24,451
Investment income (loss)	11,190	-	1,797	-	-	204,891	217,878	21,770	-	80	21,850
Donations											
Intergovernmental:											
Federal	355,840	-	15,806	-	-	395,543	767,189	-	-	-	-
State	34,295	157,145	-	-	-	103,547	294,987	428,403	-	14,000	442,403
Local	-	-	-	-	-	109,210	109,210	940,227	-	-	940,227
Contributions from employees	-	-	-	118,742	-	-	118,742	-	-	-	-
Contributions from employers	-	-	-	4,328,315	-	-	4,328,315	-	-	-	-
Other	131,252	-	142	18,088	-	-	149,482	3,848	-	-	3,848
Total revenues	22,547,501	157,527	27,216	4,469,445	1,069	3,955,353	31,158,111	1,465,318	(3,758)	18,222	1,479,782

**CITY OF MORGANTOWN, WEST VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN NET ASSETS - GOVERNMENTAL FUNDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

	Primary Government						Component Unit				
	General Fund	Coal Severance	Capital Reserve	Life and Health	Tax Increment Financing Debt Service	Other Governmental Funds	Total Governmental Funds	Morgantown Public Library	Library Expendable Trust	Other Governmental Funds	Total
Expenditures											
General government	\$ 5,144,214	\$ -	\$ -	\$ 180,058	\$ 35,972	\$ -	\$ 5,360,244	\$ -	\$ -	\$ -	\$ -
Public safety	10,961,718	-	-	-	-	187,408	11,149,126	-	-	-	-
Highways and streets	4,217,351	-	-	-	-	-	4,217,351	-	-	-	-
Culture and recreation	1,049,428	-	-	-	-	2,885,260	3,934,688	1,423,430	7,926	-	1,431,356
Community development	-	-	1,642,936	-	-	1,862,103	3,505,039	-	-	-	-
Debt service	-	-	-	-	1,359,702	-	1,359,702	-	-	-	-
Benefit payments	-	-	-	3,453,087	-	-	3,453,087	-	-	-	-
Total expenditures	<u>21,372,711</u>	<u>-</u>	<u>1,642,936</u>	<u>3,633,145</u>	<u>1,395,674</u>	<u>4,934,771</u>	<u>32,979,237</u>	<u>1,423,430</u>	<u>7,926</u>	<u>-</u>	<u>1,431,356</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,174,790</u>	<u>157,527</u>	<u>(1,615,720)</u>	<u>836,300</u>	<u>(1,394,605)</u>	<u>(979,418)</u>	<u>(1,821,126)</u>	<u>41,888</u>	<u>(11,684)</u>	<u>18,222</u>	<u>48,426</u>
Other Financing Sources (Uses)											
Operating transfers in	308,600	-	1,029,218	-	1,451,158	1,606,538	4,395,514	-	-	-	-
Operating transfers (out)	(2,120,892)	(175,000)	(200,000)	(600,000)	-	(1,451,158)	(4,547,050)	-	-	-	-
Total other financing sources (uses)	<u>(1,812,292)</u>	<u>(175,000)</u>	<u>829,218</u>	<u>(600,000)</u>	<u>1,451,158</u>	<u>155,380</u>	<u>(151,536)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(637,502)	(17,473)	(786,502)	236,300	56,553	(824,038)	(1,972,662)	41,888	(11,684)	18,222	48,426
Fund balances at beginning of year, restated	<u>3,756,807</u>	<u>59,629</u>	<u>4,116,436</u>	<u>1,181,964</u>	<u>247,918</u>	<u>410,171</u>	<u>9,772,925</u>	<u>1,354,890</u>	<u>1,166,033</u>	<u>207,206</u>	<u>2,728,129</u>
Fund balances at end of year	<u>\$ 3,119,305</u>	<u>\$ 42,156</u>	<u>\$ 3,329,934</u>	<u>\$ 1,418,264</u>	<u>\$ 304,471</u>	<u>\$ (413,867)</u>	<u>\$ 7,800,263</u>	<u>\$ 1,396,778</u>	<u>\$ 1,154,349</u>	<u>\$ 225,428</u>	<u>\$ 2,776,555</u>

The accompanying independent auditor's report and notes are an integral part of the combining financial statements.

**CITY OF MORGANTOWN, WEST VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN NET ASSETS OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	<i>Primary Government</i>	<i>Component Unit <u>Morgantown Public Library</u></i>
Net change in net assets – total governmental funds	\$ (1,972,662)	\$ 48,426
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the difference between capital outlays and depreciation in the current period.</p>	(675,155)	(129,575)
<p>Capital leases and bonds provide current financial resources to governmental funds, but entering into capital leases and bonds increase long-term liabilities in the Statement of Net Assets. Repayment of capital lease obligations and bonds are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets, while proceeds are considered revenue in the governmental funds, but increase long-term liabilities in the Statement of Net Assets.</p>		
Repayment of obligation under capital lease	69,530	1,559
Repayment of bonds	150,000	-0-
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Decrease in compensated absences	18,624	-0-
Increase in pension benefit obligation	(1,845,307)	-0-
Increase in accrued other post employment benefits	(366,000)	-0-
Decrease in unamortized bond discounts	(40,736)	-0-

CITY OF MORGANTOWN, WEST VIRGINIA
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN NET ASSETS OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012

	<i>Primary Government</i>	<i>Component Unit <u>Morgantown Public Library</u></i>
<p>Some revenues reported in the Statement of Activities do not provide financial resources that are both available and measurable for use in current activities.</p>		
Change in deferred revenues	\$ (<u>142,507</u>)	\$ <u>-0-</u>
Change in Net Assets of Governmental Activities	\$ (<u>4,804,213</u>)	\$ (<u>79,590</u>)

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF MORGANTOWN, WEST VIRGINIA
FUND BALANCE SHEETS
PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Business Type Activities</u>				<u>Component Unit</u>
	<u>Airport Fund</u>	<u>Parking Authority</u>	<u>Building Commission</u>	<u>Total</u>	<u>Morgantown Utility Board</u>
ASSETS					
Current Assets					
Cash	\$ 60,590	\$ 230,298	\$ 117,261	\$ 408,149	\$ 1,604,837
Investments	-0-	1,001,739	-0-	1,001,739	-0-
Receivables, net of allowances:					
Accounts	91,864	1,269	100,000	193,133	2,133,478
Grants	63,280	-0-	-0-	63,280	-0-
Interest	-0-	516	-0-	516	30,149
Inventory	33,210	-0-	-0-	33,210	982,303
Due from/(to) other funds	(455,880)	(27,725)	-0-	(483,605)	-0-
Deposits and prepayments	-0-	-0-	-0-	-0-	115,887
Accrued utility revenue	-0-	-0-	-0-	-0-	1,242,881
Prepaid expenses	32,038	-0-	-0-	32,038	-0-
Total current assets	<u>(174,898)</u>	<u>1,206,097</u>	<u>217,261</u>	<u>1,248,460</u>	<u>6,109,535</u>
Noncurrent Assets					
Restricted assets	<u>54,917</u>	<u>753,843</u>	<u>826,650</u>	<u>1,635,410</u>	<u>5,784,971</u>
Capital Assets					
Land	50,050	1,484,399	6,445,206	7,979,652	1,451,027
Intangible plant	-0-	-0-	-0-	-0-	376,834
Land improvements	-0-	-0-	744,473	744,473	-0-
Building	6,223,857	-0-	15,742,250	21,966,107	21,330,544
Structures and improvements	30,796,655	8,884,741	-0-	39,681,396	-0-
Water transmission and distribution system	-0-	-0-	-0-	-0-	52,023,513
Sewer and storm collection system	-0-	-0-	-0-	-0-	67,410,907
Treatment plant equipment	-0-	-0-	-0-	-0-	30,933,226
Office furniture, equipment and computer system	-0-	-0-	-0-	-0-	2,473,985
Vehicles and heavy duty equipment	-0-	-0-	-0-	-0-	4,408,999
Leasehold improvements	-0-	90,965	-0-	90,965	-0-
Machinery and equipment	2,307,936	1,331,126	1,094,319	4,733,381	-0-
Construction in progress	981,616	-0-	-0-	981,616	81,972,959
Less: Accumulated depreciation	<u>(14,207,805)</u>	<u>(5,415,690)</u>	<u>(5,582,723)</u>	<u>(25,206,218)</u>	<u>(82,631,988)</u>
Net capital assets	<u>26,152,309</u>	<u>6,375,541</u>	<u>18,443,522</u>	<u>50,971,372</u>	<u>179,750,006</u>
Other Assets					
Accounts receivable	-0-	-0-	783,333	783,333	-0-
Investments	-0-	-0-	-0-	-0-	6,151,345
Deferred financing costs	-0-	-0-	-0-	-0-	2,200,044
Other net	-0-	-0-	-0-	-0-	35,065
Unamortized bond discount and issue costs	-0-	38,579	420,019	458,598	-0-
Total other assets	<u>-0-</u>	<u>38,579</u>	<u>1,203,352</u>	<u>1,241,931</u>	<u>8,386,454</u>
TOTAL ASSETS	\$ 26,032,328	\$ 8,374,060	\$ 20,690,785	\$ 55,097,173	\$ 200,030,966

	<u>Business Type Activities</u>				<u>Component Unit</u>
	<u>Airport</u> <u>Fund</u>	<u>Parking</u> <u>Authority</u>	<u>Building</u> <u>Commission</u>	<u>Total</u>	<u>Morgantown</u> <u>Utility Board</u>
LIABILITIES AND NET ASSETS					
Current Liabilities (payable from current assets)					
Current portion obligation under capital lease	\$ 17,829	\$ 8,600	\$ -0-	\$ 26,429	\$ -0-
Notes payable	-0-	-0-	1,777	1,777	-0-
Accounts payable	207,028	112,571	-0-	319,599	1,387,430
Deferred revenue	-0-	-0-	-0-	-0-	55,946
Accrued payroll	10,185	14,881	-0-	25,066	501,974
Billing services collected payable	-0-	-0-	-0-	-0-	268,279
Other accrued liabilities	-0-	-0-	-0-	-0-	146,150
Accrued compensated absences	<u>39,722</u>	<u>50,237</u>	<u>-0-</u>	<u>89,959</u>	<u>-0-</u>
Total current liabilities (payable from current assets)	<u>274,764</u>	<u>186,289</u>	<u>1,777</u>	<u>462,830</u>	<u>2,359,779</u>
Current Liabilities (payable from restricted assets)					
Revenue bonds payable	-0-	279,750	641,823	921,573	-0-
Current portion of long term debt	-0-	-0-	-0-	-0-	3,547,925
Interest payable	<u>-0-</u>	<u>-0-</u>	<u>5,575</u>	<u>5,575</u>	<u>-0-</u>
Total current liabilities (payable from restricted assets)	<u>-0-</u>	<u>279,750</u>	<u>647,398</u>	<u>927,148</u>	<u>3,547,925</u>
Long-Term Liabilities (net of current portion)					
Revenue bonds payable	-0-	3,980,772	7,221,783	11,202,555	85,772,731
Obligation under capital lease	404,124	194,922	-0-	599,046	-0-
Customer deposits	-0-	-0-	-0-	-0-	657,254
Accrued administrative costs on bonds	-0-	-0-	-0-	-0-	6,786
Accrued interest on bonds	-0-	-0-	-0-	-0-	24,435
Interest on customer assets	-0-	-0-	-0-	-0-	6,307
Advances on construction	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,160,938</u>
Total long-term liabilities (net of current portion)	<u>404,124</u>	<u>4,175,694</u>	<u>7,221,783</u>	<u>11,801,601</u>	<u>97,628,451</u>
Total liabilities	<u>678,888</u>	<u>4,641,733</u>	<u>7,870,958</u>	<u>13,191,579</u>	<u>103,536,155</u>
Net Assets					
Invested in capital assets, net of related debt	25,730,356	1,911,497	10,578,139	38,219,992	90,429,350
Restricted	54,917	753,843	826,650	1,635,410	2,570,594
Unrestricted	(431,833)	1,066,987	1,415,038	2,050,192	3,494,867
Total net assets	<u>25,353,440</u>	<u>3,732,327</u>	<u>12,819,827</u>	<u>41,905,594</u>	<u>96,494,811</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>26,032,328</u>	\$ <u>8,374,060</u>	\$ <u>20,690,785</u>	\$ <u>55,097,173</u>	\$ <u>200,030,966</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Business Type Activities			Total	Component Unit
	<u>Airport Fund</u>	<u>Parking Authority</u>	<u>Building Commission</u>		<u>Morgantown Utility Board</u>
Operating Revenues					
Charges for services	\$ 2,684,269	\$ 1,916,466	\$ 942,991	\$ 5,543,726	\$ 18,963,715
Fines	-0-	476,802	-0-	476,802	-0-
Grants	<u>15,000</u>	<u>-0-</u>	<u>-0-</u>	<u>15,000</u>	<u>-0-</u>
Total operating revenues	<u>2,699,269</u>	<u>2,393,268</u>	<u>942,991</u>	<u>6,035,528</u>	<u>18,963,715</u>
Operating Expenses					
Personal services	674,644	1,016,845	-0-	1,691,489	-0-
Purchases – fuel	1,613,079	-0-	-0-	1,613,079	-0-
Supplies	16,211	22,807	-0-	39,018	-0-
Liability insurance	52,684	34,156	-0-	86,840	-0-
Utilities	135,712	69,237	-0-	204,949	-0-
General and administrative	141,070	159,891	11,483	312,444	-0-
Depreciation	1,092,626	335,242	463,996	1,891,864	-0-
Amortization	5,825	3,355	58,073	67,253	-0-
Maintenance	105,444	125,582	-0-	231,026	-0-
Rental lease	-0-	503,113	-0-	503,113	-0-
Water operating expenses	-0-	-0-	-0-	-0-	7,032,199
Sewer operating expenses	-0-	-0-	-0-	-0-	6,925,068
Storm water utility operating expenses	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>989,094</u>
Total operating expenses	<u>3,837,295</u>	<u>2,270,228</u>	<u>533,552</u>	<u>6,641,075</u>	<u>14,946,361</u>
Operating (loss) income	(1,138,026)	123,040	409,439	(605,547)	4,017,354
Nonoperating Revenues (Expenses)					
Interest and dividends	75	15,589	368	16,032	191,563
Gain (loss) on investments	-0-	(7,384)	-0-	(7,384)	-0-
Interest and fiscal charges	(17,908)	(205,736)	(322,937)	(546,581)	(1,806,870)
Other revenue	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>439,999</u>
Total nonoperating revenues (expenses)	<u>(17,833)</u>	<u>(197,531)</u>	<u>(322,569)</u>	<u>(537,933)</u>	<u>(1,175,308)</u>
Change in net assets before nonoperating grants and operating transfers	(1,155,859)	(74,491)	86,870	(1,143,480)	2,842,046
Nonoperating grants	586,650	-0-	-0-	586,650	-0-
Contributed capital	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,736,668</u>
Change in net assets	(569,209)	(74,491)	86,870	(556,830)	4,578,714
Total net assets – beginning	<u>25,922,649</u>	<u>3,806,818</u>	<u>12,732,957</u>	<u>42,462,424</u>	<u>91,916,097</u>
Total net assets – ending	\$ <u>25,353,440</u>	\$ <u>3,732,327</u>	\$ <u>12,819,827</u>	\$ <u>41,905,594</u>	\$ <u>96,494,811</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business Type Activities</u>			<u>Total</u>	<u>Component Unit</u>
	<u>Airport Fund</u>	<u>Parking Authority</u>	<u>Building Commission</u>		<u>Morgantown Utility Board</u>
Cash Flows from Operating Activities					
Receipts from customers	\$ 2,722,162	\$ 2,393,147	\$ 1,043,747	\$ 6,159,056	\$ 18,432,043
Payments to suppliers	(1,998,872)	(988,736)	(11,483)	(2,999,091)	(8,926,992)
Payments to employees	(680,637)	(1,039,312)	-0-	(1,719,949)	(4,769,540)
Net cash provided by operating activities	<u>42,653</u>	<u>365,099</u>	<u>1,032,264</u>	<u>1,440,016</u>	<u>4,735,511</u>
Cash Flows from Capital and Related Financing Activities					
Repayment of notes payable	-0-	-0-	(10,231)	(10,231)	-0-
Repayment of obligation under capital lease	(16,130)	(7,781)	-0-	(23,911)	-0-
Proceeds from revenue bonds	-0-	-0-	-0-	-0-	3,754,937
(Increase) decrease in restricted assets	(32,004)	5,178	24,427	(2,399)	7,454,672
(Increase) decrease in grants receivable	27,681	-0-	-0-	27,681	-0-
Repayment of revenue bonds	-0-	(264,307)	(624,018)	(888,325)	(2,128,512)
Decrease in advances on construction	-0-	-0-	-0-	-0-	518,768
Nonoperating grants	586,650	-0-	-0-	586,650	-0-
Acquisition of capital assets	(586,650)	-0-	-0-	(586,650)	(14,750,250)
Customer deposits including interest	-0-	-0-	-0-	-0-	120,640
Other nonoperating income	-0-	-0-	-0-	-0-	439,999
Change in other assets net	-0-	-0-	-0-	-0-	1,373
Interest expense	(17,908)	(205,736)	(323,215)	(546,859)	(1,810,661)
Net cash (used in) by capital and related financing activities	<u>(38,361)</u>	<u>(472,646)</u>	<u>(933,037)</u>	<u>(1,444,044)</u>	<u>(6,399,034)</u>
Cash Flows from Investing Activities					
Change in value of investments	-0-	22,529	-0-	22,529	-0-
Proceeds from sale of investments	-0-	-0-	-0-	-0-	2,700,449
Purchase of investments	-0-	-0-	-0-	-0-	(1,822,687)
Investment income	75	7,883	368	8,326	196,389
Net cash provided by investing activities	<u>75</u>	<u>30,412</u>	<u>368</u>	<u>30,855</u>	<u>1,074,151</u>
Net increase (decrease) in cash	4,367	(77,135)	99,595	26,827	(589,372)
Cash at beginning of year	<u>56,223</u>	<u>307,433</u>	<u>17,666</u>	<u>381,322</u>	<u>2,194,209</u>
Cash at end of year	\$ <u>60,590</u>	\$ <u>230,298</u>	\$ <u>117,261</u>	\$ <u>408,149</u>	\$ <u>1,604,837</u>

CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business Type Activities</u>				<u>Component Unit</u>
	<u>Airport Fund</u>	<u>Parking Authority</u>	<u>Building Commission</u>	<u>Total</u>	<u>Morgantown Utility Board</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:					
Operating (loss) income	\$ (1,138,026)	\$ 123,040	\$ 409,439	\$ (605,547)	\$ 4,017,354
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:					
Depreciation and amortization	1,098,451	338,597	522,069	1,959,117	3,756,228
(Increase) decrease in:					
Accounts receivable	22,893	(121)	100,756	123,528	(341,062)
Inventory	7,408	-0-	-0-	7,408	(136,364)
Due from/(to) other funds	105,427	(36,421)	-0-	69,006	-0-
Deposits and prepayments	-0-	-0-	-0-	-0-	(67,769)
Accrued utility revenue	-0-	-0-	-0-	-0-	(180,998)
Increase (decrease) in:					
Accounts payable	(47,507)	(37,529)	-0-	(85,036)	(2,479,505)
Deferred revenue	-0-	-0-	-0-	-0-	(9,612)
Accrued payroll	(9,059)	(22,696)	-0-	(31,755)	69,047
Accrued compensated absences	3,066	229	-0-	3,295	-0-
Billing service payable	-0-	-0-	-0-	-0-	82,395
Other current accrued liabilities	-0-	-0-	-0-	-0-	25,797
Net cash provided by operating activities	\$ <u>42,653</u>	\$ <u>365,099</u>	\$ <u>1,032,264</u>	\$ <u>1,440,016</u>	\$ <u>4,735,511</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u> <u>Basis)</u>	<u>GAAP</u> <u>Difference</u>	<u>Amounts</u> <u>(GAAP</u> <u>Basis)</u>	<u>With Final</u> <u>Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
Revenues						
Taxes (including interest and penalties):						
General property taxes	\$ 3,518,926	\$ 3,471,426	\$ 3,430,146	\$ 38,560	\$ 3,468,706	\$ (41,280)
Other taxes – business and public service	<u>14,191,000</u>	<u>14,908,500</u>	<u>14,720,131</u>	(363,385)	<u>14,356,746</u>	(188,369)
Total taxes	17,709,926	18,379,926	18,150,277	(324,825)	17,825,452	(229,649)
Licenses and permits	324,900	324,900	362,598	-0-	362,598	37,698
Charges for services	2,565,635	2,672,635	2,680,966	-0-	2,680,966	8,331
Fines and forfeitures	620,000	620,000	587,123	(4,803)	582,915	(32,877)
Franchise fees	315,000	385,200	387,138	(1,223)	385,915	2,138
Contributions	53,000	103,000	11,190	-0-	11,190	(91,810)
Interest	15,000	15,000	8,451	-0-	8,451	(6,549)
Intergovernmental:						
Federal	425,000	425,000	355,840	-0-	355,840	(69,160)
State	-0-	-0-	34,295	-0-	34,295	34,295
Miscellaneous	<u>22,100</u>	<u>22,100</u>	<u>133,978</u>	(2,726)	<u>131,252</u>	<u>111,878</u>
Total revenues	<u>22,050,561</u>	<u>22,947,561</u>	<u>22,711,856</u>	(333,577)	<u>22,378,279</u>	(235,705)
Expenditures						
General government	5,183,124	5,407,012	5,144,214	570,582	5,714,796	262,798
Public safety	10,416,459	10,922,368	10,961,718	2,189,017	13,150,735	(39,350)
Highways and streets	4,231,288	4,386,340	4,217,351	219,716	4,437,067	168,989
Culture and recreation	<u>2,036,000</u>	<u>2,073,500</u>	<u>2,150,930</u>	(1,101,503)	<u>1,049,427</u>	(77,430)
Total expenditures	<u>21,866,871</u>	<u>22,789,220</u>	<u>22,474,213</u>	<u>1,877,812</u>	<u>24,352,025</u>	<u>315,007</u>
Excess (deficiency) of revenues over (under) expenditures	<u>183,690</u>	<u>158,341</u>	<u>237,643</u>	(2,211,389)	(1,973,746)	<u>79,302</u>
Other Financing Sources (Uses)						
Operating transfers in	373,200	345,700	291,800	333,338	625,138	(53,900)
Operating transfers (out)	(1,156,890)	(1,219,390)	(1,019,390)	(1,101,502)	(2,120,892)	<u>200,000</u>
Total other financing sources (uses)	(783,690)	(873,690)	(727,590)	(768,164)	(1,495,754)	<u>146,100</u>
Net change in fund balance	(600,000)	(715,349)	(489,947)	(2,979,553)	(3,469,500)	225,402
Fund balance at beginning of year	<u>600,000</u>	<u>715,349</u>	<u>792,625</u>	<u>4,678,111</u>	<u>5,470,736</u>	<u>77,276</u>
Fund balance at end of year	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>302,678</u>	\$ <u>1,698,558</u>	\$ <u>2,001,236</u>	\$ <u>302,678</u>

**CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND - BUDGETARY BASIS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Explanation of Differences:

- (1) The City budgets for capital expenditures as a current period expenditure rather than a capital expenditure on the accrual basis of accounting.
- (2) The City does not budget for accrued compensated absences payable and net pension obligations in more than one year as is required by the accrual basis of accounting.
- (3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF MORGANTOWN, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
COAL SEVERANCE FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>GAAP</u>	<u>Amounts</u>	<u>With Final</u>
			<u>Basis)</u>	<u>Differences</u>	<u>(GAAP</u>	<u>Budget</u>
					<u>Basis)</u>	<u>Favorable</u>
						<u>(Unfavorable)</u>
Revenues						
Interest	\$ 400	\$ 400	\$ 382	\$ -0-	\$ 382	\$ (18)
Intergovernmental:						
State	<u>126,000</u>	<u>126,000</u>	<u>157,145</u>	<u>-0-</u>	<u>157,145</u>	<u>31,145</u>
Total revenues	<u>126,400</u>	<u>126,400</u>	<u>157,527</u>	<u>-0-</u>	<u>157,527</u>	<u>31,127</u>
Expenditures						
General government	<u>295</u>	<u>11,029</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,029</u>
Total expenditures	<u>295</u>	<u>11,029</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,029</u>
Excess of revenues over expenditures	<u>126,105</u>	<u>115,371</u>	<u>157,527</u>	<u>-0-</u>	<u>157,527</u>	<u>42,156</u>
Other Financing Sources (Uses)						
Operating transfers (out)	<u>(150,000)</u>	<u>(175,000)</u>	<u>(175,000)</u>	<u>-0-</u>	<u>(175,000)</u>	<u>-0-</u>
Total other financing sources (uses)	<u>(150,000)</u>	<u>(175,000)</u>	<u>(175,000)</u>	<u>-0-</u>	<u>(175,000)</u>	<u>-0-</u>
Net change in fund balance	(23,895)	(59,629)	(17,473)	-0-	(17,473)	42,156
Fund balance at beginning of year	<u>23,895</u>	<u>59,629</u>	<u>59,629</u>	<u>-0-</u>	<u>59,629</u>	<u>-0-</u>
Fund balance at end of year	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>42,156</u>	\$ <u>-0-</u>	\$ <u>42,156</u>	\$ <u>42,156</u>

Explanation of Differences

The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. This amount differs from the fund balance as derived from using the accrual basis of accounting.

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF MORGANTOWN, WEST VIRGINIA
 FIDUCIARY RESONSIBILITIES
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

	<i>Primary Government</i>				<i>Component Unit</i>		
	<u>Policemen's Pension and Relief</u>	<u>Firemen's Pension and Relief</u>	<u>Employee's Retirement and Benefit</u>	<u>Total</u>	<u>Morgantown Public Library Nonexpendable Trust</u>	<u>Endowment Fund</u>	<u>Total</u>
Assets							
Cash	\$ 261,718	\$ 242,610	\$ 1,829	\$ 506,157	\$ -0-	\$ -0-	\$ -0-
Investments	12,517,526	9,863,648	37,398,830	59,780,004	42,744	9,473	52,217
Receivables:							
Contributions	-0-	-0-	100,940	100,940	-0-	-0-	-0-
Accrued interest	53,700	35,135	-0-	88,835	-0-	-0-	-0-
Total assets	<u>12,832,944</u>	<u>10,141,393</u>	<u>37,501,599</u>	<u>60,475,936</u>	<u>42,744</u>	<u>9,473</u>	<u>52,217</u>
Liabilities							
Accounts payable	-0-	200	9,514	9,714	-0-	-0-	-0-
Total liabilities	<u>-0-</u>	<u>200</u>	<u>9,514</u>	<u>9,714</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net Assets							
Held in trust	\$ <u>12,832,944</u>	\$ <u>10,141,193</u>	\$ <u>37,492,085</u>	\$ <u>60,466,222</u>	\$ <u>42,744</u>	\$ <u>9,473</u>	\$ <u>52,217</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF MORGANTOWN, WEST VIRGINIA
FIDUCIARY RESPONSIBILITIES
STATEMENT OF CHANGES IN NET ASSETS
JUNE 30, 2012**

	<i>Primary Government</i>				<i>Component Unit</i>		
	<u>Policemen's Pension and Relief</u>	<u>Firemen's Pension and Relief</u>	<u>Employee's Retirement and Benefit</u>	<u>Total</u>	<u>Morgantown Public Library Nonexpendable Trust</u>	<u>Endowment Fund</u>	<u>Total</u>
Additions:							
Contributions:							
Employer	\$ 588,369	\$ 502,786	\$ 1,314,738	\$ 2,405,893	\$ -0-	\$ -0-	\$ -0-
Employee	259,883	178,325	672,623	1,110,831	-0-	-0-	-0-
Insurance premium tax allocation	505,974	424,571	-0-	930,545	-0-	-0-	-0-
Other	11	273	106,583	106,867	-0-	-0-	-0-
Total contributions	<u>1,354,237</u>	<u>1,105,955</u>	<u>2,093,944</u>	<u>4,554,136</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Investment income:							
Net appreciation (depreciation) in fair value of investments	(629,702)	(475,290)	170,468	(934,524)	247	120	367
Gain (loss) on sale of investments	261,861	214,601	743,786	1,220,248	-0-	-0-	-0-
Interest and dividends	345,314	261,998	821,394	1,428,706	952	174	1,126
Total investment income	<u>(22,527)</u>	<u>1,107,264</u>	<u>1,735,648</u>	<u>1,714,430</u>	<u>1,199</u>	<u>294</u>	<u>1,493</u>
Total additions	<u>1,331,710</u>	<u>1,107,264</u>	<u>3,829,592</u>	<u>6,268,566</u>	<u>1,199</u>	<u>294</u>	<u>1,493</u>
Deductions							
General and administrative	112,599	88,351	155,601	356,551	1,110	139	1,249
Contribution refunds	5,352	8,994	212,634	226,980	-0-	-0-	-0-
Benefit payments	<u>1,743,783</u>	<u>1,334,799</u>	<u>2,208,592</u>	<u>5,287,174</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total deductions	<u>1,861,734</u>	<u>1,432,144</u>	<u>2,576,827</u>	<u>5,870,705</u>	<u>1,110</u>	<u>139</u>	<u>1,249</u>
Net increase (decrease)	(530,024)	(324,880)	1,252,765	397,861	89	155	244
Net assets – beginning of year	<u>13,362,968</u>	<u>10,466,073</u>	<u>36,239,320</u>	<u>60,068,361</u>	<u>42,655</u>	<u>9,318</u>	<u>51,973</u>
Net assets – end of year	\$ <u>12,832,944</u>	\$ <u>10,141,193</u>	\$ <u>37,492,085</u>	\$ <u>60,466,222</u>	\$ <u>42,744</u>	\$ <u>9,473</u>	\$ <u>52,217</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

The City of Morgantown, West Virginia complies with accounting principles generally accepted in the United States of America. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2012.

In February 2009, Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods that begin after June 15, 2010. The objective of GASB 54 is to enhance the usefulness of fund balance information by 1) clarifying existing governmental fund type definitions and 2) providing clearer fund balance classifications that can be more consistently applied. The City of Morgantown, West Virginia implemented GASB 54 for the year ended June 30, 2011.

The City of Morgantown, West Virginia is incorporated under the provisions of the State of West Virginia. The City operates under a Council - Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, water, waste, recreation, education, public improvements, planning and zoning, and general administrative services.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.

Financial statements prepared using the full accrual basis of accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Basic Financial Statements – Government Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, public works and general administrative services are classified as governmental activities. The City's airport, parking and building commission are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs. An administrative service fee is charged by the General Fund to the other operating funds that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund) to recover the direct costs of General Fund services provided (finance, personnel, purchasing, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the City, but are financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Because of the nature of services they provide and the City's ability to impose its will on them or a financial benefit/burden relationship exists, the following component units are discretely presented in accordance with GASB Statement No. 14 (as amended by GASB Statement 39). The discretely presented component units are presented on the government wide and fund level statements.

The Morgantown Utility Board services all the citizens of the City of Morgantown. Complete financial statements for this component unit may be obtained at the entity's administrative offices at the following address:

Morgantown Utility Board
278 Greenbag Road
Morgantown, West Virginia 26507

The Morgantown Public Library serves all of the citizens of the City of Morgantown. The financial statements for this component unit may be obtained at the entity's administrative offices at the following address:

Morgantown Public Library
373 Spruce Street
Morgantown, West Virginia 26505

A summary of the significant accounting policies of the City of Morgantown, West Virginia, is presented below.

(a) Reporting Entity

The City of Morgantown is a municipal corporation governed by an elected mayor and six member council. The accompanying financial statements present the government and its component units as required by generally accepted accounting principles.

The services provided by the government and accounted for within these financial statements include law enforcement for the City, health and sanitation services, cultural and recreational programs, and other governmental services.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

The accompanying financial statements present the government and its component units as required by the accounting principles generally accepted in the United States. In determining whether to include a governmental department, agency, commission or organization as a component unit, the government must evaluate each entity as to whether they are legally separate and financially accountable based on the criteria set forth by the Governmental Accounting Standards Board (GASB). Legal separateness is evaluated on the basis of: (1) its corporate name, (2) the right to sue and be sued, and (3) the right to buy, sell or lease and mortgage property. Financial accountability is based on: (1) the appointment of the governing authority, and (2) the ability to impose will, or (3) the providing of specific financial benefit or imposition of specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the City.

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the City, but are financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Because of the nature of services they provide and the City's ability to impose its will on them or a financial benefit/burden relationship exists, the following component units are discretely presented in accordance with GASB Statement No. 14 (as amended by GASB Statement No. 39). The discretely presented component units are presented on the government-wide statements.

The *Morgantown Utility Board* serves all the citizens of the City of Morgantown.

The *Morgantown Public Library* serves City of Morgantown, West Virginia.

Complete financial statements for each of the individual component units can be obtained at the entity's administrative offices.

(b) Government-Wide Financial Statements

The government-wide financial statements report information on all the nonfiduciary activities of the government. For the most part, the effect of internal activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the governmental-wide statements. Major individual funds are reported as separate columns in the fund statements.

(c) **Measurement Focus and Financial Statement Presentation – Government-Wide Financial Statements**

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types”. Governmental funds are used to account for governmental activities, where the focus of attention is on the providing of services to the public as opposed to proprietary funds where the focus of attention is on recovering the cost of providing services to the public through service charges or user fees. Fiduciary funds are used to account for assets held by the City in a trustee or agency capacity. The fund types used by the City of Morgantown are described as follows:

Governmental Fund Types

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

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds: Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary Funds.

The accompanying independent auditor’s report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Debt Service Funds: Debt Service funds are used to account for financial resources to be used for the repayment of long-term debt which are not financed by Proprietary Funds.

Proprietary Fund Types

Enterprise Funds: Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City of Morgantown reports the following major governmental funds:

The Tax Increment Financing Debt Service, Life and Health, Capital Reserve, Coal Severance and General Fund.

General Fund: The General Fund is the general operating fund of the municipality.

The City of Morgantown reports the following major proprietary funds:

The Airport Fund, the Parking Authority Fund and the Building Commission Fund.

(d) Fund Financial Statements

The accounts of the City are organized into funds, each of which is considered to be a separate accounting entity. The major fund categories for the fund financial statements are:

Governmental Fund Types

Governmental funds are accounted for using the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

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

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds: Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary Funds.

Debt Service Funds: Debt Service funds are used to account for financial resources to be used for the repayment of long-term debt which are not financed by Proprietary Funds.

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet.

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types

Fiduciary funds account for assets held by the City in a trustee or agency capacity. Fiduciary funds are accounted for in essentially the same manner as proprietary funds.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

(e) Cash, Cash Equivalents and Investments

For purposes of the statement of cash flows, the City considers cash to be cash and cash equivalents.

Cash on hand and deposits with banking institutions either in checking or savings accounts are presented as cash and cash equivalent in the accompanying financial statements.

State statutes authorize the government to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: (a) obligations of the United States or any agency thereof, (b) certificates of deposit (which mature in less than one year), (c) general and direct obligations of the State of West Virginia, (d) obligations of the Federal National Mortgage Association, (e) indebtedness secured by first lien deed of trust for property situated within the State if the payment is substantially insured or guaranteed by the federal government, (f) pooled mortgage trusts (subject to limitations), (g) indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades, (h) interest earning deposits which are fully insured or collateralized, and (i) mutual funds registered with the Security and Exchange Commission which have fund assets over three hundred million dollars. State statute limitations concerning the aforementioned investments include the following:

- (1) at no time can investment portfolios consist of more than seventy-five percent of the indebtedness of any private corporations nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's debt which matures in less than one year.
- (2) at no time may more than nine percent of the portfolio be invested in securities issued by a single private corporation or association.
- (3) at no time can more than sixty percent of the portfolio be invested in equity mutual funds.

Investment risk is categorized as follows:

Interest rate risk – The risk that changes in interest rates will adversely affect the fair value of an investment.

Credit risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Custodial credit risk – The risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

State statute limitations concerning the aforementioned investments include the following: at no time can investment portfolios consist of more than seventy-five percent of the indebtedness of any private corporation nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's debt which matures in less than one year; at no time may more than nine percent of the portfolio be invested in securities issued by a single private corporation or association; and at no time can more than sixty percent of the portfolio be invested in equity mutual funds.

Municipal Pension Funds are governed as to type of investments by West Virginia Code §8-22-22. Pension funds are permitted to invest in all of the above mentioned types of investments with the exceptions of (1) Direct and general obligations of the state and (2) Pooled mortgage trusts. Additionally, pension funds are permitted to invest funds in the following categories of investments: (1) Repurchase agreements and (2) Common stock, securities convertible into common stocks, or warrants and rights to purchases such securities. Pension funds have different rules concerning the purchase of marketable debt securities.

The following restrictions apply only to pension portfolio's and are separate and distinct from the limitations mentioned above: (1) fixed income securities which are issued by one issuer (with the exception of the United States government) are not to exceed ten percent of the total assets of the total pension fund assets; and (2) at no time can the equity portion of the portfolio exceed fifty percent of the total portfolio.

(f) Receivables

All receivables are shown net of allowance for uncollectibles as follows:

Airport fund	\$ 91,864
General fund	\$ 115,782

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012**

Discretely Presented Component Unit

Estimated Credit Losses – The provision for losses on trade receivable is charged to operations in an amount sufficient to maintain the allowance for losses at a level considered adequate to cover estimated credit losses. The Morgantown Utility Board's charge-off policy is based on an account-by-account review. At June 30, 2012, the Morgantown Utility Board did a full review of trade accounts receivables and set a monthly allowance for bad debt charges. Generally, accounts are considered delinquent when they are 30 days contractually past due.

(g) Capital Assets

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with a fund are determined by its measurement focus. The City of Morgantown records the purchase of capital assets used in governmental fund type operations as expenditures in the governmental funds.

The government-wide financial statements of the City of Morgantown are accounted for on a cost of service or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net assets.

Depreciation of all exhaustible property, plant and equipment used by the proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and improvements	20 - 50 years
Infrastructure	20 - 65 years
Machinery and equipment	5 - 25 years
Vehicles	5 years

All proprietary funds and trust funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the balance sheets. The reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increase (revenues) and decreases (expenses) in net total assets.

The accompanying independent auditor’s report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012**

Depreciation of all exhaustible property, plant and equipment is charged as an expense against operations. Accumulated depreciation is reported on the statements of net assets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	25 - 50 years
Improvements	10 - 20 years
Utility plant	10 - 20 years
Equipment	5 - 25 years

Discretely Presented Component Units

Morgantown Public Library

The Morgantown Public Library depreciates all capital assets using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	20 - 50 years
Books and videos	5 years
Machinery and equipment	5 - 25 years

Morgantown Utility Board

The Board depreciates all long-term assets on a straight-line basis. The Board takes half a year's allowance in the year the asset is placed in service and a full year's allowance in the subsequent years with half a year's allowance in the final year of depreciation. At the time of retirement of depreciable utility plant in service, the amount is charged with the book cost of the property retired and the cost of removal, and is credited with any amounts recovered. The estimated useful lives of these assets are as follows:

Land improvements	15 years
Building	40 years
Vehicles	5 - 10 years
Equipment and furniture	3 - 10 years
Furniture	7 years

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

(h) **Basis of Accounting**

Fund Financial Statements

Modified Accrual Basis of Accounting

The City uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means that the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: business & occupation tax, hotel/motel tax, wine tax, liquor tax, property taxes, fire service fees, intergovernmental revenues, and investment income.

Accrual Basis of Accounting

The accrual basis of accounting is used in proprietary fund types and the pension trust funds. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred. Plan member contributions to the pension trust funds are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds (when appropriate) and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

(i) Budgets and Budgetary Accounting

All municipalities within West Virginia, are required by statute to prepare annual budgets (levy estimates) on prescribed forms for the General and Coal Severance Funds and submit these for approval to the State Auditor. These budgets are prepared in accordance with the following procedures:

1. The governing body of the municipality is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain the financial condition of the municipality and to prepare the levy estimate (budget) for the fiscal year commencing July 1.
2. The budget is then forthwith submitted to the State Auditor for approval.
3. The governing body then reconvenes on the third Tuesday in April to hear objections from the public and to formally lay the levy.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Revisions are authorized only with the prior written approval of the State Auditors office. The budgeted amounts reflected in the accompanying financial statements are such approved amounts.

- A) Unused appropriations for all of the above annually budgeted funds lapse at the year end.
- B) The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

(j) Encumbrances – Fund Financial Statements

Encumbrance accounting is used for the General Fund and special revenue funds.

Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

(k) Inventories

The City considers inventories of materials and supplies, other than fuel, utilized in governmental fund types operations as expended at the time of purchase therefore, they do not appear in the municipality's financial statements. Inventories of materials and supplies utilized in the proprietary fund type operation and fuel in governmental fund type operations, are considered expended at the time of consumption; therefore, balances on hand at year end, valued at cost (first-in, first-out) are presented in the City's financial statements.

Discretely Presented Component Unit

Morgantown Utility Board

The supplies inventory is valued on average cost basis.

(l) Amortization

Debt discount and expense on bonds is amortized on the straight-line method from the date of issuance to the date of maturity. Amortization of debt discount and issue costs for fiscal year ended June 30, 2012 was \$67,253.

Discretely Presented Component Unit

Morgantown Utility Board

The Board amortizes deferred financing costs on a straight-line basis over the term of the financing.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

(m) Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual sick and accrued vacations. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payment upon termination are included.

Accumulated Sick Leave

Municipal employees receive payment of 1/2 of the accumulated sick leave in excess of 720 hours. The payment for sick leave is calculated at current hourly rates and is paid in June of each fiscal year. Terminated and retiring employees hired before June 15, 1993 are entitled to receive payment for 2 of their accumulated sick leave, up to the amount accrued as of June 15, 1993, upon cessation of employment. Employees hired after that date do not receive payment for accumulated sick leave at cessation of employment.

Discretely Presented Component Unit

Morgantown Utility Board

The Board provides compensated absences for its employees in the form of vacation and sick leave. Vacation leave does not carry over from calendar year to calendar year.

(n) Self Insurance

The City is self-insured for employees life and health benefits. The operating funds are charged premiums by the City insurance fund, which is accounted for as a special revenue fund fund. The fund balance has been reserved for payment of future claims including any claims incurred and not yet reported at June 30, 2012.

(o) Pension Plans

The City provides separate defined benefit pension plans for uniformed police and fire department personnel. It is the City's policy to fund the normal cost and amortization of the unfunded prior service cost.

All eligible employees of BOPARC are covered under the West Virginia Public Employee Retirement System due to the City's electing to be a participating public employer. All other eligible employees are covered under the City of Morgantown Retirement and Benefit Fund.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Discretely Presented Component Unit
Morgantown Utility Board

Pension Plan and Deferred Compensation Plan

Plan Description – The Board contributes to the City of Morgantown, WV (the "City") Employee's Retirement and Benefit Fund (the Plan). The Plan is a cost-sharing multiple-employer defined benefit plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Major features of the plan appear in Chapter 8, Article 22, Sections 2-15 of the Code of West Virginia as approved by ordinance of the City Council of Morgantown, WV.

Funding Policy – Plan members are required to contribute 6% of their annual covered salary and the Board is required to contribute an actuarially determined rate. The 2012 and 2011 rates were 11.80% and 10.35% of annual covered payroll. The Board's contributions to the Plan for the years ended June 30, 2012, 2011 and 2010, were \$717,285, \$646,270 and \$478,911.

Deferred Compensation Plan – Employees are eligible to participate in an IRC Section 457 Deferred Compensation Plan. The maximum amount which may be deferred is the lesser of 100% of an employee's salary or \$17,000, for 2012 and \$16,500 for 2011, plus \$5,500 catch-up for employees over fifty years of age. The Board provides no match for participant's contributions. All amounts which are deferred remain solely the property of the Board and are subject to its general creditors.

Morgantown Public Library

All eligible employees of the Library are covered under the West Virginia Public Employee Retirement System due to the Library's electing to be a participating public employer.

(p) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

(q) Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

(r) Equity Classification

Effective July 1, 2010, the City adopted GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," which establishes new standards for accounting and financial reporting that are intended to improve the clarity and consistency of the fund balance information provided to financial report users. The classifications are based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. Fund balances are reported in the following categories:

Government-wide net assets are divided into three components:

- a. Invested in capital assets, net of related debt – Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- b. Restricted net assets – Consists of net assets that are restricted by the City's creditors (for example through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributions.
- c. Unrestricted net assets – All other net assets are reported in this category.

In the governmental fund financial statements, fund balances are classified as follows:

- a. Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

- b. Restricted – Amounts that can be spent only for specific purposes because of the City's code, state or federal laws, or externally imposed conditions by grantors or creditors.
- c. Committed – Amounts that can be used only for specific purposes determined by a formal action by the City's council.
- d. Assigned – Amounts that are designed by the City's council for a particular purpose but are not spendable until there is a majority vote approval by the City's council.
- e. Unassigned – All amounts not included in other spendable classifications.

(s) Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable covenants and restrictions.

(t) Operating and Nonoperating Revenue

The City reports all revenues produced by services provided as operating revenues including fees, penalties and basic charges for services. All other revenues are reported as nonoperating revenue including contributions, grants, and interest income.

2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported on the government-wide statement of net assets. The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental fund and changes in net assets of governmental activities as reported in the government – wide statement of activities. The individual elements of those reconciliations are included with the statements.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

3. Deposits and Investments

The City reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Exceptions include the City of Morgantown, West Virginia's Policemen's Pension and Relief Fund and the Firemen's Pension and Relief Fund which classify only cash as cash equivalents in order to appropriately report investment activity.

Deposits

It is the City's policy for deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The City's deposits are categorized to give an indication of the level of risk assumed by the City at June 30, 2012. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Uncollateralized.

<u>Non-Pooled Deposits</u>	<u>Bank Balance</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Amount</u>
General fund	\$ 694,485	\$ 43,342	\$ 651,143	\$ -0-	\$ 142,494
Special revenue funds	2,373,236	160,515	2,212,721	-0-	2,330,401
Debt service funds	906,943	25,000	881,943	-0-	906,943
Capital project funds	682,643	42,976	639,667	-0-	682,247
Enterprise funds	<u>412,568</u>	<u>117,517</u>	<u>295,051</u>	<u>-0-</u>	<u>408,149</u>
Total deposits	\$ <u>5,069,875</u>	\$ <u>389,350</u>	\$ <u>4,680,525</u>	\$ <u>-0-</u>	\$ <u>4,470,234</u>
Fiduciary funds	\$ <u>506,157</u>	\$ <u>506,157</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>506,157</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012**

Discretely Presented Component Units
Morgantown Public Library

<u>Non-Pooled Deposits</u>	<u>Bank Balance</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Amount</u>
General fund	\$ 540,725	\$ 300,253	\$ -0-	\$ 240,472	\$ 457,474

Morgantown Utility Board

The carrying amount of the Board's cash deposits was \$1,604,837 at June 30, 2012. The bank balance at June 30, 2012 was \$1,751,746 which was fully covered by Federal Deposit Insurance Coverage or collateralized with securities held by the pledging institution's trust department.

Total cash and investments at June 30, 2012 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Cash deposits		
Demand deposits	\$ 1,604,837	\$ 1,604,837
Cash and Investments with Fiscal Agents		
Cash	6,039,222	6,039,222
Investment agreements		
Fixed income	4,271,350	4,465,269
Equities	<u>1,226,760</u>	<u>1,431,825</u>
Total cash and investments	\$ <u>13,142,169</u>	\$ <u>13,541,153</u>

Note that the Board held \$1,510 in petty cash at June 30, 2012.

Interest Rate Risk

The Board's investment policy follows the State of West Virginia Code §8-13-22a and any subsequently enacted modifications of this statute concerning the limits of maturities on individual investments.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012**

Credit Risk

The Board has a deposit policy for custodial credit risk beyond the requirements of the State Statute. West Virginia law requires that deposits be insured or be protected by eligible securities pledged to and deposited either with the Board or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percent</u>
AA+	\$ 1,863,353	41.7%
AA	472,262	10.6%
A+	107,139	2.4%
A	269,674	6.0%
Not rated	<u>1,752,841</u>	<u>39.3%</u>
Total	\$ <u>4,465,269</u>	<u>100.0%</u>

Concentration of Credit Risk

The Board's investment policy follows the State of West Virginia Code §8-13-22a and any subsequently enacted modifications of this statute concerning the limits on the amount that may be invested in any one financial institution.

Investments

Investment pools are under the custody of the City. Investing is performed in accordance with investment policies complying with State Statutes and the City Charter. Pooled funds may be invested in the State Investment Pool or the Municipal Bond Commission for investment purposes, or invested in the following classes of securities: Commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and reverse repurchase agreements. The pension trust fund is also authorized to invest in corporate bonds rated AA or better by Standard & Poor's Corporation or AA or better by Moody's Bond Rating.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

State statutes authorize the government to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit (which mature in less than one year), general and direct obligations of the state of West Virginia; obligations of the federal national mortgage association; indebtedness secured by first lien deed of trusts for property situated within this state if the payment is substantially insured or guaranteed by the federal government; pooled mortgage trusts (subject to limitations); indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades; interest earning deposits which are fully insured or collateralized; and mutual funds registered with the S.E.C. which have fund assets over three hundred million dollars.

State statute limitations concerning the aforementioned investments include the following: at no time can investment portfolios consist of more than seventy-five percent of the indebtedness of any private corporation nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's debt which matures in less than one year; at no time may more than nine percent of the portfolio be invested in securities issued by a single private corporation or association; and at no time can more than sixty percent of the portfolio be invested in equity mutual funds.

Municipal Pension Funds are governed as to type of investments by West Virginia Code §8-22-22. Pension funds are permitted to invest in all of the above mentioned types of investments with the exceptions of (1) Direct and general obligations of the state and (2) Pooled mortgage trusts. Additionally, pension funds are permitted to invest funds in the following categories of investments: (1) Repurchase agreements and (2) Common stock, securities convertible into common stocks, or warrants and rights to purchases such securities. Pension funds have different rules concerning the purchase of marketable debt securities.

The following restrictions apply only to pension portfolio's and are separate and distinct from the limitations mentioned above: (1) fixed income securities which are issued by one issuer (with the exception of the United States government) are not to exceed ten percent of the total assets of the total pension fund assets; and (2) at no time can the equity portion of the portfolio exceed fifty percent of the total portfolio.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

The City's investments are categorized to give an indication of the level of risk assumed by the City at June 30, 2012. The categories are described as follows:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

<u>Type of Investments</u>	<u>Category</u>			<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>
	<u>1</u>	<u>2</u>	<u>3</u>			
Money Market	\$ 1,196,255	\$ -0-	\$ -0-	\$ 1,196,255	\$ 1,196,255	\$ -0-
Certificates of deposit	1,152,772	-0-	-0-	1,152,772	1,152,772	-0-
Mutual funds	<u>1,001,738</u>	<u>-0-</u>	<u>-0-</u>	<u>1,001,738</u>	<u>985,915</u>	<u>15,823</u>
Total investments	\$ <u>3,350,765</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	3,350,765	3,334,942	\$ <u>15,823</u>
Investments in municipal bond commission				<u>753,843</u>	<u>753,843</u>	
Total investments				4,104,608	\$ <u>4,088,785</u>	
Total deposits				<u>4,470,234</u>		
Total deposits and investments				\$ <u>8,574,842</u>		

Cash and investments are reported on the financial statement as follows:

Cash	\$ 3,563,291
Investments	2,469,198
Restricted Assets	<u>2,542,353</u>
	\$ <u>8,574,842</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Credit Risk

State law limits investments. It is the government's policy that no investment be purchased which does not conform to the State of West Virginia Code. As of June 30, 2012, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

	<u>Fair Value</u>	<u>Credit Risk Rating</u>	
		<u>Standard & Poor's and Fitch</u>	<u>Moody's Investment Services</u>
Money Market Funds	\$ 1,196,255	AAA	AAA
Mutual Funds	<u>1,001,738</u>	AAA	AAA
	<u>\$ 2,197,993</u>		

Interest Rate Risk

As of June 30, 2012, the City had the following amounts exposed to interest rate risk.

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
Certificates of deposit	\$ <u>1,152,772</u>	\$ <u>1,152,772</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

**Discretely Presented Component Units
*Morgantown Public Library***

<u>Type of Investments</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>
Corporate stocks	\$ 406,538	\$ -0-	\$ -0-	\$ 406,538	\$ 326,396	\$ 80,142
Certificates of deposit	955,093	-0-	-0-	955,093	940,000	15,093
Corporate bonds	58,020	-0-	-0-	58,020	50,130	7,890
Mutual funds	897,964	-0-	-0-	897,964	858,566	39,398
Money market	<u>70,616</u>	<u>-0-</u>	<u>-0-</u>	<u>70,616</u>	<u>70,616</u>	<u>-0-</u>
Total investments	<u>\$ 2,388,231</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,388,231</u>	<u>\$ 2,245,708</u>	<u>\$ 142,523</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Investments are presented on the financial statements as follows:

Restricted investments	\$ 1,154,349
Investments	<u>1,233,882</u>
	\$ <u>2,388,231</u>

Credit Risk

State law limits investments. It is the government's policy that no investment be purchased which does not conform to the State of West Virginia Code. As of June 30, 2012, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

	<u>Fair Value</u>	<u>Credit Risk Rating</u>	
		<u>Standard & Poor's and Fitch</u>	<u>Moody's Investment Services</u>
Corporate stocks	\$ 406,538	N/A	N/A
Certificates of deposit	955,093	N/A	N/A
Corporate bonds	58,020	AAA	AAA
Mutual funds	897,964	AAA	AAA
Money market	<u>70,616</u>	N/A	N/A
	\$ <u>2,388,231</u>		

Interest Rate Risk

As of June 30, 2012, the Library had the following investments and maturities exposed to interest rate risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Certificates of deposit	\$ 955,093	\$ 263,855	\$ 691,238	\$ -0-	\$ -0-
Corporate bonds	<u>58,020</u>	<u>-0-</u>	<u>58,020</u>	<u>-0-</u>	<u>-0-</u>
	\$ <u>1,013,113</u>	\$ <u>263,855</u>	\$ <u>749,258</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Fiduciary Funds

<u>Type of Investments</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>
Money Market	\$ 3,092,446	\$ -0-	\$ -0-	\$ 3,092,446	\$ 3,092,446	\$ -0-
Corporate stocks	34,461,049	-0-	-0-	34,461,049	31,599,451	2,861,598
Corporate bonds	10,021,806	-0-	-0-	10,021,806	9,335,130	686,676
Municipal bonds	252,118	-0-	-0-	252,118	211,801	40,317
U.S. Government obligations	<u>11,952,585</u>	<u>-0-</u>	<u>-0-</u>	<u>11,952,585</u>	<u>11,697,760</u>	<u>254,825</u>
 Total investments	 \$ <u>59,780,004</u>	 \$ <u>-0-</u>	 \$ <u>-0-</u>	 \$ <u>59,780,004</u>	 \$ <u>55,936,588</u>	 \$ <u>3,843,416</u>

Credit Risk

State law limits investments. It is the government's policy that no investment be purchased which does not conform to the State of West Virginia Code. As of June 30, 2012, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

	<u>Fair Value</u>	<u>Credit Risk Rating</u>	
		<u>Standard & Poor's and Fitch</u>	<u>Moody's Investment Services</u>
Money market	\$ 3,092,446	AAA	AAA
Corporate stocks	34,461,049	AAA-A	AAA-A
Corporate bonds	10,021,806	AAA-A	AAA-A
Municipal bonds	252,118	AA	AA
U.S. Government obligations	<u>11,952,585</u>	AAA-BBB+	AAA-BBB+
	 \$ <u>59,780,004</u>		

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Interest Rate Risk

As of June 30, 2012, the City had the following investments and maturities exposed to interest rate risk.

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Corporate bonds	\$ 10,021,806	\$ 325,920	\$ 3,026,802	\$ 1,956,005	\$ 4,713,079
Municipal bonds	252,118	-0-	-0-	-0-	252,118
U.S. Government obligations	<u>11,952,585</u>	<u>3,007,990</u>	<u>5,769,863</u>	<u>633,690</u>	<u>2,541,042</u>
	<u>\$ 22,226,509</u>	<u>\$ 3,333,910</u>	<u>\$ 8,796,665</u>	<u>\$ 2,589,695</u>	<u>\$ 7,506,239</u>

Discretely Presented Component Units

Morgantown Public Library

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>
Money market	\$ 2,200	\$ -0-	\$ -0-	\$ 2,200	\$ 2,200	\$ -0-
Mutual funds	<u>50,017</u>	<u>-0-</u>	<u>-0-</u>	<u>50,017</u>	<u>52,447</u>	<u>(2,430)</u>
Total investments	<u>\$ 52,217</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 52,217</u>	<u>\$ 54,647</u>	<u>\$(2,430)</u>

Credit Risk

State law limits investments. It is the government's policy that no investment be purchased which does not conform to State of West Virginia Code. As of June 30, 2012, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

	<u>Fair Value</u>	<u>Credit Risk Rating</u>	
		<u>Standard & Poor's and Fitch</u>	<u>Moody's Investment Services</u>
Money market	\$ 2,200	A-AAA	A-AAA
Mutual funds	<u>50,017</u>	A-AAA	A-AAA
	<u>\$ 52,217</u>		

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

4. Property Taxes

The taxes on real property and the interest and other charges upon such taxes attach as an enforceable lien on the first day of July. There is no lien denominated as such on personal property; however, statutes provide that the sheriff of a county may distrain for delinquent taxes any goods and chattels belonging to a person assessed. All current taxes assessed on real and personal property may be paid in two installments; the first installment is payable on September first of the year for which the assessment is made, and become delinquent on October first, and the second installment is payable on the first day of the following March and becomes delinquent on April first. Taxes paid on or before the date when they are payable, including both first and second installments, are subject to a discount of two and one-half percent. If taxes are not paid on or before the date on which they become delinquent, including both first and second installments, interest at the rate of nine percent annum is added from the date they become delinquent until paid.

All municipalities within the state are authorized to levy taxes not in excess of the following maximum levies per \$100 of assessed valuation: On Class I property, twelve and five-tenths cents (12.5¢); on Class II property, twenty-five cents (25.0¢); and on Class IV property, fifty cents (50.0¢). In addition, municipalities may provide for an election to lay an excess levy, the rates not to exceed fifty percent of such authorized maximum levies, provided that at least sixty percent of the voters cast ballots in favor of the excess levy.

The levy rates levied by the City of Morgantown, West Virginia, per \$100 of assessed valuation for each class of property for the fiscal year ended June 30, 2012 were as follows:

<u>Class of Property</u>	<u>Assessed Valuations For Tax Purposes</u>	<u>Expense</u>	<u>Current</u>
Class I	\$ -0-		12.50¢
Class II	310,943,084		25.00¢
Class IV	635,582,133		50.00¢

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

5. Capital Assets and Capital Assets Net of Depreciation

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 1,483,738	\$ -0-	\$ -0-	\$ 1,483,738
Construction in process	<u>1,930,430</u>	<u>398,860</u>	<u>1,825,034</u>	<u>504,256</u>
Total nondepreciable capital assets	<u>3,414,168</u>	<u>398,860</u>	<u>1,825,034</u>	<u>1,987,994</u>
Depreciable capital assets				
Land improvements	1,001,454	-0-	-0-	1,001,454
Buildings	11,673,072	355,970	-0-	12,009,042
Infrastructure	6,672,548	1,441,256	-0-	8,113,804
Machinery and equipment	4,329,968	66,898	-0-	4,396,866
Vehicles	<u>6,670,625</u>	<u>24,404</u>	<u>-0-</u>	<u>6,695,029</u>
Totals at historical cost	<u>30,347,667</u>	<u>1,868,528</u>	<u>-0-</u>	<u>32,216,195</u>
Less: Accumulated depreciation				
Land improvements	580,646	40,226	-0-	620,872
Buildings	3,233,787	335,107	-0-	3,568,894
Infrastructure	1,186,064	102,974	-0-	1,289,038
Machinery and equipment	2,413,533	202,156	-0-	2,615,689
Vehicles	<u>5,111,660</u>	<u>437,046</u>	<u>-0-</u>	<u>5,548,706</u>
Total accumulated depreciation	<u>12,525,690</u>	<u>1,117,509</u>	<u>-0-</u>	<u>13,643,199</u>
Total depreciable capital assets, net	<u>17,821,977</u>	<u>751,019</u>	<u>-0-</u>	<u>18,572,996</u>
Governmental activities capital assets, net	<u>\$ 21,236,145</u>	<u>\$ 1,149,879</u>	<u>\$ 1,825,034</u>	<u>\$ 20,560,990</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Enterprise Activities				
Nondepreciable capital assets				
Land	\$ 7,979,652	\$ -0-	\$ -0-	\$ 7,979,652
Construction in process	<u>799,995</u>	<u>181,621</u>	<u>-0-</u>	<u>981,616</u>
Total nondepreciable capital assets	<u>8,779,647</u>	<u>181,621</u>	<u>-0-</u>	<u>8,961,268</u>
Depreciable capital assets				
Land improvements	744,473	-0-	-0-	744,473
Buildings	21,966,107	-0-	-0-	21,966,107
Structures and improvements	39,662,192	19,204	-0-	39,681,396
Leasehold improvements	90,965	-0-	-0-	90,965
Machinery and equipment	<u>4,347,556</u>	<u>385,825</u>	<u>-0-</u>	<u>4,733,381</u>
Total at historical cost	<u>66,811,293</u>	<u>405,029</u>	<u>-0-</u>	<u>67,216,322</u>
Less: Accumulated depreciation				
Land improvements	82,174	23,514	-0-	105,688
Buildings	7,393,910	618,256	-0-	8,012,166
Structures and improvements	13,695,651	1,116,869	-0-	14,812,520
Leasehold improvements	90,965	-0-	-0-	90,965
Machinery and equipment	<u>2,051,654</u>	<u>133,225</u>	<u>-0-</u>	<u>2,184,879</u>
Total accumulated depreciation	<u>23,314,354</u>	<u>1,891,864</u>	<u>-0-</u>	<u>25,206,218</u>
Total depreciable capital assets, net	43,496,939	(1,486,835)	-0-	42,010,104
Enterprise activities capital assets, net	\$ <u>52,276,586</u>	\$ <u>(1,305,214)</u>	\$ <u>-0-</u>	\$ <u>50,971,372</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 232,114
Public safety	371,302
Highways and streets	242,493
Culture and recreation	<u>271,600</u>
Total depreciation expense	\$ <u>1,117,509</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Discretely Presented Component Units
Morgantown Public Library

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Depreciable Assets				
Buildings and fixtures	\$ 3,185,697	\$ -0-	\$ -0-	\$ 3,185,697
Machinery and equipment	122,559	22,219	-0-	144,778
Books and videos	<u>5,083,789</u>	<u>198,568</u>	<u>314,408</u>	<u>4,967,949</u>
Total at historical costs	<u>8,392,045</u>	<u>220,787</u>	<u>314,408</u>	<u>8,298,424</u>
Less: Accumulated depreciation				
Buildings and fixtures	1,330,636	71,039	-0-	1,401,675
Machinery and equipment	47,697	15,059	-0-	62,756
Books and videos	<u>4,414,671</u>	<u>264,144</u>	<u>314,288</u>	<u>4,364,527</u>
Total accumulated depreciation	<u>5,793,004</u>	<u>350,242</u>	<u>314,288</u>	<u>5,828,958</u>
Total depreciable assets, net	\$ <u>2,599,041</u>	\$ <u>(129,455)</u>	\$ <u>120</u>	\$ <u>2,469,466</u>

Morgantown Utility Board

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements/ Transfers to Utility Plant</u>	<u>Ending</u> <u>Balance</u>
CWIP	\$ 68,869,108	\$ 16,470,007	\$(3,366,156)	\$ 81,972,959
Land	1,450,727	300	-0-	1,451,027
Intangible Plant	376,834	-0-	-0-	376,834
Buildings & Structures	21,320,690	9,854	-0-	21,330,544
Water Transmission & Distribution System	50,735,401	1,324,589	(36,477)	52,023,513
Sewer & Storm Collection System	65,501,738	1,949,950	(40,781)	67,410,907
Treatment Plant Equipment	30,877,264	81,462	(25,500)	30,933,226
Office Furniture & Equipment & Computer System	2,473,985	-0-	-0-	2,473,985
Vehicles & Heavy Duty Equipment	<u>4,408,999</u>	<u>-0-</u>	<u>-0-</u>	<u>4,408,999</u>
Total Capital Assets	246,014,746	19,836,162	(3,468,914)	263,381,994
Less: Accumulated Depreciation	(79,078,945)	(3,666,572)	113,529	(82,631,988)
Total Net Capital Assets	\$ <u>166,935,801</u>	\$ <u>16,169,590</u>	\$ <u>(3,355,385)</u>	\$ <u>179,750,006</u>
Depreciation expense charged to operations		\$ <u>3,486,571</u>		

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

6. Long-Term Debt

Long-term liability activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due After One Year</u>
Governmental Activities						
Bonds Payable						
2006A TIF bonds	\$ 5,500,000	\$ -0-	\$ 150,000	\$ 5,350,000	\$ 155,000	\$ 5,195,000
2007 TIF bonds	3,000,000	-0-	-0-	3,000,000	-0-	3,000,000
2007A TIF bonds	8,615,000	-0-	-0-	8,615,000	-0-	8,615,000
2010 TIF bonds	<u>1,665,000</u>	<u>-0-</u>	<u>-0-</u>	<u>1,665,000</u>	<u>-0-</u>	<u>1,665,000</u>
Total bonds payable	<u>18,780,000</u>	<u>-0-</u>	<u>150,000</u>	<u>18,630,000</u>	<u>155,000</u>	<u>18,475,000</u>
Other long-term debt						
Compensated absences	1,076,834	-0-	18,624	1,058,210	-0-	1,058,210
Obligation under capital lease	1,888,302	-0-	69,530	1,818,772	76,850	1,741,922
Net pension obligation	9,949,704	1,845,307	-0-	11,795,011	-0-	11,795,011
Accrued other post employment benefits	<u>4,022,000</u>	<u>366,000</u>	<u>-0-</u>	<u>4,388,000</u>	<u>-0-</u>	<u>4,388,000</u>
Total other long-term debt	<u>16,936,840</u>	<u>2,211,307</u>	<u>88,154</u>	<u>19,059,993</u>	<u>76,850</u>	<u>18,983,143</u>
Total long-term debt – governmental activities	\$ <u>35,716,840</u>	\$ <u>2,211,307</u>	\$ <u>238,154</u>	\$ <u>37,689,993</u>	\$ <u>231,850</u>	\$ <u>37,458,143</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due After One Year</u>
Component Unit						
Morgantown Public Library						
Obligation under capital lease	\$ <u>42,313</u>	\$ <u>-0-</u>	\$ <u>1,559</u>	\$ <u>40,754</u>	\$ <u>1,722</u>	\$ <u>39,032</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

TIF Bonds

In 2006, the City of Morgantown issued Tax Increment Financing (TIF) revenue bonds to provide funds to finance the costs of certain private capital improvements within the City's designated areas. The bonds do not constitute a general obligation, or pledge of the full faith and credit of the City of Morgantown. The principal and interest on the tax increment revenue bonds are to be repaid solely by the property taxes generated in association with increased assessed values of property within the TIF district area.

2006A TIF Bonds

The 2006A TIF bonds were issued in the amount of \$6,180,000 to provide financing for the Parking Garage Project No. 1. This is a private/public partnership project undertaken to economically revitalize the Riverfront area. The bonds are payable solely from the tax increment property taxes assessed and collected in the district area. Annual principal and interest on the bonds are expected to require less than 55% of the net revenues associated with the property taxes within the district. The bonds mature incrementally with final maturity due June 1, 2033. Payments of principal and interest are due annually on June 1st with varying interest rates. The City has pledged future tax increment revenue to provide for the repayment of these bonds. The following is a schedule of future debt retirement based on current financing arrangements:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 155,000	\$ 259,610	\$ 414,610
2014	160,000	252,635	412,635
2015	170,000	245,435	415,435
2016	175,000	237,785	412,785
2017	185,000	229,910	414,910
2018 – 2022	1,060,000	1,008,190	2,068,190
2023 – 2027	1,345,000	727,630	2,072,630
2028 – 2032	1,705,000	362,500	2,067,500
2033	<u>395,000</u>	<u>19,750</u>	<u>414,750</u>
 Total	 \$ <u>5,350,000</u>	 \$ <u>3,343,445</u>	 \$ <u>8,693,445</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

2007 TIF Bonds

The 2007 TIF bonds were issued in the amount of \$3,000,000 to provide financing for certain private capital improvements within the City's designated TIF Falling Run district area. The bonds are payable solely from the property taxes generated in association with increased assessed values of property within the TIF district area. The bonds do not constitute a general obligation, or pledge of the faith and credit of the City of Morgantown. Payments of interest only are due semiannually with the principal and any outstanding interest due in 2033. The bonds bear interest at 5.69%. The following is a schedule of future debt retirement based on current financing arrangements:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -0-	\$ 170,700	\$ 170,700
2014	-0-	170,700	170,700
2015	-0-	170,700	170,700
2016	-0-	170,700	170,700
2017	-0-	170,700	170,700
2018 – 2022	-0-	853,500	853,500
2023 – 2027	-0-	853,500	853,500
2028 – 2032	-0-	853,500	853,500
2033	<u>3,000,000</u>	<u>170,700</u>	<u>3,170,700</u>
 Total	 \$ <u>3,000,000</u>	 \$ <u>3,584,700</u>	 \$ <u>6,584,700</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

2007A TIF Bonds

The 2007A TIF bonds were issued subordinate to the 2006 TIF bonds, and were issued to provide funds to finance the costs of certain private capital improvements with the City's designated TIF riverfront district area. Proceeds from the bonds provided additional financing for the Riverfront Event Center Project No. 1. The bonds are payable solely from the property taxes generated in associated with the increased assessed values of property within the TIF district area. The bonds do not constitute a general obligation, or pledge of the full faith and credit of the City of Morgantown. The bonds bear interest of 8.00%, with interest only payments due quarterly and principal and interest due in June 2033. As of June 30, 2012, the city has only drawn \$8,615,000 of these bonds with the balance expected to be drawn during the subsequent fiscal year. The following is a schedule of future debt retirement based on current financing arrangements:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -0-	\$ 689,200	\$ 689,200
2014	-0-	689,200	689,200
2015	-0-	689,200	689,200
2016	-0-	689,200	689,200
2017	-0-	689,200	689,200
2018 – 2022	-0-	3,446,000	3,446,000
2023 - 2027	-0-	3,446,000	3,446,000
2028 - 2032	-0-	3,446,000	3,446,000
2033	<u>8,615,000</u>	<u>689,200</u>	<u>9,304,200</u>
Total	\$ <u>8,615,000</u>	\$ <u>14,473,200</u>	\$ <u>23,088,200</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

2010 TIF Bonds

The 2010 TIF bonds were issued to provide funds to finance the costs of certain private capital improvements with the City's designated TIF Sunnyside district area. Proceeds from the bonds provided additional financing for the Sunnyside district area improvements with the City's designated TIF Sunnyside district area. Proceeds from the bonds provided additional financing for the Sunnyside District Project No. 1. The bonds are payable solely from the property taxes generated in association with the increased assessed values of property within the TIF district area. The bonds do not constitute a general obligation, or pledge of the full faith and credit of the City of Morgantown. The bonds bear interest of 5.49%, with interest only payments due quarterly and principal and interest due in June 2038. The following is a schedule of future debt retirement based on current financing arrangements:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -0-	\$ 93,330	\$ 93,330
2014	-0-	93,330	93,330
2015	-0-	93,330	93,330
2016	-0-	93,330	93,330
2017	-0-	93,330	93,330
2018 – 2022	-0-	466,650	466,650
2023 – 2027	-0-	466,650	466,650
2028 – 2031	-0-	466,650	466,650
2033 – 2037	-0-	466,650	466,650
2038	<u>1,665,000</u>	<u>93,330</u>	<u>1,758,330</u>
 Total	 \$ <u>1,665,000</u>	 \$ <u>2,426,580</u>	 \$ <u>4,091,580</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Total debt retirement of all TIF bonds based on current financing arrangements is as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 155,000	\$ 1,212,840	\$ 1,367,840
2014	160,000	1,205,865	1,365,865
2015	170,000	1,198,665	1,368,665
2016	175,000	1,191,015	1,366,015
2017	185,000	1,183,140	1,368,140
2018 – 2022	1,060,000	5,774,340	6,834,340
2023 – 2027	1,345,000	5,493,780	6,838,780
2028 – 2032	1,705,000	5,128,650	6,833,650
2033 – 2037	12,010,000	1,346,300	13,356,300
2038	<u>1,665,000</u>	<u>93,330</u>	<u>1,758,330</u>
Total	\$ <u>18,630,000</u>	\$ <u>23,827,925</u>	\$ <u>42,457,925</u>

Obligation Under Capital Leases

The Board of Parks and Recreation Commissioners of the City of Morgantown entered into a capital lease to finance the acquisition of lighting upgrades, boiler upgrades and roustan ice plant at the City's ice rink. The lease qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of inception. The following is a schedule of future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	
2013	\$ 75,532
2014	79,599
2015	79,891
2016	88,957
2017	92,130
2018 – 2022	504,773
2023 – 2025	<u>280,332</u>
	1,201,214
Less: Amount representing interest	<u>294,685</u>
	906,529
Less: Current maturities	<u>38,304</u>
Non-current maturities	\$ <u>868,225</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

The General Fund of the City of Morgantown entered into a capital lease to finance the acquisition of various lighting upgrades and energy efficient equipment and upgrades. The lease qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of inception. The following is a schedule of future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2012:

<u>Fiscal Year Ending June 30,</u>		
2013	\$	76,008
2014		80,101
2015		80,395
2016		89,517
2017		92,711
2018 – 2022		399,687
2023 – 2025		<u>390,367</u>
		1,208,786
Less: Amount representing interest		<u>296,543</u>
		912,243
Less: Current maturities		<u>38,546</u>
Non-current maturities	\$	<u>873,697</u>

The following is a schedule of future minimum lease payments required under all governmental fund capital leases and the present value of the net minimum lease payments at June 30, 2012:

<u>Fiscal Year Ending June 30,</u>		
2013	\$	151,540
2014		159,700
2015		160,286
2016		178,474
2017		184,841
2018 – 2022		904,460
2023 – 2025		<u>670,699</u>
		2,410,000
Less: Amount representing interest		<u>591,228</u>
		1,818,772
Less: Current maturities		<u>76,850</u>
Non-current maturities	\$	<u>1,741,922</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012**

Component Unit – Morgantown Public Library

The Morgantown Public Library entered into a capital lease to finance the acquisition of various lighting upgrades and energy efficient equipment and upgrades. The lease qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of inception. The following is a schedule of future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2012:

Fiscal Year Ending June 30,

2013	\$ 3,396
2014	3,578
2015	3,592
2016	3,999
2017	4,142
2018 – 2022	22,693
2023 – 2024	<u>10,005</u>
	51,405
Less: Amount representing interest	<u>10,651</u>
	40,754
Less: Current maturities	<u>1,722</u>
	39,032
Non-current maturities	\$ <u>39,032</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

The following is a summary of bonds payable at June 30, 2012:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due After</u> <u>One Year</u>
Business-Type Activities						
Bonds payable:						
2003 Municipal Building Lease Revenue Refunding Bonds	\$ 4,720,000	\$ -0-	\$ 445,000	\$ 4,275,000	\$ 455,000	\$ 3,820,000
2008A Municipal Building Lease Revenue Bonds	3,767,624	-0-	179,018	3,588,606	186,823	3,401,783
2002 Parking Revenue Bonds	<u>4,524,829</u>	<u>-0-</u>	<u>264,307</u>	<u>4,260,522</u>	<u>279,750</u>	<u>3,980,772</u>
Total bonds payable	<u>13,012,453</u>	<u>-0-</u>	<u>888,325</u>	<u>12,124,128</u>	<u>921,573</u>	<u>11,202,555</u>
Other long-term debt						
Notes payable	12,008	-0-	10,231	1,777	1,777	-0-
Obligation under capital lease	<u>649,386</u>	<u>-0-</u>	<u>23,911</u>	<u>625,475</u>	<u>26,429</u>	<u>599,046</u>
Total other long-term debt	<u>661,394</u>	<u>-0-</u>	<u>34,142</u>	<u>627,252</u>	<u>28,206</u>	<u>599,046</u>
Total long-term debt – governmental activities	\$ <u>13,673,847</u>	\$ <u>-0-</u>	\$ <u>922,467</u>	\$ <u>12,751,380</u>	\$ <u>949,779</u>	\$ <u>11,801,601</u>

2003 Municipal Building Lease Revenue Refunding Bond

This issue was authorized to refinance the \$9,490,000, 1996 City of Morgantown Municipal Building Lease Revenue Refunding Bonds. The bonds were issued bearing interest of 2.00%-4.00% payable semiannually on the first day of January and the first day of July of each year.

The following is a schedule of future debt retirement based on current financing arrangements:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 455,000	\$ 165,390	\$ 620,390
2014	470,000	149,465	619,465
2015	485,000	132,545	617,545
2016	505,000	114,600	619,600
2017	530,000	94,400	624,400
2018-2019	<u>1,830,000</u>	<u>124,200</u>	<u>1,954,200</u>
Total	\$ <u>4,275,000</u>	\$ <u>780,600</u>	\$ <u>5,055,600</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

The 2003 bonds are secured by the lease rentals derived from the lease of the public safety and parking building to the City pursuant to the lease, and from funds on deposit in the reserve account.

As required by the 2003 bond ordinance, a sinking fund has been established with WesBanco Trust Investment Services. Monies in the sinking fund are to be used only for the purposes of paying principal of and interest on the bonds. Payments are required to be made into the sinking fund to pay interest which will mature and become due on the next succeeding interest payment date. The balance in the sinking fund account with the Wesbanco Trust Investment Services at June 30, 2012 was \$826,251.

2008A Municipal Building Lease Revenue Bond

This issue was authorized to finance the construction of the North Side Fire Station. The bonds were issued bearing interest of 4.05% payable monthly. The bonds were issued in the amount \$4,500,000.

The following is a schedule of future debt retirement based on current financing arrangements:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 186,823	\$ 141,896	\$ 328,719
2014	194,531	134,188	328,719
2015	202,558	126,161	328,719
2016	210,915	117,804	328,719
2017	219,618	109,101	328,719
2018 – 2022	1,241,726	401,869	1,643,595
2023 – 2027	<u>1,332,435</u>	<u>125,500</u>	<u>1,457,935</u>
Total	\$ <u>3,588,606</u>	\$ <u>1,156,519</u>	\$ <u>4,745,125</u>

The 2008A bonds are secured by the lease rentals derived from the lease of the station to the City pursuant to the lease, and from funds on deposit in the reserve account.

As required by the 2008A bond ordinance, a sinking fund has been established. Monies in the sinking fund are to be used only for the purposes of paying principal of and interest on the bonds. Payments are required to be made into the sinking fund to pay interest and principal which will mature and become due on the next succeeding payment date. The balance in the sinking fund account at June 30, 2012 was \$398.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

2002 Parking Revenue Bonds

This issue was authorized to finance the acquisition, construction and equipping of a new motor vehicle parking facility. The bonds were issued bearing interest of a variable rate per annum equal to 75% of the Federal Home Loan Bank Rate for 5-year maturity with a 20-year amortization, plus 2%. The bonds are payable in 42 semiannual installments on January 1 and July 1.

The following is a schedule of future debt retirement based on current financing arrangements:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 279,750	\$ 184,760	\$ 464,510
2014	292,514	171,996	464,510
2015	305,861	158,649	464,510
2016	319,816	144,694	464,510
2017	334,409	130,101	464,510
2018-2022	1,915,324	407,226	2,322,550
2023-2024	<u>812,848</u>	<u>35,133</u>	<u>847,981</u>
Total	\$ <u>4,260,522</u>	\$ <u>1,232,559</u>	\$ <u>5,493,081</u>

The 2002 bonds are secured by the revenues of the Parking Authority and a statutory mortgage lien on the Parking Authority system.

Notes Payable

Building Commission

Huntington National Bank

3.25%: installment obligation; payable in monthly installments of \$873. Repayment at June 30, 2012 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ <u>1,777</u>	\$ <u>7</u>	\$ <u>1,784</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Discretely Presented Component Unit
Morganton Utility Board

1992 Bonds Payable

The Board issued \$11,900,000 in a combined water and sewer revenue bond on September 15, 1992. This bond matures quarterly starting March 1, 1993, until December 1, 2012. This bond bears an interest rate of 3% per annum and is payable quarterly on March 1, June 1, September 1, and December 1 of each year. Annualized payments of \$792,100 are required.

1995 Bonds Payable

The Board issued \$1,601,477 in a combined water and sewer revenue bond on April 22, 1995. This bond matures quarterly starting March 1, 1996, until December 1, 2015. This bond bears an interest rate of 2% and a 1% administration fee per annum and is payable quarterly on March 1, June 1, September 1, and December 1 of each year. Annualized payments of \$97,351 are required.

2000A Bonds Payable

The Board issued \$7,842,000 in a combined waterworks and sewerage system revenue bonds on February 8, 2000, for the construction of certain extensions, additions, betterments and improvements to the sewerage system for the Cheat Lake customers. The bonds mature quarterly on March 1, June 1, September 1, and December 1 of each year commencing March 1, 2002. The bonds mature on March 1, 2026. The bonds bear no interest and were issued to the West Virginia Division of Environmental Protection. The bonds carry an 0.5% administrative fee per annum and are payable quarterly. Annualized payments of \$323,384 are required.

2000B Bonds Payable

The Board issued \$2,488,000 in a combined waterworks and sewerage system revenue bonds on February 8, 2000, for the construction of certain extensions, additions, betterments and improvements to the sewerage system for the Cheat Lake customers. The bonds mature quarterly on March 1, June 1, September 1, and December 1 of each year commencing March 1, 2002. The bonds mature on December 31, 2039. The bonds bear no interest and were issued to the West Virginia Infrastructure and Jobs Development Council. Annualized payments of \$65,476 are required.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

2001A Bonds Payable

The Board issued \$3,812,470 in a combined waterworks and sewerage system revenue bonds on February 8, 2001, for the acquisition and construction of extensions, additions, betterments and improvements of the waterworks portion of the existing public combined waterworks and sewerage system. The bonds mature quarterly on March 1, June 1, September 1, and December 1 of each year commencing June 1, 2002. The bonds will bear no interest until after February 28, 2002. Effective March 1, 2002, the bonds will bear interest at a rate of 3% per annum and will be paid quarterly on March 1, June 1, September 1, and December 1 of each year commencing June 1, 2002. The bonds were issued to the West Virginia Development Authority and mature December 1, 2015. Annualized payments of \$339,402 are required.

2006A Bonds Payable

The Board issued bonds of \$6,410,000 in a combined waterworks and sewerage system revenue bonds on June 30, 2006, for the acquisition and construction of the extension, additions, betterments and improvements of the waterworks portion of the existing public combined waterworks and sewerage system. \$6,026,618 has been drawn on these bonds toward construction. The construction will be completed in fall 2009. The bonds bear interest rates of 3% with a 20 year term. The payments will be \$97,416 quarterly, commencing September 2009.

2007 Bonds Payable

The Board issued bonds of \$8,500,000 in a combined waterworks and sewerage system revenue bonds on June 30, 2007, for the acquisition and construction of the extension, additions, betterments and improvements of the waterworks portion of the existing public combined waterworks and sewerage system. \$8,362,281 has been drawn on these bonds toward construction. The construction is expected to be completed in fall of 2009. The bonds bear interest rates of 3% with a 20 year term. The payments will be \$106,698 quarterly, commencing September 2009.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

2010 Bonds Payable

The Board issued on January 28, 2010, (1) Combined Utility System Revenue bonds, Series 2010A (Direct Payment Build America Bonds), in the original aggregate principal amount of \$37,950,000; (2) Combined Utility System Revenue Bonds, Series 2010B (West Virginia SRF Program/ARRA), in the original aggregate principal amount of \$81,600; (3) Combined Utility System Revenue Bonds, Series 2010C (West Virginia SRF Program), in the original aggregate principal amount of \$15,203,668; (4) Combined Utility System Revenue Bonds, Series 2010D (West Virginia DWTRF Program), in the original aggregate principal amount \$9,317,286; (5) Combined Utility System Revenue Bonds, Series 2010E (West Virginia DWTRF Program/ARRA), in the original aggregate principal amount of \$100,000, and (6) Combined Utility System Revenue Bonds, Series 2010F (Bank Qualified) in the original aggregate principal amount of \$7,250,000, (collectively the "Series 2010 Bonds") for the acquisition and construction of the extension, additions, betterments and improvements of the waterworks portion of the existing public combined waterworks and sewerage system. The DWTRF bonds bear interest rates of 2% with a 20 year term, the SRF bonds bear interest rates of 3% with a 20 year term, the 2010F bonds will bear interest rates of 6.31% with a 21.858 year term and 2010E will bear interest rates of 2.73% with a 5.932 year term. The payments are estimated annually to be \$4,230,261, commencing June 2012. The amortization of these bonds is not readily available.

Long-term debt activity for the year ended June 30, 2012 was as follows:

	<u>Beginning</u>	<u>Payments</u>	<u>Proceeds</u>	<u>Ending</u>	<u>Current Portion</u>
Morgantown 1992	\$ 1,160,000	\$ (770,000)	\$ -0-	\$ 390,000	\$ 390,000
Morgantown 1995	417,945	(89,661)	-0-	328,284	91,468
Morgantown 2000A	4,769,852	(323,380)	-0-	4,446,472	323,384
Morgantown 2000B	1,865,978	(65,476)	-0-	1,800,502	65,476
Morgantown 2001A	1,423,723	(300,045)	-0-	1,123,678	309,148
Morgantown 2006A	5,603,877	(279,676)	-0-	5,324,201	285,311
Morgantown 2007A	7,917,130	(300,274)	-0-	7,616,856	345,754
Morgantown 2010A	37,950,000	-0-	-0-	37,950,000	-0-
Morgantown 2010C	12,046,972	-0-	2,379,611	14,426,583	472,855
Morgantown 2010D	7,188,755	-0-	1,375,325	8,564,080	286,454
Morgantown 2010E	100,000	-0-	-0-	100,000	3,075
Morgantown 2010F	<u>7,250,000</u>	<u>-0-</u>	<u>-0-</u>	<u>7,250,000</u>	<u>975,000</u>
Total	\$ <u>87,694,232</u>	\$ <u>(2,128,512)</u>	\$ <u>3,754,936</u>	\$ <u>89,320,656</u>	\$ <u>3,547,925</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Maturities of the Board's debt for the years subsequent to June 30, 2012 are as follows:

Annual Principal Payment Requirements

	<u>1992</u> <u>Issue</u> <u>Principal</u>	<u>1995</u> <u>Issue</u> <u>Principal</u>	<u>2000A</u> <u>Issue</u> <u>Principal</u>	<u>2000B</u> <u>Issue</u> <u>Principal</u>	<u>2001A</u> <u>Issue</u> <u>Principal</u>	<u>2006A</u> <u>Issue</u> <u>Principal</u>	<u>2007</u> <u>Issue</u> <u>Principal</u>
2013	\$ 390,000	\$ 91,468	\$ 323,384	\$ 65,476	\$ 309,148	\$ 285,311	\$ 345,754
2014	-0-	93,312	323,384	65,476	318,528	291,060	392,547
2015	-0-	95,191	323,384	65,476	328,191	296,924	400,548
2016	-0-	48,313	323,384	65,476	367,811	302,907	408,617
2017	-0-	-0-	323,384	65,476	-0-	309,012	416,639
2018-2022	-0-	-0-	1,616,920	327,380	-0-	1,641,004	2,213,198
2023-2027	-0-	-0-	1,212,687	327,380	-0-	1,813,142	2,445,353
2028-2032	-0-	-0-	-0-	327,380	-0-	384,841	994,290
2033-2037	-0-	-0-	-0-	327,380	-0-	-0-	-0-
2038-2040	-0-	-0-	-0-	163,602	-0-	-0-	-0-
Total	\$ <u>390,000</u>	\$ <u>328,284</u>	\$ <u>4,446,527</u>	\$ <u>1,800,502</u>	\$ <u>1,123,678</u>	\$ <u>5,324,201</u>	\$ <u>7,616,856</u>

	<u>2010A</u> <u>Issue</u> <u>Principal</u>	<u>2010C</u> <u>Issue</u> <u>Principal*</u>	<u>2010D</u> <u>Issue</u> <u>Principal*</u>	<u>2010E</u> <u>Issue</u> <u>Principal</u>	<u>2010F</u> <u>Issue</u> <u>Principal</u>
2013	\$ -0-	\$ 472,855	\$ 286,454	\$ 3,075	\$ 975,000
2014	-0-	641,580	388,667	4,171	990,000
2015	-0-	654,508	396,498	4,256	1,005,000
2016	-0-	667,696	404,489	4,341	1,030,000
2017	-0-	3,617,254	412,639	4,429	1,050,000
2018-2022	3,570,000	3,996,688	2,191,254	23,517	2,200,000
2023-2027	6,795,000	3,996,688	2,421,179	25,988	-0-
2028-2032	8,130,000	4,415,924	2,675,149	28,711	-0-
2033-2037	9,925,000	232,571	140,891	1,512	-0-
2038-2040	<u>9,530,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	\$ <u>37,950,000</u>	\$ <u>15,380,227</u>	\$ <u>9,317,286</u>	\$ <u>100,000</u>	\$ <u>7,250,000</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

*This is the scheduled amortization from the bond agreement. This assumes that the entire available amount will be drawn-down.

Annual Interest Payment Requirements

	<u>1992</u> <u>Issue</u> <u>Interest</u>	<u>1995</u> <u>Issue</u> <u>Interest</u>	<u>2000A</u> <u>Issue</u> <u>Interest</u>	<u>2000B</u> <u>Issue</u> <u>Interest</u>	<u>2001A</u> <u>Issue</u> <u>Interest</u>	<u>2006A</u> <u>Issue</u> <u>Interest</u>	<u>2007</u> <u>Issue</u> <u>Interest</u>
2013	\$ 4,388	\$ 5,883	\$ -0-	\$ -0-	\$ 30,254	\$ 104,353	\$ 135,161
2014	-0-	4,039	-0-	-0-	20,875	98,604	142,490
2015	-0-	2,159	-0-	-0-	11,211	97,739	134,580
2016	-0-	363	-0-	-0-	1,890	86,756	126,511
2017	-0-	-0-	-0-	-0-	-0-	80,652	118,279
2018-2022	-0-	-0-	-0-	-0-	-0-	307,311	461,990
2023-2027	-0-	-0-	-0-	-0-	-0-	132,779	225,834
2028-2031	-0-	-0-	-0-	-0-	-0-	<u>4,853</u>	<u>21,694</u>
Total	\$ <u>4,388</u>	\$ <u>12,444</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>64,230</u>	\$ <u>908,047</u>	\$ <u>1,366,539</u>

	<u>2010A (Net)</u> <u>Issue</u> <u>Interest</u>	<u>2010C</u> <u>Issue</u> <u>Interest*</u>	<u>2010D</u> <u>Issue</u> <u>Interest*</u>	<u>2010E</u> <u>Issue</u> <u>Interest</u>	<u>2010F</u> <u>Issue</u> <u>Interest</u>
2013	\$ 1,481,275	\$ 228,347	\$ 138,332	\$ 1,485	\$ 172,748
2014	1,481,275	293,356	177,714	1,907	155,535
2015	1,481,275	280,427	169,882	1,823	135,585
2016	1,481,275	267,239	161,892	1,738	113,585
2017	1,481,275	253,784	153,742	1,650	113,175
2018-2022	7,234,939	1,057,423	640,582	6,875	85,065
2023-2027	6,260,390	677,988	410,722	4,408	70,338
2028-2032	4,978,463	258,754	156,722	1,682	-0-
2033-2037	3,036,230	1,163	705	8	-0-
2038-2040	<u>809,895</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	\$ <u>29,726,292</u>	\$ <u>3,318,481</u>	\$ <u>2,010,324</u>	\$ <u>21,576</u>	\$ <u>732,446</u>

*This is the scheduled interest payment from the bond agreement. This assumes that the entire available amount will be drawn-down.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Obligations Under Capital Lease

The Airport Authority of the City of Morgantown entered into a capital lease to finance the acquisition of lighting upgrades and HVAC upgrades. The lease qualified as a capital lease for the accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of inception. The following is a schedule of future minimum lease payments required under the capital lease and the present value of the net minimum lease payments at June 30, 2012.

Fiscal Year Ending June 30,	
2013	\$ 35,157
2014	37,050
2015	37,186
2016	41,406
2017	42,883
2018 – 2022	234,951
2023 – 2024	<u>130,483</u>
	559,116
Less: Amount representing interest	<u>137,163</u>
	421,953
Less: Current maturities	<u>17,829</u>
Non-current maturities	\$ <u>404,124</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

The Parking Authority of the City of Morgantown entered into a capital lease to finance the acquisition of lighting upgrades. The lease qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of inception. The following is a schedule of future minimum lease payments required under the capital lease and the present value of the net minimum lease payments at June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	
2013	\$ 16,958
2014	17,870
2015	17,936
2016	19,971
2017	20,684
2018 – 2022	113,324
2023 – 2024	<u>62,936</u>
	269,679
Less: Amount representing interest	<u>66,157</u>
	203,522
Less: Current maturities	<u>8,600</u>
Non-current maturities	\$ <u>194,922</u>

The following is a schedule of future minimum lease payments required under all capital leases and the present value of the net minimum lease payments at June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	
2013	\$ 52,115
2014	54,920
2015	55,122
2016	61,377
2017	63,567
2018 – 2022	348,275
2023 – 2024	<u>193,419</u>
	828,795
Less: Amount representing interest	<u>203,320</u>
	625,475
Less: Current maturities	<u>26,429</u>
Non-current maturities	\$ <u>599,046</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

7. Employees Retirement System

West Virginia Public Employment Retirement System

The City maintains three separate employee contributing pension plans. These plans cover firemen, police officers, and substantially all other full-time civilian employees with the exception of the Board of Park Commissioners employees who are covered by the West Virginia Public Employees Retirement System. The West Virginia Employees' Retirement System is funded through employer contributions of 14.5% of payroll and member contributions of 4.5% of payroll.

The City's contributions to the West Virginia Public Employees Retirement System for the year ended June 30, 2012 is as follows:

	<i>Primary Government</i>	<i>Component Unit Morgantown Public Library</i>
Total wages	\$ 1,128,902	\$ 760,238
Covered wages	\$ 652,022	\$ 584,746
Employer share 14.50%	\$ 94,565	\$ 84,788
Employee share 4.50%	\$ 29,341	\$ 26,314

The following is a summary of eligibility factors, contribution methods, and benefit provisions:

	<u>Public Employees' Retirement System (PERS)</u>
Eligibility to participate	All City full-time employees, except those covered by other pension plans
Authority establishing contribution obligations and benefit provisions	State Statute
Plan member's contribution rate	4.50%
Employer's contribution rate	14.50%
Period required to vest	Five Years
Benefits and eligibility for distribution	A member who has attained age 60 and has earned 5 years or more of contribution service or age 55 if the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary (three highest consecutive years in the last 10) times the years of service times 2% equals the annual retirement benefit.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Public Employees' Retirement System (PERS)

Deferred retirement portion	No
Provisions for:	
Cost of living	No
Death benefits	Yes

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees Retirement System, Building 5, Room 1000, 1900 Kanawha Boulevard East, Charleston, WV 25305.

8. Employee Retirement System and Plans

Plan Descriptions. Contribution Information

The City of Morgantown, West Virginia participates in three single employer, public employee retirement systems. Assets are held separately and may be used only for the payment of benefits to the members of the respective plans, as follows:

The Policemen's Pension and Relief Fund (PPRF) provides retirement benefits for substantially all full-time police employees. Unless otherwise indicated, PPRF information in this Note is provided as of the latest actuarial valuation, July 1, 2011.

The Firemen's Pension and Relief Fund (FPRF) provides retirement benefits for substantially all full-time fire employees. Unless otherwise indicated, FPRF information in this Note is provided as the latest actuarial valuation, July 1, 2011.

The Employees Pension and Relief Fund (ERF) provides retirement benefits for substantially all full-time permanent employees not covered by other plans. Unless otherwise indicated, ERF information in this Note is provided as of the latest actuarial valuation, July 1, 2011.

Actuarial valuations are required to be performed once every three years per state statute. However, the actuarial valuations can be performed in shorter intervals at the discretion of the PPRF, FPRF and ERF's board.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

These plans are defined benefit plans. The following is a summary of funding policies, contribution methods and benefit provisions.

	PPRF	FPRF	ERF
Governing authority	City Council Ordinance	City Council Ordinance	City Council Ordinance
Determination of contribution requirements	Actuarially determined	Actuarially determined	Actuarially determined
Employer	Contribute annually an amount which, together with contributions from the members and the allocable portion of the state premium tax fund, will be sufficient to meet the normal cost of the fund and amortize any unfunded actuarial accrued liability. Municipalities may utilize an alternative contribution method which allows the municipality to contribute no less than 107% of the prior years contribution provided the actuary certifies in writing that the fund will be solvent over the next 15 years under this method. In no event can the employer contribution be less than the normal cost as determined by the actuary.		Contribute annually an amount sufficient to meet the normal cost of the fund and amortize the actuarial deficit over a period of 22 years.
Plan members	7% of covered payroll	7% of covered payroll	6.00% of covered payroll
Period Required to Vest	20 years of service but no later than the date the participant reaches 65.		The latter of the date the participant attains age 60 and 10 years of service credit, or attains age 55 and age plus years of Service Credit total 85.
Post-retirement Benefit	Cost of living adjustment after two years of retirement. Adjustment calculated on the first \$15,000 of the total annual benefit multiplied by the Consumer Price Index (not to exceed 4%). Cost of Living adjustment calculated thereafter on a cumulative basis.		Annual Cost of Living adjustments is the lesser of 3% or the annual consumer price index multiplied by 50%; provided that the municipality's contribution for the year is less than 6% of the participating payroll.
Provisions for:			
Disability benefits	Yes	Yes	Yes
Death benefits	Yes	Yes	Yes

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

Annual Required Contributions and Significant Actuarial Assumptions

Actuarial assumptions and other information used to determine the annual required contributions (ARC) are as follows:

	Policemen's and Firemen's Pension & Relief Fund	Employees Pension and Relief Fund
Valuation Date	7/1/2010	7/1/08
Actuarial Cost Method	Projected Unit Credit	Aggregate entry age
Amortization Method	Level % Open	
Amortization Period	30 year (level percentage)	
Actuarial asset valuation method	Market Value	Market Value
Actuarial assumptions:		
Investment rate of return	5%	7.5%
Projected salary increases	5%	5%
Post retirement benefit increases	None	None
Inflation	4%	3%
Cost of living adjustments	3%	None

Current year annual pension costs for the PPRF, FPRF and ERF are shown in the trend information. A summary schedule of prior employer contributions is presented in the required supplementary information (note 11). The annual required contributions were made by the PPRF, FPRF and ERF fund plans.

Reserves

There are no assets legally reserved for purposes other than the payment of plan members benefits for either plan. The plans held no investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds 10 percent or more of net assets available for benefits.

The City's annual pension cost and net pension obligation for the Firemen's Pension and Relief funds are as follows:

Annual required contribution	\$ 1,649,593
Interest on short-term	202,255
Adjustment to annual required contribution	(158,973)
Annual pension cost	1,692,875
Contributions made	<u>902,219</u>
Increase in net pension obligation	790,656
Net pension obligation at beginning of year	<u>3,045,090</u>
Net pension obligation at end of year	\$ <u>4,835,746</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 1,692,875	53%	\$ 4,835,746
2011	\$ 1,662,084	52%	\$ 4,045,090
2010	\$ 1,785,138	49%	\$ 3,239,093
2009	\$ 1,609,785	53%	\$ 2,347,955
2008	\$ 1,476,056	57%	\$ 1,584,757

The City's annual pension cost and net pension obligation for the Policemen's Pension and Relief fund is as follows:

Annual required contribution	\$ 2,075,517
Interest on short-term	293,688
Adjustment to annual required contribution	(230,839)
Annual pension cost	2,138,366
Contributions made	<u>1,094,342</u>
Increase in net pension obligation	1,044,024
Net pension obligation at beginning of year	<u>5,873,750</u>
 Net pension obligation at end of year	 \$ <u>6,917,774</u>

Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 2,138,366	51%	\$ 6,917,774
2011	\$ 2,156,248	50%	\$ 5,873,750
2010	\$ 2,009,665	50%	\$ 4,762,508
2009	\$ 1,759,060	54%	\$ 3,756,764
2008	\$ 1,570,898	59%	\$ 2,953,485

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Employee's Pension an Relief Fund

The following summarizes the changes in the net pension obligation (NPO):

	<u>Employees Pension and Relief Fund</u>
Annual required contribution (ARC) for the year ended June 30, 2012	\$ 1,303,850
Interest on net pension obligation (NPO)	(2,315)
Adjustments to NPO	<u>2,576</u>
Annual pension cost	1,304,111
Employer contributions for the year ended June 30, 2012	<u>1,314,738</u>
Increase (decrease) to NPO	(10,627)
Net pension obligation (asset) at July 1, 2010	(<u>30,864</u>)
Net pension obligation (asset) at June 30, 2012	\$ (<u>41,491</u>)

Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2012	\$ 1,303,850	101%
2011	\$ 1,261,182	91%
2010	\$ 1,137,893	81%
2009	\$ 860,984	88%
2008	\$ 810,248	110%

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Deferred Compensation Plan

The government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time government employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held for the exclusive benefit of the participants and their beneficiaries.

Other Postemployment Benefits

Upon termination from city service, an employee working for the City of Morgantown on June 15, 1993, who subsequently retires from the city will be eligible to convert sick leave days in excess of ninety (90) days but less than one hundred and eighty one (181) days as of June 15, 1993, to health insurance upon his/her day of retirement at the rate of three (3) sick days for one (1) month of single group medical insurance as carried by the city, or at the rate of four (4) sick days for one (1) month of family group medical insurance as carried by the city. This benefit requires that employees with such qualifying sick days put them into escrow for this benefit and forgo collecting 1/3 day pay for each day of sick leave. By placing these days in escrow, city employees as of the date of this amendment will have their sick day balance reduced to 90 days. All employees hired subsequent to June 15, 1993, are not granted this option.

Accrued Other Post Employment Benefits

Plan description/contribution information

The City maintains a single employer health insurance plan that covers substantially all eligible full-time employees as well as certain current and future retirees of the system. The accrued other post employment benefits (OPEB) provides retirement health insurance benefits for substantially all full-time employees. Unless otherwise indicated, information in this Note is provided as of the latest actuarial valuation, July 1, 2012.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012**

Annual Required Contributions and Significant Actuarial Assumptions:

Actuarial assumptions and other information used to determine the annual required contributions (ARC) are as follows:

Valuation Date	7/1/2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level % Open
Amortization Period	30 Years
Actuarial asset valuation method	Market Value
Actuarial Assumptions:	
Investment rate of return	2.5%
Salary Scale	2.5%
Medical Trend Rate	8.5% graded down to 5%

The City's annual required contribution and net OPEB obligation is as follows:

Annual Required Contribution	\$ 1,740,000
Interest on net OPEB obligation	161,000
Adjustment to annual required contribution	(167,000)
Annual OPEB cost	1,734,000
Contributions made	(1,368,000)
Increase in net OPEB obligation	366,000
Net OPEB obligation – beginning of year	<u>4,022,000</u>
Net OPEB obligation – end of year	\$ <u>4,388,000</u>

Trend Information

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 1,734,000	78.89%	\$ 4,388,000
2011	\$ 1,679,000	46.28%	\$ 4,022,000
2010	\$ 2,257,000	30.62%	\$ 3,120,000

The accompanying independent auditor's report is an integral part of these notes.

CITY OF MORGANTOWN, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012

8. Interfund Balances

Individual fund interfund receivable and payable balances at June 30, 2012 for fund financial:

	<u>Due From</u> <u>Other Funds</u>	<u>Due To</u> <u>Other Funds</u>
General Fund	\$ 235,093	\$ -0-
Special Revenue Funds		
Board of Parks and Recreation	-0-	142,840
Capital Project Funds		
Capital reserve	2,015,850	-0-
Business Improvement District	-0-	20,566
Airport access road	-0-	1,595,840
Board of Parks and Recreation	-0-	8,092
Enterprise Funds		
Airport fund	-0-	455,880
Parking Authority	<u>-0-</u>	<u>27,725</u>
	\$ <u>2,250,943</u>	\$ <u>2,250,943</u>

Discretely Presented Component Unit

	<u>Due From</u> <u>Other Funds</u>	<u>Due To</u> <u>Other Funds</u>
Morgantown Public Library	\$ 2,916	\$ -0-
Capital Project Clay Battelle Branch	<u>-0-</u>	<u>2,916</u>
	\$ <u>2,916</u>	\$ <u>2,916</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

9. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial. However, it was determined that the City is required to repay grant funds estimated to be \$68,158.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material effect on the financial condition of the government.

10. Restricted

Certain enterprise fund assets are restricted for repayment of long-term debt. Reserved net assets include the excess of assets over certain liabilities restricted for the debt service on revenue bonds.

11. Debt Service Coverage

The debt service coverage factor for the Parking Authority has been calculated as follows for the year ended June 30, 2012:

Total revenues	\$ 2,393,268
Interest and dividend income	<u>15,589</u>
Adjusted gross revenues	2,408,857
Total expenses	<u>2,270,228</u>
	138,629
Add: Depreciation expense	<u>335,242</u>
Amount available for debt service and capital expenditures	\$ <u>473,871</u>
Maximum annual debt service	\$ <u>464,510</u>
Calculated debt service coverage factor	1.10
Required debt service coverage factor	1.02

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Based on this calculation, it appears that the Parking Authority was not in compliance with the provisions set forth in its bond ordinance as of June 30, 2012.

12. Lease of Property

On April 30, 2009, the City of Morgantown Building Commission entered into a lease agreement with the West Virginia University Board of Governors for the lease of docks to West Virginia University. The lease payment is \$756 per month and will be used to reduce the cost of the docks of \$90,720 expended by the City of Morgantown.

On April 30, 2009, the City of Morgantown Building Commission entered into a lease agreement with Platinum Properties Limited Liability Company for the lease of a parcel of real estate located in the First Ward of the City of Morgantown to Platinum Properties Limited Liability Company. This lease is for a period of 50 years and requires Platinum Properties Limited Liability Company to remit a rental payment of \$1 per year.

On July 1, 2008, the City of Morgantown Building Commission entered into a lease agreement with Mermaid Limited Liability Company for the lease of the event center. This lease is for a period of 10 years and requires Mermaid Limited Liability Company to remit payments of \$8,333, to begin 12 months after the date the event center opens for public use. The facility was completed and open for public use in March 2010.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

The balance receivable is as follows:

<u>Fiscal Year Ended June 30,</u>	
2013	\$ 100,000
2014	100,000
2015	100,000
2016	100,000
2017	100,000
2018	100,000
2019	100,000
2020	100,000
2021	<u>83,333</u>
	 \$ <u>883,333</u>

13. Deficit Fund Balance

It was noted during our audit that the Board of Parks and Recreation Fund had a deficit fund balance of \$225,093 and the Airport Access Road Fund had a deficit fund balance of \$1,620,868. The elimination of these deficit fund balances is dependent on increasing revenues and decreasing expenses for these funds.

14. Restatement of Fund Balance/Net Assets

It was determined during this examination that the beginning net assets of the Governmental Fund Types required restatement as follows:

Net assets as previously reported	\$ (2,836,720)
Understatement of deferred revenues	(365,095)
Overstatement of capital assets	(181,176)
Understatement of accounts receivable	35,869
Understatement of investments	<u>133,915</u>
Net assets restated	\$ <u>(3,213,207)</u>

**CITY OF MORGANTOWN, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

It was determined during this examination that the beginning fund balance of General Fund required restatement as follows:

Fund balance as previously reported	\$ 4,121,902
Understatement of deferred revenues	(<u>365,095</u>)
Fund balance restated	\$ <u>3,756,807</u>

It was determined during this examination that the beginning fund balance of the Board of Parks and Recreation Capital Projects Fund required restatement as follows:

Fund balance assets as previously reported	\$ 176,923
Understatement of accounts receivable	<u>35,869</u>
Fund balance restated	\$ <u>212,792</u>

It was determined during this examination that the beginning fund balance of the Life and Health Fund required restatement as follows:

Fund balance assets as previously reported	\$ 1,048,049
Understatement of investments	<u>133,915</u>
Fund balance restated	\$ <u>1,181,964</u>

15. Subsequent Events

The City has considered all subsequent events through February 23, 2013, the date the financial statements were made available.

The accompanying independent auditor's report is an integral part of these notes.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MORGANTOWN, WEST VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

1. Schedules of Funding Progress

Firemen's Pension and Relief Fund

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % Covered Payroll (b - a) / c</u>
7/1/2006	\$ 8,054,815	\$ 23,313,655	\$ 15,258,840	34.5%	\$ 1,904,137	801%
7/1/2007	\$ 10,626,102	\$ 23,967,730	\$ 13,341,628	44.3%	\$ 1,991,611	670%
7/1/2008	\$ 10,127,559	\$ 24,686,762	\$ 14,559,203	41.0%	\$ 2,051,359	710%
7/1/2009	\$ 8,951,158	\$ 25,728,239	\$ 16,777,081	34.8%	\$ 2,200,751	762%
7/1/2010	\$ 12,136,886	\$ 41,373,601	\$ 29,236,715	29.3%	\$ 3,195,123	915%
7/1/2011	\$ 13,362,968	\$ 42,036,619	\$ 28,673,651	31.8%	\$ 3,001,888	955%

Policemen's Pension and Relief Fund

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % Covered Payroll (b - a) / c</u>
7/1/2006	\$ 11,192,360	\$ 25,964,649	\$ 14,772,289	43.1%	\$ 2,356,504	627%
7/1/2007	\$ 13,647,736	\$ 27,570,688	\$ 13,922,952	49.5%	\$ 2,631,965	529%
7/1/2008	\$ 12,992,382	\$ 28,397,809	\$ 15,405,427	45.8%	\$ 2,710,924	568%
7/1/2009	\$ 11,543,478	\$ 30,172,724	\$ 18,629,246	38.3%	\$ 2,899,944	642%
7/1/2010	\$ 9,486,292	\$ 32,493,789	\$ 23,007,497	29.2%	\$ 2,237,630	1028%
7/1/2011	\$ 10,466,073	\$ 32,250,310	\$ 22,784,237	31.5%	\$ 2,198,698	1036%

**CITY OF MORGANTOWN, WEST VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Employee's Pension and Relief Fund

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % Covered Payroll (b - a) / c</u>
7/1/2001	\$ 23,139,686	\$ 23,239,107	\$ 99,421	99.57%	\$ 7,209,208	1.38%
7/1/2002	\$ 23,698,070	\$ 24,736,061	\$ 1,037,991	95.80%	\$ 7,651,974	13.57%
7/1/2003	\$ 24,430,332	\$ 26,264,966	\$ 1,834,634	93.01%	\$ 8,039,148	22.82%
7/1/2004	\$ 25,507,836	\$ 27,507,737	\$ 1,999,901	92.73%	\$ 8,166,525	24.49%
7/1/2005	\$ 27,187,677	\$ 29,210,252	\$ 2,022,575	93.08%	\$ 8,545,358	23.67%
7/1/2006	\$ 28,946,598	\$ 31,520,796	\$ 2,574,198	91.83%	\$ 8,996,728	28.61%
7/1/2007	\$ 31,548,708	\$ 33,766,564	\$ 2,217,856	93.43%	\$ 9,990,727	22.20%
7/1/2008	\$ 33,672,207	\$ 36,171,756	\$ 2,499,549	93.09%	\$ 10,385,815	24.02%
7/1/2009	\$ 33,858,501	\$ 38,757,618	\$ 4,899,117	87.36%	\$ 10,994,139	44.19%
7/1/2010	\$ 34,768,467	\$ 41,010,284	\$ 6,241,817	84.78%	\$ 10,687,987	58.40%
7/1/2011	\$ 36,104,119	\$ 44,398,611	\$ 8,294,492	81.32%	\$ 11,040,216	75.13%

The accompanying independent auditor's report is an integral part of this schedule.

CITY OF MORGANTOWN, WEST VIRGINIA
 COMBINING FUND BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	<i>Primary Government</i>			<i>Component Unit</i>
	<u>Special</u>	<u>Capital</u>	<u>Total</u>	<u>Morgantown</u>
	<u>Revenue</u>	<u>Projects</u>		<u>Public Library</u>
	<u>Funds</u>	<u>Funds</u>		<u>Capital Projects</u>
				<u>Funds</u>
ASSETS				
Cash	\$ 1,182,802	\$ 289,426	\$ 1,472,228	\$ 228,344
Investments	-0-	103,328	103,328	-0-
Receivables (net of allowances for uncollectibles)				
Taxes	-0-	147,138	147,138	-0-
Accounts	8,445	-0-	8,445	-0-
Other	200	-0-	200	-0-
Grants	2,958	-0-	2,958	-0-
Due from/(to) other funds	(142,840)	(1,624,498)	(1,767,338)	(2,916)
TOTAL ASSETS	\$ 1,051,565	\$ (1,084,606)	\$ (33,041)	\$ 225,428
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 96,669	\$ 65,192	\$ 161,861	\$ -0-
Accrued payroll and compensated absences	47,341	-0-	47,341	-0-
Disallowed charges payable	68,158	-0-	68,158	-0-
Deferred revenues	<u>10,125</u>	<u>93,341</u>	<u>103,466</u>	<u>-0-</u>
Total liabilities	<u>222,293</u>	<u>158,533</u>	<u>380,826</u>	<u>-0-</u>
Fund Balances				
Restricted	91,908	-0-	91,908	-0-
Assigned	962,457	377,729	1,340,186	225,428
Unassigned	<u>(225,093)</u>	<u>(1,620,868)</u>	<u>(1,845,961)</u>	<u>-0-</u>
Total fund balances	<u>829,272</u>	<u>(1,243,139)</u>	<u>(413,867)</u>	<u>225,428</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,051,565	\$ (1,084,606)	\$ (33,041)	\$ 225,428

The accompanying independent auditor's report and notes are an integral part of the combining financial statements.

CITY OF MORGANTOWN, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Primary Government</u>			<i>Component Unit</i>
	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>	<u>Morgantown Public Library Capital Projects Funds</u>
Revenues				
Charges for services	\$ 1,581,664	\$ -0-	\$ 1,581,664	\$ -0-
Fines and forfeits	68,197	-0-	68,197	-0-
Investment income	1,315	1,030	2,345	4,142
Donations	160,325	44,566	204,891	80
Taxes	-0-	1,489,956	1,489,956	-0-
Intergovernmental:				
Federal	395,543	-0-	395,543	-0-
State	46,193	57,354	103,547	14,000
County	109,210	-0-	109,210	-0-
Other	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total revenues	<u>2,362,447</u>	<u>1,592,906</u>	<u>3,955,353</u>	<u>18,222</u>
Expenditures				
Public safety	187,408	-0-	187,408	-0-
Culture and recreation	2,650,781	234,479	2,885,260	-0-
Community development	<u>373,571</u>	<u>1,488,532</u>	<u>1,862,103</u>	<u>-0-</u>
Total expenditures	<u>3,211,760</u>	<u>1,723,011</u>	<u>4,934,771</u>	<u>-0-</u>
(Deficiency) excess of revenues (under) over expenditures	(<u>849,313</u>)	(<u>130,105</u>)	(<u>979,418</u>)	<u>18,222</u>

CITY OF MORGANTOWN, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Primary Government</u>			<i>Component Unit</i>
	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>	<u>Morgantown Public Library Capital Projects Funds</u>
Other Financing Sources (Uses)				
Operating transfers in	\$ 1,606,538	\$ -0-	\$ 1,606,538	\$ -0-
Operating transfers (out)	<u>-0-</u>	<u>(1,451,158)</u>	<u>(1,451,158)</u>	<u>-0-</u>
Total other financing sources (uses)	<u>1,606,538</u>	<u>(1,451,158)</u>	<u>155,380</u>	<u>-0-</u>
 (Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing (uses)	 757,225	 (1,581,263)	 (824,038)	 18,222
 Fund balance beginning of year - restated	 <u>72,047</u>	 <u>338,124</u>	 <u>410,171</u>	 <u>207,206</u>
 Fund balance end of year	 \$ <u>829,272</u>	 \$ <u>(1,243,139)</u>	 \$ <u>(413,867)</u>	 \$ <u>225,428</u>

The accompanying independent auditor's report and notes are an integral part of the combining financial statements.

**CITY OF MORGANTOWN, WEST VIRGINIA
COMBINING FUND BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS -
SPECIAL REVENUE FUNDS
JUNE 30, 2012**

	<u>Economic Development Grant</u>	<u>Community Development Block Grant</u>	<u>Police Forfeiture</u>	<u>Special Grants</u>	<u>Local Law Enforcement Grant</u>	<u>Small Cities Block Grant</u>	<u>I. C. White Coal Severance</u>	<u>OPEB Trust Auction</u>	<u>Property Auction</u>	<u>Board of Parks and Recreation</u>	<u>Total</u>
Cash	\$ 37,893	\$ 8,393	\$ 206,892	\$ -0-	\$ 6,869	\$ 393	\$ 85,193	\$ 700,028	\$ 11,256	\$ 125,885	\$ 1,182,802
Receivables (net of allowances for uncollectibles):											
Accounts	-0-	3,938	-0-	-0-	-0-	-0-	-0-	-0-	1,213	3,294	8,445
Other	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	200	200
Grants	-0-	2,958	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,958
Due from/(to) other funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(142,840)	(142,840)
TOTAL ASSETS	\$ 37,893	\$ 15,289	\$ 206,892	\$ -0-	\$ 6,869	\$ 393	\$ 85,193	\$ 700,028	\$ 12,469	\$ (13,461)	\$ 1,051,565

LIABILITIES AND FUND BALANCES

Liabilities	\$ -0-	\$ 1,608	\$ 7,549	\$ -0-	\$ 154	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 87,358	\$ 96,669
Accounts payable	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	45,991	47,341
Accrued payroll and compensated absences	-0-	1,350	-0-	-0-	-0-	-0-	-0-	-0-	-0-	68,158	68,158
Disallowed charges payable	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	10,125	10,125
Deferred revenue	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total liabilities	-0-	2,958	7,549	-0-	154	-0-	-0-	-0-	-0-	211,632	222,293
Fund Balances											
Restricted	-0-	-0-	-0-	-0-	6,715	-0-	85,193	-0-	-0-	-0-	91,908
Assigned	37,893	12,331	199,343	-0-	-0-	393	-0-	700,028	12,469	-0-	962,457
Unassigned	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(225,093)	(225,093)
Total fund balances	37,893	12,331	199,343	-0-	6,715	393	85,193	700,028	12,469	(225,093)	829,272
TOTAL LIABILITIES AND FUND BALANCES	\$ 37,893	\$ 15,289	\$ 206,892	\$ -0-	\$ 6,869	\$ 393	\$ 85,193	\$ 700,028	\$ 12,469	\$ (13,461)	\$ 1,051,565

TOTAL LIABILITIES AND FUND BALANCES

The accompanying independent auditor's report and notes are an integral part of the combining financial statements.

CITY OF MORGANTOWN, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS -
 SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Economic Development Grant	Community Development Block Grant	Police Forfeiture	Special Grants	Local Law Enforcement Grant	Small Cities Block Grant	I. C. White Coal Severance	OPEB Trust	Property Auction	Board of Parks and Recreation	Total
Revenues											
Charges for services	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 85,171	\$ -0-	\$ -0-	\$ 1,496,493	\$ 1,581,664
Fines and forfeits	-0-	-0-	68,197	-0-	-0-	-0-	-0-	-0-	-0-	-0-	68,197
Interest	-0-	29	680	-0-	24	-0-	22	-0-	-0-	560	1,315
Donations	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	160,325	160,325
Intergovernmental:											
Federal	-0-	355,543	-0-	-0-	40,000	-0-	-0-	-0-	-0-	-0-	395,543
State	-0-	-0-	-0-	15,393	-0-	-0-	-0-	-0-	-0-	30,800	46,193
Local	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	109,210	109,210
Total revenues	-0-	<u>355,572</u>	<u>68,877</u>	<u>15,393</u>	<u>40,024</u>	<u>-0-</u>	<u>85,193</u>	<u>-0-</u>	<u>-0-</u>	<u>1,797,388</u>	<u>2,362,447</u>
Expenditures											
Public safety	-0-	-0-	101,228	-0-	86,180	-0-	-0-	-0-	-0-	-0-	187,408
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,650,781	2,650,781
Community development	-0-	<u>358,178</u>	<u>-0-</u>	<u>15,393</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>373,571</u>
Total expenditures	-0-	<u>358,178</u>	<u>101,228</u>	<u>15,393</u>	<u>86,180</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,650,781</u>	<u>3,211,760</u>
(Deficiency) excess of revenues (under) over expenditures	-0-	(2,606)	(32,351)	-0-	(46,156)	-0-	85,193	-0-	-0-	(853,393)	(849,313)

CITY OF MORGANTOWN, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS -
 SPECIAL REVENUE FUNDS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Economic Development Grant</u>	<u>Community Development Block Grant</u>	<u>Police Forfeiture</u>	<u>Special Grants</u>	<u>Local Law Enforcement Grant</u>	<u>Small Cities Block Grant</u>	<u>I. C. White Coal Severance</u>	<u>OPEB Trust</u>	<u>Property Auction</u>	<u>Board of Parks and Recreation</u>	<u>Total</u>
Other Financing Sources (Uses)											
Operating transfers in	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 700,028	\$ -0-	\$ 906,510	\$ 1,606,538
Total other financings sources (uses)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	700,028	-0-	906,510	1,606,538
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	-0-	(2,606)	(32,351)	-0-	(46,156)	-0-	85,193	700,028	-0-	53,117	757,225
Fund balance beginning of year	<u>37,893</u>	<u>14,937</u>	<u>231,694</u>	<u>-0-</u>	<u>52,871</u>	<u>393</u>	<u>-0-</u>	<u>-0-</u>	<u>12,469</u>	<u>(278,210)</u>	<u>72,047</u>
Fund balance end of year	<u>\$ 37,983</u>	<u>\$ 12,331</u>	<u>\$ 199,343</u>	<u>\$ -0-</u>	<u>\$ 6,715</u>	<u>\$ 393</u>	<u>\$ 85,193</u>	<u>\$ 700,028</u>	<u>\$ 12,469</u>	<u>\$ (225,093)</u>	<u>\$ 829,272</u>

The accompanying independent auditor's report and notes are an integral part of the combining financial statements.

CITY OF MORGANTOWN, WEST VIRGINIA
 COMBINING FUND BALANCE SHEETS -
 NONMAJOR GOVERNMENTAL FUNDS -
 CAPITAL PROJECT FUNDS
 JUNE 30, 2012

	<i>Primary Government</i>					<i>Component Unit</i>
	<u>Business</u>	<u>Airport</u>	<u>Board of</u>	<u>Tax</u>		<u>Capital Project</u>
	<u>Improvement</u>	<u>Access</u>	<u>Parks and</u>	<u>Increment</u>		<u>Clay Battelle</u>
	<u>District</u>	<u>Road</u>	<u>Recreation</u>	<u>Financing</u>	<u>Total</u>	<u>Branch</u>
 ASSETS						
Cash	\$ 120,883	\$ -0-	\$ 166,983	\$ 1,560	\$ 289,426	\$ -0-
Investments	-0-	-0-	103,328	-0-	103,328	228,344
Taxes receivable	-0-	-0-	41,774	105,364	147,138	-0-
Due from/(to) other funds	(20,566)	(1,595,840)	(8,092)	-0-	(1,624,498)	(2,916)
TOTAL ASSETS	\$ <u>100,317</u>	\$ <u>(1,595,840)</u>	\$ <u>303,993</u>	\$ <u>106,924</u>	\$ <u>(1,084,606)</u>	\$ <u>225,428</u>
 LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 35,194	\$ 25,028	\$ 4,970	\$ -0-	\$ 65,192	\$ -0-
Deferred revenues	<u>-0-</u>	<u>-0-</u>	<u>5,000</u>	<u>88,341</u>	<u>93,341</u>	<u>-0-</u>
Total liabilities	<u>35,194</u>	<u>25,028</u>	<u>9,970</u>	<u>88,341</u>	<u>158,533</u>	<u>-0-</u>
 Fund Balances						
Assigned	65,123	-0-	294,023	18,583	377,729	225,428
Unassigned	<u>-0-</u>	<u>(1,620,868)</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,620,868)</u>	<u>-0-</u>
Total fund balance	<u>65,123</u>	<u>(1,620,868)</u>	<u>294,023</u>	<u>18,583</u>	<u>(1,243,139)</u>	<u>225,428</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>100,317</u>	\$ <u>(1,595,840)</u>	\$ <u>303,993</u>	\$ <u>106,924</u>	\$ <u>(1,084,606)</u>	\$ <u>225,428</u>

The accompanying independent auditor's report and notes are an integral part of the combining financial statements.

CITY OF MORGANTOWN, WEST VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS -
CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<i>Primary Government</i>					<i>Component Unit</i>
	<u>Business Improvement District</u>	<u>Airport Access Road</u>	<u>Board of Parks and Recreation</u>	<u>Tax Increment Financing</u>	<u>Total</u>	<u>Morgantown Public Library Capital Project Clay Battelle Branch</u>
Revenues						
Investment income	\$ 424	\$ -0-	\$ 577	\$ 29	\$ 1,030	\$ 4,142
Donations	-0-	-0-	44,566	-0-	44,566	80
Taxes	6,783	-0-	213,213	1,269,960	1,489,956	-0-
Intergovernmental:						
State	<u>-0-</u>	<u>-0-</u>	<u>57,354</u>	<u>-0-</u>	<u>57,354</u>	<u>14,000</u>
Total revenues	<u>7,207</u>	<u>-0-</u>	<u>315,710</u>	<u>1,269,989</u>	<u>1,592,906</u>	<u>18,222</u>
Expenditures						
Culture and recreation	-0-	-0-	234,479	-0-	234,479	-0-
Community development	<u>42,647</u>	<u>1,445,885</u>	<u>-0-</u>	<u>-0-</u>	<u>1,488,532</u>	<u>-0-</u>
Total expenditures	<u>42,647</u>	<u>1,445,885</u>	<u>234,479</u>	<u>-0-</u>	<u>1,723,011</u>	<u>-0-</u>
(Deficiency) excess of revenues (under) over expenditures	(35,440)	(1,445,885)	81,231	1,269,989	(130,105)	18,222
Other Financing Sources (Uses)						
Operating transfers (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,451,158)</u>	<u>(1,451,158)</u>	<u>-0-</u>
Total other financings sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,451,158)</u>	<u>(1,451,158)</u>	<u>-0-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(35,440)	(1,445,885)	81,231	(181,169)	(1,581,263)	18,222
Fund balance beginning of year - restated	<u>100,563</u>	<u>(174,983)</u>	<u>212,792</u>	<u>199,752</u>	<u>338,124</u>	<u>207,206</u>
Fund balance end of year	<u>\$ 65,123</u>	<u>\$(1,620,868)</u>	<u>\$ 294,023</u>	<u>\$ 18,583</u>	<u>\$(1,243,139)</u>	<u>\$ 225,428</u>

The accompanying independent auditor's report and notes are an integral part of the combining financial statements.



**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**

The Honorable Mayor and Council
City of Morgantown
Morgantown, West Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morgantown, West Virginia, as of and for the year ended June 30, 2012, which collectively comprise the City of Morgantown, West Virginia's basic financial statements and have issued our report thereon dated February 23, 2013. 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

Management of the City of Morgantown, West Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Morgantown, West Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morgantown, West Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Morgantown, West Virginia'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 the City of Morgantown, West Virginia'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2.

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

This report is intended solely for the information and use of the management, Municipal Officials of the City of Morgantown, West Virginia, others within the entity and federal and state awarding agencies and pass-through entities and the West Virginia State Auditor's Office, Chief Inspector Division and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Patrick Bottel, PHC

February 23, 2013



Tetrick & Bartlett, PLLC

Certified Public Accountants
Consultants

122 N. Oak St. • PO Box 1916 • Clarksburg, WV 26302-1916 • (304) 624-5564 • Fax: (304) 624-5582 • www.tetrickbartlett.com
1517 Mary Lou Retton Drive • Fairmont, WV 26554 • (304) 366-2992 • Fax: (304) 366-2370

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
*OMB CIRCULAR A-133***

The Honorable Mayor and Council
City of Morgantown
Morgantown, West Virginia

Compliance

We have audited the City of Morgantown, West Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Morgantown, West Virginia's major federal programs for the year ended June 30, 2012. The City of Morgantown, West Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Morgantown, West Virginia's management. Our responsibility is to express an opinion on the City of Morgantown, West Virginia's compliance based on our audit.

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

In our opinion, the City of Morgantown, West Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of the management, Municipal Officials of the City of Morgantown, West Virginia, others within the entity and federal and state awarding agencies and pass-through entities and the West Virginia State Auditor's Office, Chief Inspector Division and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Detrick, Bartlett, PHL

February 23, 2013

CITY OF MORGANTOWN, WEST VIRGINIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2012

A. Summary of Audit Results

Financial Statements

Type of auditor's report issued:	<u>Unqualified Opinion</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u> No </u>
Deficiency(s) identified not considered to be material weaknesses?	<u> None reported </u>
Noncompliance material to financial statements noted?	<u> Yes </u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u> No </u>
Deficiency(s) identified that are not considered to be material weaknesses?	<u> None reported </u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified Opinion</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?	<u> No </u>
Identification of major programs:	
United States Department of Transportation/Federal Aviation Program	CFDA #20.106
United States Department of Housing and Urban Development/Office of Community Planning and Development	CFDA #14.218
Dollar threshold used to distinguish between Type A and Type B programs	<u> \$300,000 </u>
Auditee qualified as low-risk auditee	___ yes <u> X </u> no

**CITY OF MORGANTOWN, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

B. Findings – Financial Statement Audit

12-1 Expenditures in Excess of Levy Amount – General Fund

Condition: It was noted during this audit that the City of Morgantown, West Virginia, expended funds in excess of the approved budget as follows:

General Fund

	<u>Approved Budget</u>	<u>Actual</u>	<u>Over Expenditure</u>
Public safety	\$ 10,922,368	\$ 10,961,718	\$ (39,350)
Culture and recreation	2,073,500	2,150,930	(77,430)

Criteria: West Virginia Code §11-8-26 states in part that:

"...a local fiscal body shall not expend money or incur obligations

- (1) In an unauthorized manner;
- (2) For an unauthorized purpose;
- (3) In excess of the amount allocated to the fund in the levy order;
- (4) In excess of the funds available for current expenses..."

Cause: The City failed to amend the budget for public safety and culture and recreation in the General Fund to include additional expenditures

Effect: Because of the City's failure to amend the General Fund's budget with the State Auditor's Office, the General Fund is over expended in the public safety and culture and recreation categories.

Recommendation: The City should amend its budget as necessary throughout the year with the State Auditor's Office.

Entity's Response: The City will attempt to amend its budget with the State Auditor's Office as necessary.

**CITY OF MORGANTOWN, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

12-2 Compliance with Bond Debt Coverage

Condition: It was determined during our audit that the Parking Authority failed to comply with the 110% bond debt coverage.

Criteria: The Parking Authority's bond ordinance requires that the Sanitary Sewer Board have adequate revenues to maintain a 110% bond debt coverage.

Cause: The Parking Authority failed to charge adequate rates.

Effect: The failure of the Parking Authority to charge adequate rates has resulted in the Parking Authority not having adequate revenue to maintain a 110% bond debt coverage.

Recommendation: The City should charge adequate rates to permit the Parking Authority to maintain a 110% bond debt coverage.

Entity's Response: The Parking Authority will maintain adequate rates to comply with the bond debt requirement.

C. Findings and Questioned Costs - Major Federal Award Program Audit

United States Department of Transportation – Federal Aviation Administration – ARRA – Airport Improvement Program – CFDA Number 20.106 – Year Ended June 30, 2012; United States Department of Transportation – Federal Aviation Administration – Airport Improvement Program – CFDA Number 20.106 – Year Ended June 30, 2012; United States Department of Housing and Urban Development – Office of Community Planning and Development – Community Development Block Grant/Entitlement Grants – CFDA Number 14.218 – Year Ended June 30, 2012

There were no findings and questioned costs identified in the major federal award program audit.

**CITY OF MORGANTOWN, WEST VIRGINIA
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Receipts or Revenues Recognized</u>	<u>Federal Disbursements/Expenditures</u>
United States Department of Transportation					
<u>National Highway Traffic Safety Administration</u>					
<u>West Virginia Department of Transportation</u>					
Alcohol Open Container Requirements	20.607	F12HS-18-154	\$ 50,000	\$ 6,545	\$ 65,450
Alcohol Open Container Requirements	20.607	F11HS-18-154	50,000	40,464	40,464
<u>Federal Aviation Administration</u>					
Airport Improvement Program	20.106	3-54-0015-033-2011	525,597	483,400	483,400
ARRA – Airport Improvement Program	20.106	3-54-0015-031-2010	389,746	18,244	18,244
ARRA – Airport Improvement Program	20.106	3-54-0015-032-2010	610,254	55,671	55,671
Total United States Department of Transportation			<u>604,324</u>		<u>604,324</u>
United States Department of Justice					
<u>Bureau of Justice Assistance</u>					
Bulletproof Vest Partnership Program	16.607		5,000	4,842	4,842
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10-JAG-31	50,000	50,000	50,000
<u>Bureau of Justice Assistance</u>					
<u>State of West Virginia Division of Criminal Justice Services</u>					
ARRA – Violence Against Women Formula Grants	16.588	10-5002	-0-	8,460	8,460
Edward Byrne Memorial Justice Assistance Grant Program	16.738	06-DC-12	25,000	19,215	19,215
Edward Byrne Memorial Justice Assistance Grant Program	16.738	06-DC-12	25,000	20,553	20,553
Edward Byrne Memorial Justice Assistance Grant Program	16.738	06-DC-12	25,000	25,475	25,475
<u>Office of Community Oriented Policing Services</u>					
ARRA – Public Safety Partnership and Community Policing Grants	16.710	2010RKWX008	373,450	55,803	55,803
ARRA – Public Safety Partnership and Community Policing Grants	16.710	2011UMWX0203	552,903	124,483	124,483
Total United States Department of Justice			<u>308,831</u>	<u>308,831</u>	<u>308,831</u>

**CITY OF MORGANTOWN, WEST VIRGINIA
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Receipts or Revenues Recognized</u>	<u>Federal Disbursements/ Expenditures</u>
United States Department of Housing and Urban Development					
Office of Community Planning and Development					
Community Development Block Grant/Entitlement Grants	14.218	B-11-MC-54-0007	450,000	\$ 358,178	\$ 358,178
Total United States Department of Housing and Urban Development				358,178	358,178
Total federal funding				\$ 1,271,333	\$ 1,271,333

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of federal awards is a summary of the activity of the City of Morgantown, West Virginia's federal award programs and presents transactions that would be included in financial statements of the City of Morgantown presented on the accrual basis of accounting as contemplated by accounting principles generally accepted in the United States of America.

**CITY OF MORGANTOWN, WEST VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

United States Department of Transportation – Federal Aviation Administration – ARRA – Airport Improvement Grant – CFDA 20.106 – Fiscal Year Ended June 30, 2011; United States Department of Transportation – Federal Highway Administration, Highway Planning and Construction– CFDA 20.205 – Fiscal Year Ended June 30, 2011; United States Department of Housing and Urban Development – Community Development Block Grant/Entitlement Grants – CFDA 14.218 – Fiscal Year Ended June 30, 2011

There were no prior audit findings.

CITY OF MORGANTOWN, WEST VIRGINIA
SCHEDULE OF PASSENGER FACILITY CHARGES
FOR THE YEAR ENDED JUNE 30, 2012

Balance June 30, 2011	\$ 18,743
Revenues received:	
Passenger facility charges	36,304
Interest income	11
Disbursements:	
Capital Projects	<u>3,166</u>
Balance June 30, 2012	\$ <u>51,892</u>

The accompanying independent auditor's report is an integral part of this schedule.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE PASSENGER
FACILITY CHARGES PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE**

The Honorable Mayor and Council
City of Morgantown
Morgantown, West Virginia

Compliance

We have audited the compliance of the City of Morgantown, West Virginia with the compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City of Morgantown, West Virginia's management. Our responsibility is to express an opinion on the City of Morgantown, West Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City of Morgantown, West Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Morgantown, West Virginia's, compliance with those requirements.

In our opinion, City of Morgantown, West Virginia complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City of Morgantown, West Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City of Morgantown, West Virginia's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Municipal Officials of the City of Morgantown, West Virginia and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Tetruck • Bartlett, PLLC

February 23, 2013

CITY OF MORGANTOWN, WEST VIRGINIA
389 SPRUCE STREET
MORGANTOWN, WV 26554

February 23, 2013

CORRECTIVE ACTION PLAN

United States Department of Transportation

City of Morgantown, West Virginia respectfully submits the following corrective action plan for the year ended June 30, 2012.

Name and address of independent public accounting firm: Tetrick & Bartlett, PLLC,
P.O. Box 1916, Clarksburg, West Virginia 26302-1916.

Audit Period: July 1, 2011 – June 30, 2012

The findings from the June 30, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

B. Findings – Financial Statement Audit

12-1 Expenditures in Excess of Levy Amounts – General Fund

Recommendation: The City should amend its budget as necessary throughout the year with the State Auditor's Office.

Action Taken: The City will attempt to amend its budget with the State Auditor's Office as necessary.

12-2 Compliance with Bond Debt Coverage

Recommendation: The City should charge adequate rates to permit the Parking Authority to maintain a 115% bond debt coverage.

Action Taken: The Parking Authority will maintain adequate rates to comply with the bond debt requirement.

C. Findings and Questioned Costs – Major Federal Award Program Audit

United States Department of Transportation – Federal Aviation Administration – ARRA Airport Improvement Program – CFDA Number 20.106 – Year Ended June 30, 2012; United States Department of Transportation – Federal Aviation Administration – Airport Improvement Program – CFDA Number 20.106 – Year Ended June 30, 2012; United States Department of Housing and Urban Development – Office of Community Planning and Development – Community Development Block Grant / Entitlement Grants – CFDA Number 14.218 – Year Ended June 30, 2012

No Findings

If the United States Department of Transportation has any questions regarding this plan, please contact Joseph R. Sabatelli, Director of Finance, at (304) 284-7408.

Sincerely yours,



Joseph R. Sabatelli
Director of Finance