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THE CITY OF MORTON
Audited Financial Statements
For the Year Ending September 30, 2009

Presented by:
Dribben & Associates, Ltd.
P.O. Box 1411
113 North Broadway Ave.
McComb, MS 39649-1411

CITY OFFICIALS
As of September 30, 2009

MAYOR
Greg Butler

Alderman, Ward 1
Annie H. Owens

Alderman, Ward 3
David B. French

Alderman, Ward 5
William R. Booth

Alderman, Ward 2
Janet Jones

Alderman, Ward 4
Oneida Hollis

CITY OF MORTON

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL AUDIT REPORT	5
Independent Auditor’s Report on the Basic Financial Statements and Supplemental Information	7
FINANCIAL STATEMENTS.....	9
Exhibit A – Statement of Net Assets.....	11
Exhibit B – Statement of Activities.....	12
Exhibit C – Balance Sheet – Governmental Funds	13
Exhibit C-1 – Reconciliation of Governmental Funds Balance Sheet To the Statement of Net Assets	14
Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds	15
Exhibit D-1 – Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds to the Statement of Activities.....	16
Exhibit E – Statement of Net Assets – Proprietary Funds.....	17
Exhibit F – Statement of Revenues, Expenditures & Changes in Net Assets - Proprietary Funds	18
Exhibit G – Statement of Cash Flow.....	19
Exhibit H – Statement of Fiduciary Net Assets.....	20
Notes to the Financial Statements	21
REQUIRED SUPPLEMENTAL INFORMATION	41
Budgetary Comparison Schedule – General Fund	43
Notes to the Required Supplemental Information	44
SUPPLEMENTAL INFORMATION	45
Schedule of Surety Bonds of City Officials	47
REPORTS OF COMPLIANCE AND INTERNAL CONTROL	49
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	51
INDEPENDENT AUDITOR’S REPORT OF COMPLIANCE WITH STATE LAWS AND REGULATIONS.....	53
Independent Auditor’s Report of Compliance with State Laws and Regulations	55
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	57
Schedule of Findings and Questioned Costs	59
AUDITEE’S CORRECTIVE ACTION PLAN	61
Auditee’s Corrective Action Plan.....	63

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CITY OF MORTON

FINANCIAL AUDIT REPORT

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INDEPENDENT AUDITOR'S REPORT
ON THE GENERAL PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 4, 2010

Mayor and Board of Aldermen
City of Morton, Mississippi

We have audited the accompanying basic financial statements of the City of Morton, Scott County, Mississippi, (the City) as of and for the year ended September 30, 2009, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Morton, Mississippi, as of September 30, 2009, and the results of its operations and the cash flow of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2010, on our consideration of the Government's internal control over financial reporting and 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 the 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.

The City of Morton, Mississippi, has chosen not to present Management's Discussion and Analysis that is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board.

- 7 -

The Budgetary Comparison Schedule and corresponding notes on pages 43-44 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morton's basic 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 not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Scott Nieman", with a long horizontal flourish extending to the right.

D. Scott Nieman, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

CITY OF MORTON

FINANCIAL STATEMENTS

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CITY OF MORTON
Statement of Net Assets
September 30, 2009

Exhibit A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 757,919	1,121,641	1,879,560
Receivables	67,339	88,998	156,337
Restricted assets - cash	-	48,000	48,000
Total Current Assets	<u>825,258</u>	<u>1,258,639</u>	<u>2,083,897</u>
Capital assets, not being depreciated			
Land	10,000	-	10,000
Depreciable Capital assets, net	<u>1,342,878</u>	<u>10,149,183</u>	<u>11,492,061</u>
Total Noncurrent Assets	<u>1,352,878</u>	<u>10,149,183</u>	<u>11,502,061</u>
Total Assets	<u>\$ 2,178,136</u>	<u>11,407,822</u>	<u>13,585,958</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 26,726	89,045	115,771
Other payables	16,888	-	-
Accrued interest payable	-	7,333	7,333
Contract retainage payable	-	1,332	1,332
Capital debt - current	71,846	482,060	553,906
Non-capital debt - current	654	538	1,192
Total Current Liabilities	<u>116,114</u>	<u>580,308</u>	<u>679,534</u>
Noncurrent Liabilities:			
Capital debt - noncurrent	214,539	4,875,113	5,089,652
Non-capital debt - noncurrent	21,135	17,402	38,537
Total Noncurrent Liabilities	<u>235,674</u>	<u>4,892,515</u>	<u>5,128,189</u>
Total Liabilities	<u>\$ 351,788</u>	<u>5,472,823</u>	<u>5,807,723</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,066,493	4,792,010	5,858,503
Restricted for:			
Debt service	11,901	-	11,901
Unrestricted	747,954	1,142,989	1,890,943
Total Net Assets	<u>\$ 1,826,348</u>	<u>5,934,999</u>	<u>7,761,347</u>

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

CITY OF MORTON
Statement of Activities
For the Year Ended September 30, 2009

Exhibit B

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets		
					Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 293,817	295,169	30,888	30,418	62,658	-	62,658
Public safety	813,215	50,293	33,132	-	(729,790)	-	(729,790)
Public works	473,960	-	63,478	-	(410,482)	-	(410,482)
Culture and recreation	178,309	-	-	-	(178,309)	-	(178,309)
Interest and fiscal charges	13,434	-	-	-	(13,434)	-	(13,434)
Total governmental activities	<u>1,772,735</u>	<u>345,462</u>	<u>127,498</u>	<u>30,418</u>	<u>(1,269,357)</u>	<u>-</u>	<u>(1,269,357)</u>
Business-type activities:							
Water	604,361	1,403,131	-	143,876	-	942,646	942,646
Sewer	289,361	962,975	-	-	-	673,614	673,614
Waste water treatment	1,076,957	-	-	-	-	(1,076,957)	(1,076,957)
Waste disposal	225,964	173,334	-	-	-	(52,630)	(52,630)
Interest and fiscal charges	82,020	-	-	-	-	(82,020)	(82,020)
Total business-type activities	<u>2,278,663</u>	<u>2,539,440</u>	<u>-</u>	<u>143,876</u>	<u>-</u>	<u>404,653</u>	<u>404,653</u>
Total Primary Government	<u>\$ 4,051,398</u>	<u>2,884,902</u>	<u>127,498</u>	<u>174,294</u>	<u>(1,269,357)</u>	<u>404,653</u>	<u>(864,704)</u>
General revenues:							
Taxes:							
Property taxes					\$ 502,618	-	502,618
State grant income					571,907	-	571,907
Interest and investment earnings					20,516	29,821	50,337
Miscellaneous					163,759	-	163,759
Total general revenues					<u>1,258,800</u>	<u>29,821</u>	<u>1,288,621</u>
Change in net assets					(10,557)	434,474	423,917
Net assets - beginning					1,718,693	5,451,868	7,170,561
Prior period adjustments					118,212	48,657	166,869
Net assets - beginning, restated					<u>1,836,905</u>	<u>5,500,525</u>	<u>7,337,430</u>
Net assets - ending					<u>\$ 1,826,348</u>	<u>5,934,999</u>	<u>7,761,347</u>

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

CITY OF MORTON

Balance Sheet - Governmental Funds

September 30, 2009

Exhibit C

	Major Funds General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 609,733	148,186	757,919
Receivables	67,339	-	67,339
Total Assets	<u>\$ 677,072</u>	<u>148,186</u>	<u>757,919</u>
LIABILITIES:			
Accounts payable and accrued liabilities	24,249	2,476	26,725
Due to other funds	16,888	-	16,888
Total Liabilities	<u>\$ 41,137</u>	<u>2,476</u>	<u>43,613</u>
FUND BALANCES:			
Reserved for:			
Debt Service	-	11,901	11,901
Unrestricted/undesignated, reported in:			
General Fund	635,935	-	635,935
Special Revenue Funds	-	133,808	133,808
Total Fund Balances	<u>635,935</u>	<u>145,709</u>	<u>781,644</u>
Total Liabilities and Fund Balances	<u>\$ 677,072</u>	<u>148,185</u>	<u>825,257</u>

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

CITY OF MORTON

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2009

Exhibit C-1

Total fund balances - governmental funds		781,644
Amounts requested for governmental activities in the statement of net assets are different because:		
1. Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		
Capital Assets	2,601,870	
Less Accumulated Depreciation	<u>(1,248,992)</u>	
		1,352,878
2. Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.		(308,174)
		<u>1,826,348</u>
Total Net Assets - Governmental Funds		<u><u>1,826,348</u></u>

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

CITY OF MORTON

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balance

For Governmental Funds

For the Year Ended September 30, 2009

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 502,363	-	502,363
Licenses and permits	11,131	-	11,131
Intergovernmental revenues	838,866	48,825	887,691
Charges for services	98,123	30,125	128,248
Fines	101,947	-	101,947
Interest	24,812	1,324	26,136
Rent	43,500	-	43,500
Miscellaneous	46,793	14,369	61,162
Total Revenues	1,667,535	94,643	1,762,178
Expenditures:			
Current:			
General government	290,596	-	290,596
Public safety	1,041,826	-	1,041,826
Public works	459,445	-	459,445
Culture and recreation	132,673	25,146	157,819
Capital Outlay	7,625	9,608	17,233
Debt Service:			
Principal	43,598	21,180	64,778
Interest	5,638	7,796	13,434
Total Expenditures	1,981,401	63,730	2,045,131
Excess (deficiency) of revenues over expenditures	(313,866)	30,913	(282,953)
Other Financing Sources (Uses):			
Inception of Capital Lease	153,004	-	153,004
Total Other Financing Sources and Uses	153,004	-	153,004
Net change in fund balances	(160,862)	30,913	(129,949)
Fund Balances:			
October 1, 2008	678,585	114,796	793,381
Prior period adjustments	118,212	-	118,212
October 1, 2007, as adjusted	796,797	114,796	911,593
September 30, 2008	\$ 635,935	145,709	781,644

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

CITY OF MORTON

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds in the Statement of Activities
For the Year Ended September 30, 2009

Exhibit D-1

	<u>Amount</u>
Net change in fund balances	\$ (129,949)
Amounts reported in the Statement of Net Activities (Exhibit B) are different because:	
1. Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the statement of activities. Instead, costs associated with capital assets are capitalized in the statement of net assets, as follows:	347,226
2. Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over the estimated useful lives in the Statement of Activities.	(138,523)
3. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	-
4. Proceeds from debt issues are an other financing source in the governmental funds, but a debt issue increases long-term liabilities in the Statement of Net Assets.	(153,004)
5. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	64,778
6. Expenses in the Statement of Activities normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	(1,085)
Change in Net Assets of Governmental Funds	<u>\$ (10,557)</u>

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

CITY OF MORTON
Statement of Net Assets
Proprietary Funds
September 30, 2009

Exhibit E

	Business-type Activities					Total Business-type Activities
	Water and Sewer Fund	Butane Road	SRF Construction	City SRF Sewer #1	Water Meter Deposits Fund	
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 1,019,705	196	668	250	100,822	1,121,641
Receivables	88,998	-	-	-	-	88,998
Restricted assets - cash	48,000	-	-	-	-	48,000
Total Current Assets	<u>1,156,703</u>	<u>196</u>	<u>668</u>	<u>250</u>	<u>100,822</u>	<u>1,258,639</u>
Noncurrent assets:						
Capital assets, net of accumulated depreciation	10,149,183	-	-	-	-	10,149,183
Total Noncurrent assets	<u>10,149,183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,149,183</u>
Total Assets	<u>\$ 11,305,886</u>	<u>196</u>	<u>668</u>	<u>250</u>	<u>100,822</u>	<u>11,407,822</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 51,291	-	-	-	37,754	89,045
Accrued interest payable	7,333	-	-	-	-	7,333
Contract retainage payable	-	1,332	-	-	-	1,332
Current portion of long-term debt						
Capital related liabilities	482,060	-	-	-	-	482,060
Non-capital related liabilities	538	-	-	-	-	538
Total Current Liabilities	<u>541,222</u>	<u>1,332</u>	<u>-</u>	<u>-</u>	<u>37,754</u>	<u>580,308</u>
Noncurrent liabilities:						
Long-term debt, net of current portion						
Capital related liabilities	4,875,113	-	-	-	-	4,875,113
Non-capital related liabilities	17,402	-	-	-	-	17,402
Total Noncurrent liabilities	<u>4,892,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,892,515</u>
Total Liabilities	<u>5,433,737</u>	<u>1,332</u>	<u>-</u>	<u>-</u>	<u>37,754</u>	<u>5,472,823</u>
Net Assets						
Invested in capital assets, net of related debt	4,792,010	-	-	-	-	4,792,010
Restricted for:						
Debt service	48,000	-	-	-	-	48,000
Capital projects	-	-	668	250	-	918
Unrestricted	1,032,139	(1,136)	-	-	63,068	1,094,071
Total Net Assets	<u>5,872,149</u>	<u>(1,136)</u>	<u>668</u>	<u>250</u>	<u>63,068</u>	<u>5,934,999</u>
Total Liabilities and Fund Balances	<u>\$ 11,305,886</u>	<u>196</u>	<u>668</u>	<u>250</u>	<u>100,822</u>	<u>11,407,822</u>

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

CITY OF MORTON

Statement of Revenues, Expenditures And Changes in Net Assets
 Proprietary Funds
 For the Year Ended September 30, 2009

Exhibit F

	Business-type Activities									Total Business-type Activities	
	Water and Sewer Fund	I-20 Development	Butane Road	Hwy 481 S Water Relocation	SRF Construction	City SRF Sewer #1	Koch Food Feed Mill Grant	2007 SRF Downtown Water Imprvment	CDBG Economic Development		Water Meter Deposits Fund
Operating revenues:											
Charges for services	\$ 2,033,355	-	-	-	-	-	-	-	-	-	2,033,355
Other revenues	554	-	196	-	-	-	-	-	1,804	-	2,554
Total Operating Revenues	<u>2,033,909</u>	<u>-</u>	<u>196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,804</u>	<u>2,035,909</u>
Operating Expenses:											
Personnel services	629,080	-	-	-	-	-	-	-	-	-	629,080
Purchases of services	547,003	-	-	-	-	-	-	-	-	-	547,003
Materials and supplies	167,844	-	-	-	-	-	-	-	-	-	167,844
Heat, light, and power	472,756	-	-	-	-	-	-	-	-	-	472,756
Depreciation	379,960	-	-	-	-	-	-	-	-	-	379,960
Total Operating Expenses	<u>2,196,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,196,643</u>
Operating income (loss)	(162,734)	-	196	-	-	-	-	-	1,804	-	(160,734)
Non-operating revenues (expenses)											
Interest revenue	28,017	-	-	-	-	-	-	-	-	-	28,017
Intergovernmental revenues	48,185	135,456	16,529	79,162	-	367,379	-	2,500	-	-	649,211
Interest expense	(82,020)	-	-	-	-	-	-	-	-	-	(82,020)
Total Other Financing Sources and Uses	<u>(5,818)</u>	<u>135,456</u>	<u>16,529</u>	<u>79,162</u>	<u>-</u>	<u>367,379</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>595,208</u>
Income before contributions and transfers	(168,552)	135,456	16,725	79,162	-	367,379	-	2,500	1,804	-	434,474
Transfers:											
Residual equity transfers in	724,597	-	-	-	-	-	-	-	-	-	724,597
Operating transfers in	-	-	-	-	-	-	180,553	-	-	-	180,553
Operating transfers out	(180,553)	-	-	-	-	-	-	-	-	-	(180,553)
Residual equity transfers out	-	(87,728)	(17,861)	(79,162)	-	(348,420)	(173,180)	(18,246)	-	-	(724,597)
Total Transfers	<u>544,044</u>	<u>(87,728)</u>	<u>(17,861)</u>	<u>(79,162)</u>	<u>-</u>	<u>(348,420)</u>	<u>7,373</u>	<u>(18,246)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	375,492	47,728	(1,136)	-	-	18,959	7,373	(15,746)	1,804	-	434,474
Fund Balances:											
Total net assets at the beginning of the year	5,405,602	(5,330)	-	-	668	250	(18,959)	(7,373)	15,746	61,264	5,451,868
Prior period adjustments	91,055	(42,398)	-	-	-	-	-	-	-	-	48,657
Total net assets at the beginning of the year, as restated	<u>5,496,657</u>	<u>(47,728)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>(18,959)</u>	<u>(7,373)</u>	<u>15,746</u>	<u>61,264</u>	<u>5,499,857</u>
Total net asset at the end of the year	<u>\$ 5,872,149</u>	<u>-</u>	<u>(1,136)</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,068</u>	<u>5,934,331</u>

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

CITY OF MORTON

Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2009

Exhibit G

	Water and Sewer Fund	SRF Construction	City SRF Sewer #1	Hwy 481 S Water Relocation	CDBG Economic Development	Koch Feed Mill	Butane Road	I-20 Development	Water Meter Deposits Fund
Cash flows from operating activities:									
Cash received from customers	\$ 2,033,355	-	-	-	-	-	-	-	-
Cash paid to suppliers	(1,185,620)	-	-	79,162	(18,246)	(367,379)	(16,529)	(93,058)	-
Cash paid to employees	(629,080)	-	-	-	-	-	-	-	-
Net cash provided by operating activities	<u>218,655</u>	<u>-</u>	<u>-</u>	<u>79,162</u>	<u>(18,246)</u>	<u>(367,379)</u>	<u>(16,529)</u>	<u>(93,058)</u>	<u>-</u>
Cash flows from non-capital financing activities:									
Intergovernmental revenues	48,185	-	-	79,162	2,500	367,379	16,529	135,456	-
Misc other revenue	554	-	-	-	-	-	196	-	-
Operating transfers out	(180,553)	-	-	-	-	-	-	-	-
Net cash (used) for capital and related activities	<u>(131,814)</u>	<u>-</u>	<u>-</u>	<u>79,162</u>	<u>2,500</u>	<u>367,379</u>	<u>16,725</u>	<u>135,456</u>	<u>-</u>
Cash flows from capital and related financing activities:									
Principal paid on capital debt	(426,855)	-	-	-	-	-	-	-	-
Proceeds of debt	637,606	-	-	-	-	-	-	-	-
Sale of fixed assets	-	-	-	-	-	-	-	-	-
Interest paid on capital debt	(82,020)	-	-	-	-	-	-	-	-
Net cash (used) for capital and related activities	<u>128,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:									
Interest and dividends	28,017	-	-	-	-	-	-	-	1,804
Net cash provided (used) by investing activities	<u>28,017</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,804</u>
Net increase in cash and cash equivalents	243,589	-	-	158,324	(15,746)	-	196	42,398	1,804
Cash and cash equivalents at beginning of year	1,213,199	668	250	-	15,746	-	-	-	99,018
Prior period adjustments	(389,083)	-	-	-	-	-	-	(42,398)	-
Cash and cash equivalents at beginning of year, as adjusted	<u>824,116</u>	<u>668</u>	<u>250</u>	<u>-</u>	<u>15,746</u>	<u>-</u>	<u>-</u>	<u>(42,398)</u>	<u>99,018</u>
Cash and cash equivalents at end of year	<u>\$ 1,067,705</u>	<u>668</u>	<u>250</u>	<u>158,324</u>	<u>-</u>	<u>-</u>	<u>196</u>	<u>-</u>	<u>100,822</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:									
Operating income (loss)	\$ (162,734)	-	-	-	-	1,804	(160,734)	-	1,804
Adjustment to reconcile operating income to net cash provided (used) by operating activities:									
Depreciation expense	379,960	-	-	-	-	-	-	-	-
Changes in assets and liabilities:	554	-	-	-	-	-	-	-	-
Receivables	78,527	-	-	-	-	-	-	-	-
Accounts payable and other accrued liabilities	(77,652)	-	-	-	-	-	-	-	-
Net cash provided by operating activities	<u>\$ 218,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,804</u>	<u>(160,734)</u>	<u>-</u>	<u>1,804</u>

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

CITY OF MORTON
Statement of Fiduciary Net Assets
September 30, 2009

Exhibit H

Agency
Funds

ASSETS

Cash and cash equivalents	\$	(9,888)
Due from other funds	\$	16,888
Total Assets	\$	<u>7,000</u>

LIABILITIES

Accounts payable and accrued liabilities	\$	-
Total Liabilities		<u>-</u>

FUND BALANCES:

Reserved for:		
Unemployment benefits		<u>7,000</u>
Total Fund Balances		<u>7,000</u>
Total Liabilities and Fund Balances	\$	<u>7,000</u>

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

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the city have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the city's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the governmental unit's elected or appointed officials.

B. Basis of presentation.

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into three fund categories, governmental, business type and agency funds for financial statement presentation purposes. Governmental funds include the general, debt service and capital projects funds. Proprietary funds include the water and sewer fund. The city has three fiduciary agency funds.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the city as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differ from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

The Statement of Net Assets presents the financial condition of the governmental activities of the city at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the city's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the city, with certain limited exceptions. The comparison of direct

CITY OF MORTON

Notes to the Financial Statements For the Year Ended September 30, 2009

expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the city.

Net Assets should be reported as restricted when constraints placed on net assets used are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restriction on their net asset use.

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

Fund Financial Statements:

Fund financial statements of the city are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations, and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The city reports the following major governmental funds:

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

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of Exhibit D.

CITY OF MORTON

Notes to the Financial Statements For the Year Ended September 30, 2009

Revenue Recognition.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current period). This includes investment earnings, fines and forfeitures. In accordance with GASB 36, certain state-levied locally shared taxes including motor vehicle license tax and gasoline taxes are considered voluntary non-exchange transactions. These types of transactions are subject to six months accrual and income recognition. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until they become available.

Property taxes and special assessments (in the debt service funds), though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax and special assessments receivable are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services and miscellaneous revenues are recognized when received in cash because they are generally not measurable until actually received.

Expenditure Recognition.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized with incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services.

FIDUCIARY FUNDS

Agency Funds – Agency Funds are used to report resources held by the city in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications prescribed in *the Municipal Audit and Accounting Guide* issued by the Office of the State Auditor.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The city deposits excess funds in the financial institutions selected by the city. State statutes specify how these depositories are to be selected. Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of 3 months or less when acquired. Cash and cash equivalents are valued at cost.

G. Investments.

The city can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 3 months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Inventories are valued at cost (calculated on the first-in, first-out basis).

The cost of governmental fund type inventories is reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term liabilities and other long-term liabilities are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to; (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. See Note 3 for details for interfund transactions, including operating transfers in/out.

At September 30, 2009, there were no interfund receivables or payables.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the city:

Reserved for debt service – An account that represents that portion of fund balance in the debt service fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the city based upon an order adopted by the city requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the city, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Compensated Absences.

Employees of the city accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by city policy. Some employees are allowed personal leave and/or vacation leave in accordance with city policy. The city pays for unused leave for employees.

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, and employee resigns or retires.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

(2) Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the city's deposits with financial institutions reported in the governmental funds, proprietary funds, and fiduciary funds was \$757,919, \$1,121,641 and \$(9,888) respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$1,879,560 and Restricted Assets \$48,000. The restricted assets represent the cash balance which is legally restricted and may not be used for purposes that support the city's program. The bank balance was \$2,513,163.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the city will not be able to recover deposits or collateral securities that are in the possession of an outside party. The city does not have a formal policy for custodial risk. However, the Mississippi State Treasurer manages that risk on behalf of the city. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the city.

(3) The following is a summary of interfund transactions and balances:

Transfers In/Out

Proprietary Funds:

Operating transfers in/out:

Receivable Fund	Payable Fund	Amount
Water and sewer fund	CDBG Economic Development	180,553
Total		180,553

Residual equity transfers in/out:

Receivable Fund	Payable Fund	Amount
I-20 Development	Water and sewer fund	87,728
Butane Road	Water and sewer fund	17,861
Hwy 481 S Water Relocation	Water and sewer fund	79,162
Koch Food Feed Mill Grant	Water and sewer fund	348,420
2007 SRF Downtown Water Improvement	Water and sewer fund	173,180
CDBG Economic Development	Water and sewer fund	18,246
Total		724,597

Transfers in/out consisted of transfers for operating costs between funds. Residual equity transfers represent transfers of fixed assets.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

(4) General Fixed Assets.

A summary of changes in general fixed assets for governmental activities for the year ended September 30, 2009 follows:

Governmental Activities

	Beginning Balance 10/1/2008	Additions	Deletions	Adjustments	Ending Balance 9/30/2009
Non-Depreciable Assets					
Land	\$ 10,000	-	-	-	10,000
Total non-depreciable assets	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Depreciable Assets					
Buildings	747,301	-	-	-	747,301
Building Improvements	57,844	-	-	-	57,844
Infrastructure	346,280	11,235	-	-	357,515
Improvements other	260,000	10,010	-	-	270,010
Mobile Equipment	489,166	-	-	-	489,166
Furniture & Equipment	45,807	55,069	-	-	100,876
Obligations under capital leases	298,246	270,912	-	-	569,158
Total depreciable capital assets	<u>2,244,644</u>	<u>347,226</u>	<u>-</u>	<u>-</u>	<u>2,591,870</u>
Less accumulated depreciation for:					
Buildings	(330,375)	(13,455)	-	-	(343,830)
Building Improvements	(2,314)	(2,314)	-	-	(4,628)
Infrastructure	(158,618)	(5,373)	-	-	(163,991)
Improvements other	(72,800)	(10,800)	-	-	(83,600)
Mobile Equipment	(392,749)	(12,475)	-	-	(405,224)
Furniture & Equipment	(21,140)	(11,363)	-	-	(32,503)
Obligations under capital leases	(132,473)	(82,743)	-	-	(215,216)
Total accumulated depreciation	<u>(1,110,469)</u>	<u>(138,523)</u>	<u>-</u>	<u>-</u>	<u>(1,248,992)</u>
Total depreciable capital assets, net	<u>1,134,175</u>	<u>208,703</u>	<u>-</u>	<u>-</u>	<u>1,342,878</u>
Governmental activities capital assets, net	<u>\$ 1,144,175</u>	<u>208,703</u>	<u>-</u>	<u>-</u>	<u>1,352,878</u>

Depreciation expense was charged to the following governmental functions:

	Amount
General government	\$ 61,217
Public safety	14,515
Public works	42,301
Culture and recreation	20,490
Total current year depreciation expense	<u>\$ 138,523</u>

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

A summary of changes in general fixed assets for business-type assets for the year ended September 30, 2009 follows:

Business-type Activities

	Beginning Balance 10/1/2008	Additions	Deletions	Completed Construction	Adjustments	Ending Balance 9/30/2009
Non-Depreciable Assets						
Land	\$ 47,319	-	-	-	-	47,319
Construction in progress	1,921,095	1,217,886	-	(2,331,074)	-	807,907
Total non-depreciable assets	<u>1,968,414</u>	<u>1,217,886</u>	<u>-</u>	<u>(2,331,074)</u>	<u>-</u>	<u>855,226</u>
Depreciable Assets						
Infrastructure	14,012,421	-	-	2,331,074	-	16,343,495
Mobile Equipment	303,240	-	-	-	-	303,240
Furniture & Equipment	206,340	-	-	-	-	206,340
Obligations under capital leases	49,418	22,700	-	-	-	72,118
Total depreciable capital assets	<u>14,571,419</u>	<u>22,700</u>	<u>-</u>	<u>2,331,074</u>	<u>-</u>	<u>16,925,193</u>
Less accumulated depreciation for:						
Infrastructure	(6,924,449)	(345,894)	-	-	-	(7,270,343)
Mobile Equipment	(163,452)	(16,011)	-	-	-	(179,463)
Furniture & Equipment	(154,714)	(8,866)	-	-	-	(163,580)
Obligations under capital leases	(8,661)	(9,189)	-	-	-	(17,850)
Total depreciable capital assets, net	<u>(7,251,276)</u>	<u>(379,960)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,631,236)</u>
Total depreciable capital assets, net	7,320,143	(357,260)	-	2,331,074	-	9,293,957
Business-type activities capital assets, net	<u>\$ 9,288,557</u>	<u>860,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,149,183</u>

Depreciation expense was charged to the following business-type functions:

	Amount
Enterprise fund - water and sewer	\$ 379,960
Total current year depreciation expense	<u>\$ 379,960</u>

Adjustments were made (1) to correct ending balances to actual, and (2) to reclassify assets.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

As of September 30, 2009, the city had the following commitments with respect to unfinished capital projects:

	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
2007 CDBG Koch Feedmill Infrastructure Project	\$ 20,111	May 2010
CDBG Butane Road Project	<u>353,158</u>	May 2010
Totals	<u>\$ 373,269</u>	

(5) Long Term Debt Obligations.

The following is a summary of changes to long-term debt:

	<u>Balance 10/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/2009</u>	<u>Amount Due within one year</u>
Governmental activities:					
A. General obligation bonds payable	\$ 48,157		(4,456)	43,701	4,649
A. Other loans payable	-	-	-	-	-
B. Obligations under capital leases payable	150,002	153,005	(60,322)	242,685	60,797
C. Compensated absences payable	<u>20,704</u>	<u>1,085</u>	<u>-</u>	<u>21,789</u>	<u>654</u>
Governmental Funds Total:	<u>\$ 218,863</u>	<u>154,090</u>	<u>(64,778)</u>	<u>308,175</u>	<u>66,100</u>
Business-type activities:					
A. General obligation bonds payable	\$ 341,049		(28,388)	312,661	34,563
B. Other loans payable	4,764,509	614,906	(384,938)	4,994,477	429,131
C. Obligations under capital leases payable	40,864	22,700	(13,529)	50,035	18,366
D. Compensated absences payable	<u>11,310</u>	<u>6,630</u>	<u>-</u>	<u>17,940</u>	<u>538</u>
Business-type activities total	<u>5,157,732</u>	<u>644,236</u>	<u>(426,855)</u>	<u>5,375,113</u>	<u>482,598</u>
Total all long-term liabilities	<u>\$ 5,376,595</u>	<u>798,326</u>	<u>(491,633)</u>	<u>5,683,288</u>	<u>548,698</u>

A maturity schedule for each loan type in the governmental activities funds is as follows:

Governmental activities long-term obligations

A. General obligation bonds payable:

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

General obligation bonds

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Library Roof Bonds	4.25%	14-Dec-07	14-Dec-17	51,400	43,701
Total				\$ 51,400	43,701

The following is a schedule by years of the total payments due on this debt:

Year Ending Sept 30	Principal	Interest	Total
2010	4,649	1,767	6,416
2011	4,851	1,566	6,417
2012	5,061	1,356	6,417
2013	5,280	1,136	6,416
2014-2017	23,860	22	23,882
Total	\$ 43,701	5,847	49,548

This debt will be repaid from the general fund.

B. Obligation under capital lease payable.

The city has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of:

1. Fire tanker, 2000 gallons - 2002
2. Police vehicle – 2007
3. New Holland tractor
4. Police vehicle – 2008
5. Pickup Truck – 2008
6. Case Backhoe Loader
7. Police vehicle – 2009
8. Pumper Fire truck -- 2009
9. Administrative software and hardware -- 2009

Options under capital leases payable are as follows:

1. Title passes to lessee at the lease expiration for no further consideration.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

2. Lease may be terminated without penalty in the event of nonappropriation of funds.

Govt-obligations under capital lease purchase

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Fire Tanker, 2000 gallons	4.95%	Jun. 2002	Jun. 2012	\$ 125,060	44,121
Police Vehicle - 2007	4.39%	Dec. 2006	Jan. 2012	19,814	2,332
New Holland Tractor	4.49%	Jan. 2007	Jan. 2012	45,077	22,295
Police Vehicle - 2008	4.39%	Jan. 2008	Feb. 2011	20,352	9,945
Pickup Truck - 2008	4.44%	Jan. 2008	Jan. 2012	6,965	4,212
Case Backhoe Loader	3.69%	Apr. 2008	Apr. 2013	29,170	21,443
Police car - 2009	4.39%	Jan. 2009	Jan. 2012	21,069	16,573
Pumper Fire Truck - 2009	5.06%	Nov. 2008	Nov. 2018	120,000	112,149
Administrative Software & Hardware	0.00%	Feb. 2009	Feb. 2012	\$ 11,935	9,615
				<u>\$ 399,442</u>	<u>242,685</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending Sept 30	Principal	Interest	Total
2010	60,797	13,831	74,628
2011	56,673	11,516	68,189
2012	40,542	8,880	49,422
2013	15,168	5,723	20,891
2014	12,076	3,339	15,415
2015-2019	<u>57,429</u>	<u>6,377</u>	<u>63,806</u>
Total	<u>\$ 242,685</u>	<u>49,666</u>	<u>292,351</u>

This debt will be retired from the general fund.

- C. Compensated absences payable.

As more fully explained in Note 1(N), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972).

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

Business type activities long-term obligations

A. General obligation bonds payable:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Water & Sewer Improvement Bonds	5.00%	1-May-85	17-Sep-17	\$ 787,000	312,661
Total				\$ 787,000	312,661

The following is a schedule by years of the total payments due on this debt:

Year Ending Sept 30	Principal	Interest	Total
2010	\$ 34,563	14,624	49,188
2011	36,332	12,856	49,188
2012	38,190	10,997	49,188
2013	40,144	9,043	49,188
2014	42,198	6,990	49,188
2015-2017	121,233	7,791	129,024
Total	\$ 312,661	62,301	374,962

This debt will be repaid from the Water & Sewer Fund.

The amount of total bonded indebtedness that can be incurred by the city is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such city, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of September 30, 2009, the amount of outstanding bonded indebtedness was equal to 2.90% of property assessments of \$12,279,408 as of October 1, 2009, computed as follows:

Bonded Debt:	
Governmental activities:	
General Government Bonded Debt:	\$ 43,701
Business-type activities:	
Water & Sewer Fund Bonded Debt:	312,661
Total bonded debt	\$ 356,362
Assessed Valuation	\$ 12,279,408
Percentage	2.90%

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

B. Other loans payable.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Revolving Fund-1992	3.00%	Oct. 1992	May 2012	\$ 3,499,955	603,612
State Revolving Fund-2003	1.75%	Aug. 2002	Nov. 2024	364,806	292,040
State Revolving Fund-2006	2.00%	Aug. 2006	Jun. 2026	1,596,281	1,397,281
State Revolving Fund-2008	2.75%	Apr. 2008	Jan. 2028	304,447	287,583
Drinking Water Improv Revolving Loan-2005	4.00%	June 2005	Mar 2025	1,127,564	953,830
Drinking Water Improv Revolving Loan-2006	2.50%	Feb 2007	Oct 2026	105,100	94,056
Drinking Water Improv Revolving Loan-2009	1.95%	Apr. 2009	Jan. 2029	955,712	939,113
Capital Improvement Loan-2009	2.00%	Apr. 2009	Apr. 2029	434,353	426,962
				<u>\$ 8,388,218</u>	<u>4,994,477</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending Sept 30	Principal	Interest	Admin. Fees	Total
2010	429,131	113,319	8,088	550,538
2011	441,036	104,838	4,330	550,204
2012	374,392	97,207		471,599
2013	224,424	89,968		314,392
2014	230,065	84,327		314,392
2015-2019	1,240,669	331,289		1,571,958
2020-2024	1,407,786	164,172		1,571,958
2025-2029	646,974	32,772		679,746
Total	<u>\$ 4,994,477</u>	<u>1,017,892</u>	<u>12,418</u>	<u>6,024,787</u>

Note: State Revolving Fund Loans 2006 and 2008 charge administrative fees in the first years in lieu of interest.

This debt will be repaid from the Water & Sewer Fund.

C. Obligations under capital lease payable.

The city entered into a lease agreement for the following:

1. Chevrolet 2007 Truck
2. 2008 Pickup Truck

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

3. Case Backhoe Loader

4. Mobile Radios – 2009

Options under capital leases payable are as follows:

1. Title passes to lessee at the lease expiration for no further consideration.
2. Lease may be terminated without penalty in the event of nonappropriation of funds.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2007 Chevrolet Truck	4.49%	11-Nov-06	1-Jan-11	\$ 13,284	4,695
2008 Pickup Truck	4.44%	25-Jan-08	25-Jan-12	6,965	4,212
Case Backhoe Loader	3.69%	25-Apr-08	25-Apr-13	29,170	21,443
Mobile Radios - 2009	3.465%	4/17/2009	4/15/2012	22700	19685
				<u>\$ 72,119</u>	<u>50,035</u>

The following is a schedule by years of the total payments due on this debt:

This debt will be repaid from the Water & Sewer Fund.

D. Compensated absences payable

As more fully explained in Note 1(N), compensated absences payable will be adjusted on an annual basis.

(6) Defined Benefit Pension Plan.

Plan Description. The city contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the city is required to contribute at an actuarially determined rate. The current rate is 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The city's contributions to PERS for the fiscal years ending September 30, 2009, 2008 and 2007 were \$143,137, \$136,508 and \$122,047, respectively, which equaled the required contributions for each year.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

(7) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

Explanations:

Governmental Activities:

An adjustment to correct an error in recording a revenue or expenditure in a prior year.	\$	118,212
--	----	---------

Business-type Activities:

An adjustment to correct an error in recording a revenue or expenditure in a prior year.		48,657
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Total Exhibit B	<u>\$</u>	<u>166,869</u>
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Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Explanations:

General Fund

An adjustment to correct an error in recording a revenue or expenditure in a prior year.	\$	118,212
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Total Exhibit D	<u>\$</u>	<u>118,212</u>
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Exhibit F - Statement of Revenues, Expenditures and Changes in Net Assets - Proprietary Funds

Explanations:

Water and Sewer Fund

An adjustment to correct an error in recording a revenue or expenditure in a prior year.	\$	48,657
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Total Exhibit F	<u>\$</u>	<u>48,657</u>
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CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

(8) Litigation.

The city is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the city with respect to various proceedings. However, the city's legal counsel believes that there are no lawsuits or threatened proceedings at present that will have a material adverse effect on the financial condition of the city.

(9) Subsequent Events.

On 10/01/2009, the board approved of a \$150,000 grant from Mississippi Development Authority for roadway and sewer improvements and accepted a quote of \$9,254 from BBI, Inc. for computer software for the city administration, with the purchase to be funded through BBI, Inc...

On October 6, 2009, the board approved a transfer of \$11,901 from the debt service fund to the general fund. The board also approved a request for funding from Office of Highway Safety for \$42,777 for DUI Enforcement.

On November 17, 2009, the board accepted the lowest bids for police equipment from the following: \$7,520 for cameras from Digital Alley; \$3,310 for computer software from Crimestar; and \$2,679 for computers from Office Depot.

On December 15, 2009, the board approved the purchase of a 2010 Dodge car for the police department with a financing from Bancorp South Equipment Finance.

On January 19, 2010, the board accepted a DUI grant awarding the city \$10,000 for breathalyzers and authorizing police road blocks. The board also approved a payment plan to repay Koch Foods \$3,191 per month for twenty-four months due to an overcharge on monthly water and sewer bills from the city.

On March 2, 2010, the board accepted a \$42,900 quote from Delta Constructors for sewer improvements for Highway 13 South and authorized Williford Gearhart & Knight to prepare facility plans for Wastewater Treatment Plant for \$14,000

On March 16, 2010, the board authorized the purchase of an SAG riding lawnmower with a state contract price of \$8,639.

On April 20, 2010, the board approved the payoff on three police cars of \$41,881 from money seized by the City Police. Also, the board approved an application for a Drinking water Systems Emergency loan of \$69,545.

(10) Risk Management.

The city is exposed to various risks of loss related to torts; of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Except as described below, the city carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF MORTON

Notes to the Financial Statements
For the Year Ended September 30, 2009

Participation in Public Entity Risk Pool.

The city is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the city's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MMWCG has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the pool member would be required to pay for the deficiencies. The city has not had an additional assessment for excess losses incurred by the pool.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF MORTON
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2009

Schedule 1-A

	Original Budget	Final Budget	Actual	Original to Final Variance	Final to Actual Variance
Revenues:					
Taxes	\$ 505,939	505,939	502,363	-	(3,576)
Licenses and permits	12,000	12,000	11,131	-	(869)
Intergovernmental revenues	668,500	668,500	838,866	-	170,366
Charges for services	127,000	127,000	98,123	-	(28,877)
Fines	110,000	110,000	101,947	-	(8,053)
Interest	13,500	13,500	24,812	-	11,312
Rent	42,000	42,000	43,500	-	1,500
Miscellaneous	8,000	8,000	46,793	-	38,793
Total Revenues	<u>1,486,939</u>	<u>1,486,939</u>	<u>1,667,535</u>	<u>-</u>	<u>180,596</u>
Expenditure:					
General government	337,647	355,382	290,596	17,735	(64,786)
Public safety	751,746	751,746	1,041,826	-	290,080
Public works	435,515	501,163	459,445	65,648	(41,718)
Culture and recreation	114,980	130,349	132,673	15,369	2,324
Capital outlay	17,051	18,501	7,625	1,450	(10,876)
Debt service:					
Principal	-	64,778	43,598	64,778	(21,180)
Interest and other charges	-	13,434	5,638	13,434	(7,796)
Total Expenditures	<u>1,656,939</u>	<u>1,835,353</u>	<u>1,981,401</u>	<u>178,414</u>	<u>146,048</u>
Excess (deficit) of revenues over expenditures	(170,000)	(348,414)	(313,866)	(178,414)	34,548
Other Financing Sources (Uses):					
Sale of Fixed Assets	-	-	153,004	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>153,004</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(170,000)</u>	<u>(348,414)</u>	<u>(160,862)</u>	<u>(178,414)</u>	<u>34,548</u>
Fund Balances:					
October 1, 2008			678,585		
Prior period adjustments			<u>118,212</u>		
October 1, 2008, as restated			<u>796,797</u>		
September 30, 2009			<u>\$ 635,935</u>		

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

CITY OF MORTON

Budgetary Comparison Schedule

(1) Basis of Comparison.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget amendments and revisions.

The budget is adopted by the aldermen. Amendments can be made on the approval of the aldermen. By statute, final budget revisions must be approved. A budgetary comparison is presented for the general fund consistent with accounting principles generally accepted in the United States of America.

CITY OF MORTON

SUPPLEMENTAL INFORMATION

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CITY OF MORTON
 Schedule of Surety Bonds of City Officials
 September 30, 2009

Schedule 2

Name	Position	Surety Bond Company	Amount
Greg Butler	Mayor	St. Paul/Travelers Insurance Co.	\$ 50,000
David French	Alderman	St. Paul/Travelers Insurance Co.	50,000
Janet Jones	Alderwoman	St. Paul/Travelers Insurance Co.	50,000
Annie H. Owens	Alderwoman	St. Paul/Travelers Insurance Co.	50,000
Alpha O. Hollis Laster	Alderman	St. Paul/Travelers Insurance Co.	50,000
William R. Booth	Alderman	St. Paul/Travelers Insurance Co.	50,000
Dorothy Redeemer	City Clerk	St. Paul/Travelers Insurance Co.	50,000
Jimmy D. Rogers	Police Chief	St. Paul/Travelers Insurance Co.	50,000

The City of Morton maintains a blanket surety bond that covers all Police Officers (\$25,000), Police Dispatchers (\$25,000), the Deputy City Clerks (\$50,000), and all other personnel that handle cash (\$50,000).

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CITY OF MORTON

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

CITY OF MORTON

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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 4, 2010

Mayor and Board of Aldermen
City of Morton

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Morton as of and for the year ended September 30, 2009, which collectively comprise the City of Morton's basic financial statements and have issued our report thereon dated June 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Findings 2009-01 and 2008-02 to be significant deficiencies in internal control over financial reporting.

- 51 -

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

The city's corrective action plan relating to the finding in the paragraph above is attached; however, we did not audit the information and express no opinion on it.

Compliance and Other Matters

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "D. Scott Nieman", with a long horizontal flourish extending to the right.

D. Scott Nieman, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

CITY OF MORTON

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND
REGULATIONS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

June 4, 2010

Mayor and Board of Aldermen
City of Morton

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the city as of and for the year ended September 30, 2009, and have issued our report thereon dated June 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Morton had not complied with the requirements of the Office of the State Auditor, as set forth in the Municipal Compliance Questionnaire. With respect to the items tested, the results of those procedures and our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the city disclosed no instances of noncompliance with state laws and regulations.

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

Sincerely,



D. Scott Nieman, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

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CITY OF MORTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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CITY OF MORTON

Schedule of Findings and Questioned Costs
For the Year Ending September 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements

1.	Type of auditor's report issued on the financial statements:	Unqualified
2.	Material noncompliance relating to the financial statements?	No
3.	Internal control over financial reporting:	
	a. Material weaknesses identified?	No
	b. Significant deficiency identified that is not considered to be a material weakness?	Yes

Section 2: Financial Statement Findings

Reportable condition not considered to be a material weakness.

2009-01. Finding

As reported in prior years' audit reports, the city should report capital assets in accordance with Governmental Auditing Standards Board (GASB) Statement No. 34.

As reported in prior years' audit reports, we noted the following internal control weaknesses in our test of general fixed assets:

- Lists of assets with cost and date of acquisition exist; however, they are not totaled for inclusion into the financial statements by function or by category.
- Current year and accumulated depreciation reports had to be calculated manually. Assets should be entered into the computer with the use of software capable of calculating these reports on a yearly basis.

Recommendation

We recommend that the city allocate manpower and time to correct the above problems with input of assets:

- to compute total assets by category and by function.
- to calculate current year and accumulated depreciation by type of asset and year of use by using computer software.

2009-02. Finding

We noted the following internal control weakness in our test of general expenditures.

- Three invoices were not marked "paid" or defaced to help prevent duplicate payments.

CITY OF MORTON

Schedule of Findings and Questioned Costs
For the Year Ending September 30, 2009

- It was noted in one instance that there was no invoice for feeding the prisoners from one vendor.

Recommendation

Paid invoices should be defaced or cancelled with the word "PAID" stamped on the invoice, with the payment date and check number denoted to aid in prevention of duplicate payments. All expenditures paid by the city should be supported by invoices, including prisoner meals.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

AUDITEE'S CORRECTIVE ACTION PLAN

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ALDERMEN:
WILLIAM R. (BUDDY) BOOTH, Mayor Pro Tem
DAVID B. FRENCH
ONEIDA (NITA) HOLLIS LASTER
JANET LASETER JONES
ANNIE H. OWENS



DOROTHY REDEEMER
City Clerk
NICKY CRAPPS
Police Chief
HEZ L. HOLLINGSWORTH
City Attorney

CITY OF MORTON

P.O. Box 555
Morton, MS 39117
Phone: (601) 732-6252

GREG BUTLER, Mayor

June 15, 2010

Dribben & Associates, Ltd
P. O. Box 1411
Macomb, MS 39649-1411

Dear Sir:

The City of Morton, Mississippi respectfully submits the following corrective action plan for the finding included in the Schedule of Findings and Questioned cost for the year ended September 30, 2009.

a. **Name of contact person Responsible for Corrective Action:**
Dorothy Redeemer, City Clerk Phone number (601) 732-8609.

b. **Corrective Action Planned:**

Finding 09-01 The City of Morton have purchased software for general fixed assets and have begin the process of inputting all fixed assets into computer. After completion of this, the city will be able to produce lists of all assets, calculations of current year depreciation, and depreciation.

Finding 09-02 - The Accounts Payable Clerk have been instructed by City Clerk to stamp all invoice mark paid showing check number and date paid after checks have been issued in order to prevent duplication of payments.

The City of Morton has a new vendor for prisoner meals and we are receiving invoice for the purchases.

The City of Morton is currently in the process of making these corrective actions listed above.

Sincerely,

Dorothy Redeemer
City Clerk