

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Prepared by:

**Jewel A. Lasater, Finance Director
Finance Department**

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INTRODUCTORY SECTION

- **Letter of Transmittal**
 - **List of Principal Officials**
 - **Organizational Chart**
 - **GFOA Certificate of Achievement for
Excellence in Financial Reporting**
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MOREHEAD CITY NORTH CAROLINA

Gerald A. Jones, Jr., Mayor

COUNCIL

George W. Ballou, *Mayor Pro Tem*
William F. Taylor
Diane C. Warrender
Harvey N. Walker, Jr.
Keri V. McCann

706 Arendell Street
Morehead City, North Carolina 28557-4234
TEL (252) 726-8848
FAX (252) 726-2267
www.moreheadcity.nc.gov



Ralph Clark
Interim City Manager

January 17, 2018

To The Honorable Mayor and Members of the Town Council
Morehead City, North Carolina

We are pleased to present the Comprehensive Annual Financial Report of the Town of Morehead City (Town) for the fiscal year ending June 30, 2017. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report complies with these requirements.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the Town. Responsibility for both the reliability of the data and the completeness and fairness of the presentations, including all disclosures, rests with the Town. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe this financial report is complete and reliable in all material respects.

RSM US LLP, a firm of independent licensed certified public accountants has audited the Town's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2017 are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on the Town's financial statements for the fiscal year ended June 30, 2017. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to the independent audit of the financial statements, the Town is required to have a "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and certain state agencies. Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, findings and recommendations, and auditors' reports on the internal control structure and compliance, are included in the Compliance Section of this report.

This Comprehensive Annual Financial Report is presented in four sections which include the introductory, financial, statistical, and compliance sections. The introductory section includes this transmittal letter, the government's organizational chart, and a list of principal officials. The financial section includes the auditors' report on the financial statements and schedules, Management's Discussion and Analysis, the basic financial statements and related notes, the combining and individual fund financial statements and schedules, and additional financial data. The statistical section contains selected financial and demographic information. The compliance section presents reports and schedules required by the federal and State grantor agencies. MD&A included in the financial section fulfills a GAAP requirement that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Description of the Town of Morehead City

Morehead City is located on the coast of North Carolina approximately 150 miles southeast of Raleigh. With a population of approximately 9,361 it is the largest incorporated town in Carteret County. Founded in 1858, this

picturesque community is located on the Intercoastal Waterway and is separated from the Atlantic Ocean by a sound and a protective barrier island.

The Town combines the best of the relaxed, friendly atmosphere of a small Southern town with many amenities generally found only in larger communities that make life here both pleasurable and convenient. Residential, shopping, medical, and industrial areas surround the downtown business district, which is home to many restaurants and a renovated, working waterfront. Located in the city limits is the deep water Port of Morehead City, one of two state ports in North Carolina. Also, located in the Town is the county's 134-bed hospital, a branch of the state community college system, and the Crystal Coast Civic Center. The Town is forty-five minutes away from the closest commercial airport and fifteen minutes from the county airport, which services private planes.

The Town of Morehead City operates under the Council-Manager form of government. The Town Council is comprised of the mayor and five council members who are responsible for the legislative affairs of the Town. They are elected at large and serve for two-year and four-year terms, respectively. The Mayor and Council make appointments to various boards and appoint the City Manager, City Attorney, and Tax Collector. As chief executive officer, the City Manager is responsible for enforcement of all laws and ordinances, the efficient delivery of all Town services, and the preparation and management of the budget.

The annual budget serves as the foundation for the Town's financial planning and control. The Town's formal annual budget process begins in January. The City Manager, Department Directors, and Town Council work over the next several months reviewing and refining Council goals and objectives for the upcoming year. Based on the outcome of this process, the annual budget is prepared and delivered to the Town Council in May. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than June 30, the close of the Town's fiscal year. The General Fund's legal budgetary control is at the functional level. It is at the fund level in all other funds. The City Manager is authorized to transfer funds within these limits without report to Council. Transfers between functions in the General Fund, between funds, and appropriation of Contingency in the annually adopted budget requires Council approval.

The Town provides a full range of governmental services, including police and Fire/EMS protection, street construction and maintenance, planning and zoning and building inspections, cemetery, parks and recreation, and a library. In addition to general governmental activities, the Town provides water and sanitary sewer and a comprehensive solid waste program.

The estimated 2017 population for the Town of 9,361 was flat compared to the 2016 estimate of 9,362. The Town encompasses approximately seven square miles and employs 180 full-time equivalent staff. Like many other locations, the Town was negatively impacted by the recession of December 2007 through June 2009, and growth slowed during that period. However, economic indicators including building permits, number of utility customers, and sales tax revenue point to a rebounding local economy.

Economic Conditions and Outlook

The information in the financial statements may be best understood when considered in the context of the environment in which the Town operates. Morehead City is located in a rural coastal county. The major industries are tourism and fishing. The main attractions are the area's beaches and water related activities. The county also enjoys a number of historical sites that serve as destinations for individuals and groups. The county's economy, while seasonal, is stabilized by being in close proximity to two Marine Corp bases and air stations at Cherry Point and Camp Lejeune, which provide substantial employment for the county. Both Carteret County and Morehead City play host to a vibrant marine science community. The NC State University Marine Sciences and Technology Center, UNC-Chapel Hill Institute of Marine Sciences, and the NC Division of Marine Fisheries are located in Morehead City. The Duke University Marine Laboratory and the NOAA National Marine Fisheries Service are located just outside of the city limits of the Town. The lack of dependence on manufacturing and high tech jobs has somewhat mitigated the impact of the negative economic situations that have faced other communities for the past several years. Carteret County had a 3.9% unemployment rate in June 2017 compared to 4.2% statewide and 4.5% nationally (not seasonally adjusted).

All indications are that the Town and the county will experience continued growth. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the Town limits for 2016-2017 fiscal year was \$54.7 million. This growth expands our tax base and property taxes, one of our largest revenue sources.

The Town closely monitors its resources and has emphasized program efficiencies and other cost containment efforts, allowing strong financial positions to be maintained. We believe that the economic environment in this area along with the diligent management of the Town's costs and services will provide ongoing financial stability and fiscal capacity.

Major Initiatives

An ongoing goal of the Council has been to develop programs and pursue projects that upgrade facilities and enhance the quality of life for citizens and visitors through the cooperative efforts of governmental units, the business community, nonprofit organizations, and individual citizens. 2016-2017 major initiatives undertaken in the governmental funds to meet this goal included extension of a force mains to citizens and allow for future growth of the system. Construction of a new town garage began 2016-2017 to replace the existing structure that is over 40 years old. The new facility will house four bays that will allow for more advanced and efficient equipment for a higher rate of productivity and services from the Town. The town purchased land & docks along the downtown waterfront. The land that was purchased had previously been leased by the town for multiple years. The purchase of the property will allow the Town to develop the land in conjunction with a town wide study of all parks. Other 2016-2017 initiatives included the purchase of three new lots adjacent to Bayview Cemetery for expansion, increased paving and resurfacing of town streets and selecting a Financial Enterprise Resource solution software. The software will regain efficiencies and give back man hours directly to the community, reduce waste, allow for real time budget monitoring and through Phase III will establish a customer portal with up to date account information.

The Town continues support for nonprofit and other organizations that sponsor major public events which showcase the area as well as provide economic benefit to the community. The Town provided in kind support for a number of groups including the North Carolina Seafood Festival (NCSF) and the Big Rock Blue Marlin Tournament. The NCSF sponsors the second largest festival in North Carolina to promote and educate the public about NC seafood; the Big Rock Blue Marlin Tournament is considered the 'Super Bowl' of fishing and attracts fishermen from all over the world. All of these events and other smaller ones promote Morehead City and Carteret County as a tourist destination, provide stimulus for the local economy, as well as enhance the quality of life for citizens.

Other capital improvements in the governmental funds included the purchase of one replacement command vehicle and upgrading the fire and rescue boat for increased public service.

Rehabilitation was completed on Lift Station#5 and sewer repairs at 9th and Bay St. were also completed in the Water and Sewer Fund. Repairs began for Pump Station #9 during 2016-2017. Designs and plans were started Brooks St. & Galantis Dr. sewer improvements during 2016-2017.

For the Future

The Town Council adopted the fiscal year 2017-2018 budget in June 2017. Property taxes provide approximately 48% of the revenues for the General Fund. There was no increase the property tax rate, which remains at \$.35 per \$100 of valuation. Revenue from sales tax, permits and fees, and sales and services were all projected to increase. Rate increases to become effective at midyear were budgeted for water and sewer charges. These increases were necessary to pay operating costs associated with these services and to provide adequate funds to repay Water and Sewer Fund debt. Rates in the Solid Waste Fund remained flat.

On the spending side, funds were budgeted to complete the construction of the replacement garage structure, renovate the Tennis Court lighting at Shevans Park and to continue the upgrade of the financial enterprise resource planning software. Electrical repairs at the Webb Library and Evans St. Docks were also budgeted. Funds were budgeted for an initiative to repair sections of four streets that are maintained by the Town. One full time position was added in the Planning & Inspections Department in order to remain responsive to Town citizens in regards to permits, inspections, etc. A full time position was reclassified from Recreation to parks in order to concentrate on servicing the growing number of dockage customers. A part time seasonal position was added to Parks and two part time seasonal positions were added in the Library in order to better serve the public during the tourist season. Benefit plans were continued largely unchanged. Funds were budgeted for replacement vehicles and equipment.

Independent Audit

The North Carolina General Statutes requires the Town to provide for an annual audit of the accounts and financial

transactions of the Town by a firm of independent certified public accountants. The Town Council designated RSM US LLP to meet these requirements. The independent auditor's report is an integral part of this report.

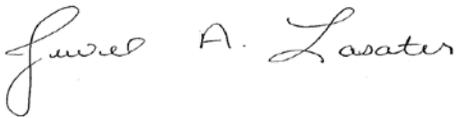
Award and Acknowledgments

The Governmental Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Morehead City for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the twenty seventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a one-year period only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report is the result of the desire of the Mayor and Town Council to develop the highest standards of financial reporting. Their foresight in encouraging these standards is recognized. Appreciation is expressed to the Finance Department staff for their efficient and dedicated services and to RSM US LLP for their support in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jewel A. Lasater". The signature is written in black ink and is positioned above the printed name.

Jewel A. Lasater, Finance Director

Town of Morehead City, North Carolina

**List of Principal Officials
June 30, 2017**

Town Council

Honorable G.A. "Jerry" Jones, Jr.
Mayor

Diane C. Warrender

George W. Ballou

William F. Taylor
Mayor Pro Tem

Harvey N. Walker, Jr.

Demus L. Thompson

Administration

David S. Whitlow
City Manager

Cathy Campbell
City Clerk

Jewel A Lasater
Finance Officer

Daniel K. Williams
Public Services Director

Jamie E. Fulk
Chief, Fire & EMS Department

Bernette Morris
Chief, Police Department

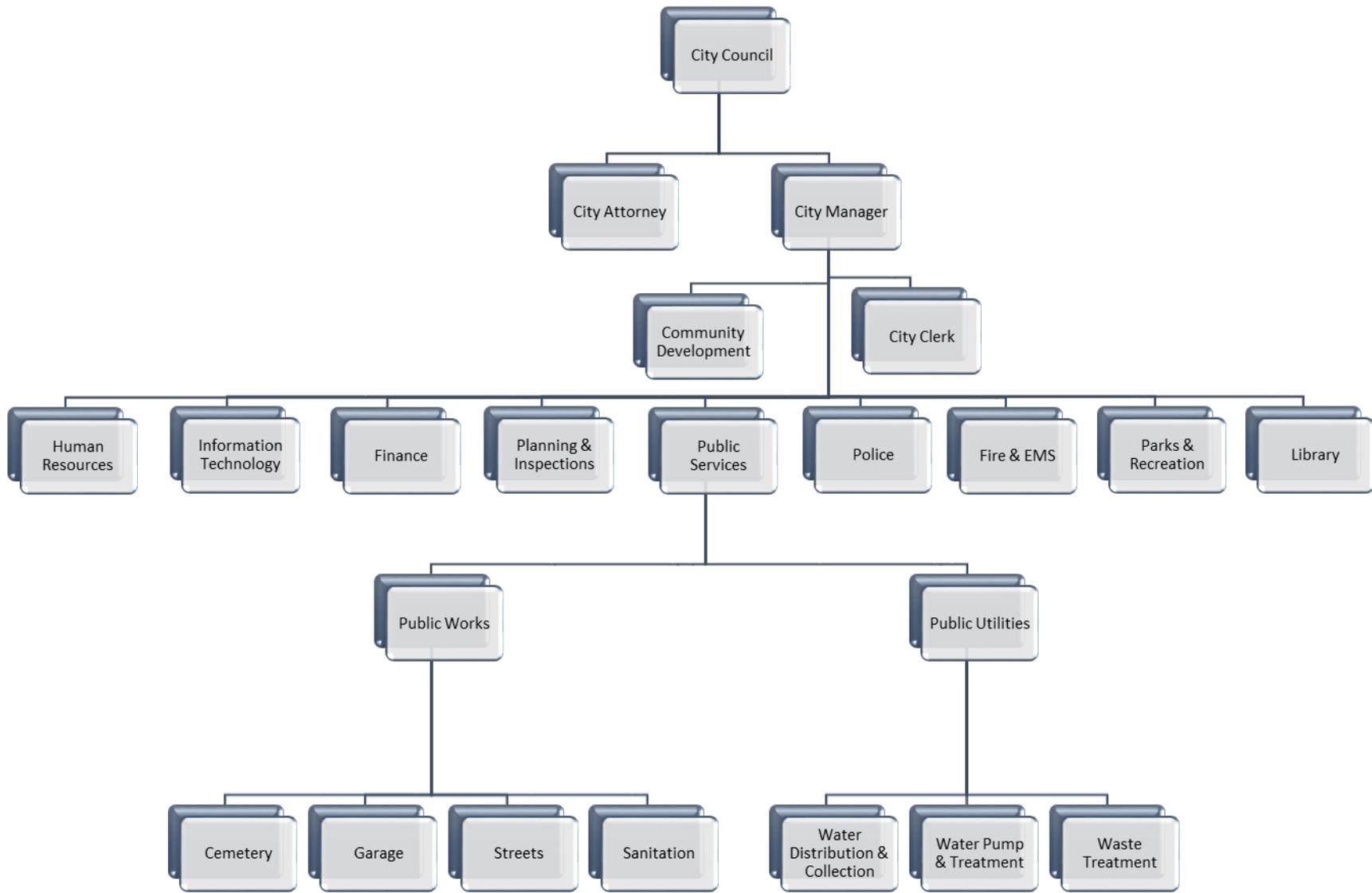
James Swann
Acting Library Director

S. Craig Lands
Parks and Recreation Director

Linda V. Staab
Planning & Inspection Director

Shirl F. Meadows
Tax Collector

Susan Nixon
Human Resources Director





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Morehead City
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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FINANCIAL SECTION

- **Independent Auditor's Report**
 - **Management's Discussion and Analysis**
 - **Basic Financial Statements**
 - **Notes to the Basic Financial Statements**
 - **Required Supplemental Financial Data**
 - **Combining and Individual Fund Statements and Schedules**
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina (the Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Fire/EMS District Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in the year ended June 30, 2017, the Town adopted new accounting guidance provided in Governmental Accounting Standards Board Statement Number 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* and Governmental Accounting Standards Board Statement Number 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 12 through 20, the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 65 and 66, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 67 and 68, the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 69, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 70 and 71 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town. The combining and individual fund statements, budgetary schedules, other schedules, the Schedule of Expenditures of Federal and State Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act, and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in

accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements, budgetary schedules, Schedule of Expenditures of Federal and State Awards, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2018 on our consideration of Town of Morehead City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Morehead City's internal control over financial reporting and compliance.

RSM US LLP

Morehead City, North Carolina
January 17, 2018

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Town of Morehead City, North Carolina

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2017

This section of the Town of Morehead City's (Town) annual financial report presents a narrative overview and analysis of the Town's financial performance for the fiscal year ended June 30, 2017. Please read it in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

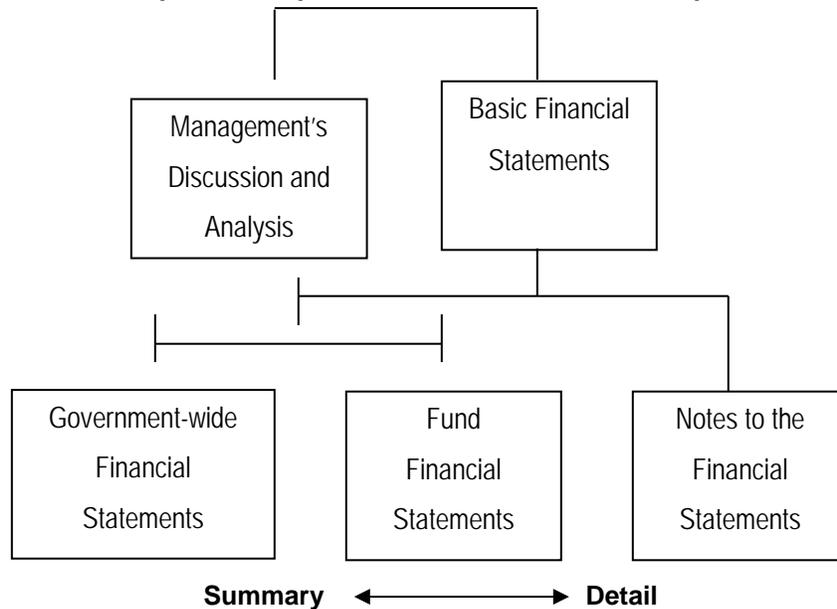
Financial Highlights

- The overall financial position of the Town improved in 2017 as evidenced by an increase in total net position of \$2.2 million. This increase was from both governmental (\$0.44 million) and business-type (\$1.76 million) activities. The increase for the governmental activities was due to increased property, sales, and other shared tax revenue, and increased charges for services. The increase for business-type activities was primarily the result of charges for services and conservative spending of the business-type departments.
- The assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$84.9 million (net position). Of this amount, \$17.7 million (unrestricted net position) can be used to meet the Town's ongoing obligations to its citizens and creditors.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$11.2 million, an increase of \$1.7 million in comparison with the prior year. Approximately 57.1% or \$6.4 million is nonspendable, restricted, committed, or assigned.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$4.9 million or approximately 39.9% of General Fund expenditures and transfers out for the fiscal year, and is available for spending at the government's discretion.
- Governmental net capital assets increased \$2.3 million primarily due to the purchase of land in the downtown area. Business-type net capital assets increased \$.3 million primarily as a result of construction in progress of the West End Force Main.
- The Town's total debt increased by \$2.3 million during the current fiscal year. Debt in the governmental activities increased \$2.3 million due primarily to the purchase of land in the downtown area. Principal repayments in the governmental activities totaled \$0.3 million. For business-type activities principal repayments totaled \$1.3 million.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Morehead City.

Required Components of Annual Financial Report



The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Town's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.

- The *governmental funds statements* tell how general government services, like public safety, were financed in the short term as well as what remains for future spending. A budgetary comparison statement has been provided for the General and Fire/EMS Funds to demonstrate budgetary compliance.
- *Proprietary funds statements* offer short- and long-term financial information about the activities the Town operates like businesses, such as the water and sewer system.
- The *Fiduciary funds statements* reflect the financial relationship with the Other Postemployment Benefits Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data, and are followed by the required supplemental financial data. In addition to these elements, a section is included with combining statements that provide details about nonmajor governmental funds, which are totaled and presented in a single column in the basic financial statements. This section also includes detailed budgetary information required by North Carolina General Statutes.

The remainder of this overview section explains the structure and contents of the government-wide and fund financial statements.

Government-wide Statements

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

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide financial statements are divided into two categories:

- Governmental activities - Most of the Town's basic services are included here, such as public safety, community planning and development, streets and culture and recreation. Property taxes, other taxes, and grants and contributions finance most of these activities.
- Business-type activities - The Town charges fees to customers to cover the costs of certain services provided. The Town's water and sewer system and solid waste system are included here.

The government-wide financial statements are on pages 21 – 23 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Morehead City, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. The Town has the following three kinds of funds:

- Governmental funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are included in governmental funds, which focus on (1) the flow in and out of cash and other financial assets that can be readily converted to cash and (2) the balances left at year-end that are available for spending in the next year. These funds are reported using the modified accrual accounting basis and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The Town of Morehead City adopts an annual budget for its General and Fire/EMS Funds as required by the General Statutes. The budget is a legally adopted document that incorporates input from citizens of the Town, the management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General and Fire/EMS Funds demonstrate how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Town Council; 2) the final budget as amended by the Town Council; 3) the actual resources, charges to appropriations, and ending balances in the General and Fire/EMS Funds; and 4) the difference or variance between the final budget and the actual resources and charges. Because the Town's budgetary basis of accounting does not differ from the modified accrual basis used in the fund's statements, reconciliation is not necessary at the end of the statement.

- Proprietary funds – The Town of Morehead City utilizes one type of proprietary fund, an enterprise fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer operation and for its solid waste operation. The funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

- Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Morehead City utilizes fiduciary funds to account for Other Postemployment Benefits.

The fund financial statements are on pages 24 – 33 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 34 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Morehead City's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found beginning on page 65 of this report.

Interdependence with Other Entities

The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Financial Analysis of the Town as a Whole

Net Position: For the Town, assets and deferred outflows exceeded liabilities and deferred inflows by \$84.9 million at the close of the most recent fiscal year. A summary of the Town's net position at June 30, 2017 and 2016 is presented below:

	Town of Morehead City's Net Position					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 12,250,648	\$ 10,587,909	\$ 13,975,047	\$ 12,353,728	\$ 26,225,695	\$ 22,941,637
Capital assets	40,961,168	38,652,826	51,740,971	51,397,750	92,702,139	90,050,576
Deferred outflows of resources	2,225,213	461,303	412,301	88,870	2,637,514	550,173
Total assets and deferred outflows of resources	55,437,029	49,702,038	66,128,319	63,840,348	121,565,348	113,542,386
Long-term liabilities outstanding	14,711,721	9,681,208	17,401,901	18,145,708	32,113,622	27,826,916
Other liabilities	1,921,197	1,528,251	2,353,121	1,048,495	4,274,318	2,576,746
Deferred inflows of resources	202,661	332,786	28,974	58,163	231,635	390,949
Total liabilities and deferred inflows of resources	16,835,579	11,542,245	19,783,996	19,252,366	36,619,575	30,794,611
Net position:						
Net investment in capital assets	30,588,767	30,553,783	33,932,850	33,488,345	64,521,617	64,042,128
Restricted	2,734,866	2,512,603	-	-	2,734,866	2,512,603
Unrestricted	5,277,817	5,093,407	12,411,473	11,099,637	17,689,290	16,193,044
Total net position	\$ 38,601,450	\$ 38,159,793	\$ 46,344,323	\$ 44,587,982	\$ 84,945,773	\$ 82,747,775

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town's net position increased by \$2.2 million for the fiscal year ended June 30, 2017. However, the largest portion (75.9%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A portion of the Town's net position (3.2%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$17.7 million (20.9%) is unrestricted.

Net position of the governmental activities increased \$.04 million, or 1.16 percent, to \$38.6 million. \$33.3 million of net position either are restricted as to the purposes for which they can be used or are invested in capital assets (e.g. land, buildings, machinery, and equipment buildings, roads, etc.). \$5.3 million is unrestricted. The unrestricted net position is available primarily to support operations and to provide for payment of long-term debt.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of above 99%. The statewide average in fiscal year 2016 was 98.89%.
- Increased sales tax revenues of approximately \$356,000 and increased Ad valorem tax revenue of approximately \$126,000 due to economic growth in the City.

The net position of the business-type activities increased by \$1.76 million, or 3.94 percent, to \$46.3 million. This net position will be used to finance the operations and expansion of the water, sewer, and solid waste operations.

Also, the Town implemented GASB Statement Number 73, relating to the Law Enforcement Officer's Special Separation Allowance, and GASB Statement Number 74, relating to OPEB. Restatements to record the effects of the implementation of these statements netted to decrease beginning net position by \$.4 million, as implementation of Statement Number 73 decreased beginning net position by \$.8 million, and implementation of Statement Number 74 increased beginning net position by \$.4 million.

Changes in Net Position: The following table presents the Town's changes in net position for the fiscal years ended June 30, 2017 and 2016:

Town of Morehead City's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program revenue:						
Charges for services	\$ 2,838,057	\$ 2,395,464	\$ 7,833,191	\$ 7,434,659	\$ 10,671,248	\$ 9,830,123
Operating grants and contributions	467,529	245,249	6,328	6,096	473,857	251,345
Capital grants and contributions	273,481	479,041	434,544	300,785	708,025	779,826
General revenue:						
Property taxes	6,911,703	6,785,757	-	-	6,911,703	6,785,757
Other taxes	2,876,068	2,513,891	-	-	2,876,068	2,513,891
Grants and contributions not restricted to specific programs	1,402,462	1,402,712	-	-	1,402,462	1,402,712
Other	282,767	175,245	348,123	341,538	630,890	516,783
Total revenue	<u>15,052,067</u>	<u>13,997,359</u>	<u>8,622,186</u>	<u>8,083,078</u>	<u>23,674,253</u>	<u>22,080,437</u>
Expenses:						
General government	2,249,699	1,667,275	-	-	2,249,699	1,667,275
Public safety	9,176,852	8,629,216	-	-	9,176,852	8,629,216
Highways and streets	1,224,621	999,423	-	-	1,224,621	999,423
Culture and recreation	954,597	1,425,224	-	-	954,597	1,425,224
Library	162,679	205,802	-	-	162,679	205,802
Interest on long-term debt	389,976	311,099	-	-	389,976	311,099
Water and sewer	-	-	5,924,219	5,786,961	5,924,219	5,786,961
Solid waste	-	-	904,126	887,987	904,126	887,987
Total expenses	<u>14,158,424</u>	<u>13,238,039</u>	<u>6,828,345</u>	<u>6,674,948</u>	<u>20,986,769</u>	<u>19,912,987</u>
Increase in net position before transfers	893,643	759,320	1,793,841	1,408,130	2,687,484	2,167,450
Transfers	37,500	-	(37,500)	-	-	-
Increase in net position	<u>931,143</u>	<u>759,320</u>	<u>1,756,341</u>	<u>1,408,130</u>	<u>2,687,484</u>	<u>2,167,450</u>
Net position, July 1	38,159,793	37,271,589	44,587,982	43,179,852	82,747,775	80,451,441
Restatement	(489,486)	128,884	-	-	(489,486)	128,884
Net position, July 1 as restated	<u>37,670,307</u>	<u>37,400,473</u>	<u>44,587,982</u>	<u>43,179,852</u>	<u>82,258,289</u>	<u>80,580,325</u>
Net position, June 30	<u>\$ 38,601,450</u>	<u>\$ 38,159,793</u>	<u>\$ 46,344,323</u>	<u>\$ 44,587,982</u>	<u>\$ 84,945,773</u>	<u>\$ 82,747,775</u>

Total government-wide revenue of \$23.7 million was primarily derived from charges for services (45.1%), property taxes (29.2%) and other taxes (12.1%). The total expenses of all programs were \$21 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 43.7% and water and sewer for 28.2%.

Governmental Activities

Governmental activities increased the Town's net position by \$0.9 million (before the restatement of beginning net pension relating to GASB 73 and GASB 74), and accounted for 20.1% of the total growth in the net position of the Town of Morehead City. Key elements related to governmental activities are as follows:

- Property taxes increased approximately \$126,000 over the preceding year, primarily as a result of an increase in the amount of assessed valuations.
- Charges for services increased \$0.4 million, the majority of which related to an increase in building permits and inspection fees due to a large development beginning the construction process in the current fiscal year.
- Other taxes increased approximately \$362,000 primarily due to sales tax increases
- Expenses increased approximately \$920,000 (7.0%) compared to the prior period.
 - General Government increased \$0.6 million. Salaries, wages & benefits make up approximately 40% of the expenditures and increases from prior year amounts, reflecting the largest portion of this increase.

- Public Safety increased \$0.5 million. Public Safety (fire/EMS, police and building inspections) comprise more than 50% of the Town's employees. Three new full-time positions were added during the fiscal year ended June 30, 2017 in Fire/EMS for nine months.

Business-type Activities

Business-type activities increased the Town of Morehead City's net position by \$1.76 million, accounting for 79.9% of the total growth in the government's net position. Key elements of these activities are as follows:

- Charges for services in the Water and Sewer and Solid Waste Funds increased by approximately \$398,000 or a 5.4% increase over the previous year. Water and sewer rates increased midway through the year and accounted for all but a negligible amount of the increase.
- The Water and Sewer Fund expenses increased approximately \$137,000 or 2.4% from the preceding year. The majority of this relates to an increase in salaries, wages and benefits.
- Solid Waste fund revenue and expenses were essentially flat.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Morehead City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Morehead City's financing requirements.

The general fund is the chief operating fund of the Town of Morehead City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4.9 million, while total fund balance was \$9.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 39.9% of total General Fund expenditures and transfers out of \$12.2 million, while total fund balance represents 77.7% of that same amount. The Town Council of Morehead City has determined that the General Fund should maintain a minimum of between \$2.5 and \$2.75 million of unassigned fund balance in order to meet unforeseen needs and opportunities.

At June 30, 2017, the governmental funds of the Town of Morehead City reported a combined fund balance of \$11.2 million, up from \$9.5 million the previous year. The General Fund fund balance increased \$1.3 million. This increase is mainly attributable to increases in property tax, other state shared tax revenue and large grants received for dredging & downtown revitalization. This was coupled with minimal growth in expenditures other than salaries, wages & benefits as departments closely monitored their budgets. Revenue and expenditures increased \$1.0 million and \$1.2 million, respectively. The increase in transfers of approximately \$130,000 were primarily the result of the increase of \$62,622 in transfers from closing capital project funds and the increase of \$66,900 transfer necessary for the implementation of GASB Statement No. 74. The fund balance in the Fire/EMS Fund increased \$0.4 million. This is primarily attributable to the transfer in from the general fund over the amount of revenue over (under) expenditures by approximately \$350,000. The fund balance in the Major and Non-Major Capital Project Funds decreased \$0.6 million due to completion of multiple capital projects and transferring those funds to the General Fund.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services and acquire capital assets.

Total revenue exceeded the final budget by approximately \$935,000 in the General Fund. The most significant favorable variances were in ad valorem taxes and other state shared taxes included in unrestricted intergovernmental revenue. Expenditures were tightly controlled, and the Town was able to

comply with its budgetary requirements in all categories.

Proprietary Funds. Proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year totaled \$11.9 million in the Water and Sewer fund and \$0.6 million in the Solid Waste fund. Unrestricted net position in the Water and Sewer Fund increased approximately \$1.3 million. Unrestricted net position in the Solid Waste Fund increased approximately \$0.1 million. Other factors concerning the finances of these funds were addressed in the discussion of the business-type activities.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2017, the Town had \$92.7 million (net of accumulated depreciation) in capital assets consisting primarily of buildings, improvements other than buildings, water and sewer operating plant and infrastructure. This amount represents a net increase of \$2.7 million, or 2.9%, over last year and is result of the addition of capital assets over depreciation. The summary of capital assets at June 30, 2017 and 2016 is presented below:

Town of Morehead City's Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 12,802,000	\$ 10,128,842	\$ 913,775	\$ 913,775	\$ 13,715,775	\$ 11,042,617
Intangible assets	562,831	562,831	305,589	255,589	868,420	818,420
Infrastructure	5,697,133	5,561,444	-	-	5,697,133	5,561,444
Buildings and other improvements	18,125,167	18,841,220	5,739,858	5,876,087	23,865,025	24,717,307
Equipment and vehicles	3,453,264	3,549,896	846,651	769,999	4,299,915	4,319,895
Operating plant	-	-	42,297,293	43,521,844	42,297,293	43,521,844
Construction in progress	320,773	8,593	1,637,805	60,456	1,958,578	69,049
Total	\$ 40,961,168	\$ 38,652,826	\$ 51,740,971	\$ 51,397,750	\$ 92,702,139	\$ 90,050,576

This year's major capital asset changes included:

- Increase in land - \$2.7 million
- Decreases in buildings and other improvements, infrastructure and equipment and vehicles as depreciation exceeded asset additions in these categories - \$2.1 million
- Increase in construction in progress - \$1.9 million

More detailed information about the Town's capital assets is presented in Note 4 of the basic financial statements.

Long-term Debt. At June 30, 2017, the City had \$28.2 million of debt outstanding in installment purchases, loans from the State of North Carolina and US Department of Agriculture (USDA), and a revenue bond. Details by type of debt are presented in the following table:

Town of Morehead City's Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Installment contracts	\$ 10,084,823	\$ 7,801,593	\$ -	\$ 151,484	\$ 10,084,823	\$ 7,953,077
Revenue bond	-	-	4,857,000	4,932,000	4,857,000	4,932,000
Notes payable	287,578	297,447	13,014,957	12,825,921	13,302,535	13,123,368
Total	\$ 10,372,401	\$ 8,099,040	\$ 17,871,957	\$ 17,909,405	28,244,358	26,008,445

The Town of Morehead City's total long-term debt increased by \$2.2 million (8.6%) during the past fiscal year. Principal payments of \$.3 million and \$1.3 million were made on outstanding debt in the governmental activities and business-type activities, respectively. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Morehead City is \$159,180,007

More detailed information about the Town's long-term obligations is presented in Note 10 of the basic financial statements.

Economic Factors and Next Year's Budget and Rates

The following economic indicators impact the Town's budget outlook:

- During fiscal year ended June 30, 2017 1,185 permits were issued with a value of \$54.7 million compared to 1,271 permits with a value of \$41.8 million for fiscal year ended June 30, 2016.
- The June 2017 unemployment rate for Carteret County (unadjusted) was 3.9 percent compared to 4.2 percent for the state and 4.5 percent for the nation.

The following are highlights for the 2018 budgets for the governmental activities:

The General Fund initial budget for 2017-2018 increased 8.2% from \$13.4 million to \$14.5 million. The Town Council adopted a tax rate of \$.35 per \$100 of valuation, which was the same from the prior year. Projected increases in sales tax revenue is expected to fund an increased transfer to the Fire/EMS Fund. The Town Council opted to appropriate \$1.6 million of unassigned fund balance to acquire needed capital items. It was projected that this would still leave the General Fund with an adequate amount to meet Council's minimum fund balance requirement of in the range of \$2.5 to \$2.75 million.

The Fire & EMS Fund initial budget for 2017-2018 increased 6.3% from \$4.7 million to 5.0 million in the Fire/EMS Fund. The 2017-2018 budget includes three positions to be that are currently paid with a grant award. Transfers from the General Fund provided \$2.9 million. The combination of a grant award and General Fund transfers will allow the department to meet the goal of maintaing staff to better meet standards and to enhance service to citizens in both Town and the service district.

The following are highlights for the 2017-18 budgets for the business-type activities:

The budget for the Water and Sewer Fund increased \$0.3 million. A 3% rate increase was budgeted to be effective midway through the fiscal year and is projected to provide \$.27 million more from water and sewer charges than the previous year. The rate increase is one in a series of increases that Council endorsed to provide a rate structure that will support current and upcoming debt service on major capital projects undertaken by the Town in recent years. Revenue from the rate increase will balance the current year budget without appropriation of fund balance as done in prior years as well as fund additional needed capital expenditures.

The initial 2017-2018 budget for the Solid Waste Fund increased \$.35 million (3.7%) from the prior year. The increase is related to the increase of administrative supporting service of the General Fund.

Contacting the Town's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability. Questions concerning this report or requests for additional financial information should be directed to the Town of Morehead City's Finance Department, 706 Arendell Street, Morehead City, NC 28557-4234.

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Town of Morehead City, North Carolina

Statement of Net Position

June 30, 2017

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Assets			
Current assets:			
Cash and cash equivalents	\$ 9,819,594	\$ 12,018,456	\$ 21,838,050
Taxes receivable (net)	76,720	-	76,720
Accrued interest receivable on taxes	12,907	-	12,907
Customer receivables (net)	71,919	1,360,750	1,432,669
Due from governmental agencies	596,503	176,850	773,353
Local option sales tax receivable	780,228	-	780,228
Inventories	641	297,185	297,826
Prepaid expense	67,781	-	67,781
Restricted cash and investments	824,355	63,836	888,191
Total current assets	<u>12,250,648</u>	<u>13,917,077</u>	<u>26,167,725</u>
Non-current assets:			
Notes receivable	-	57,970	57,970
Capital assets:			
Land and construction in process	13,685,604	2,857,169	16,542,773
Other capital assets, net of depreciation	27,275,564	48,883,802	76,159,366
Total capital assets	<u>40,961,168</u>	<u>51,740,971</u>	<u>92,702,139</u>
Total assets	<u>53,211,816</u>	<u>65,716,018</u>	<u>118,927,834</u>
Deferred Outflows of Resources			
Pension deferrals	<u>2,225,213</u>	<u>412,301</u>	<u>2,637,514</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	936,977	550,920	1,487,897
Accrued interest payable	155,592	50,523	206,115
Customer deposits	-	568,042	568,042
Current portion of long-term liabilities	828,628	1,183,636	2,012,264
Total current liabilities	<u>1,921,197</u>	<u>2,353,121</u>	<u>4,274,318</u>
Long-term liabilities:			
Net pension liability	2,558,894	485,596	3,044,490
Total pension liability	1,138,005	-	1,138,005
Due in more than one year	11,014,822	16,916,305	27,931,127
Total liabilities	<u>16,632,918</u>	<u>19,755,022</u>	<u>36,387,940</u>
Deferred Inflows of Resources			
Prepaid taxes and fees	73,205	8,459	81,664
Pension deferrals	129,456	20,515	149,971
Total deferred inflows of resources	<u>202,661</u>	<u>28,974</u>	<u>231,635</u>
Net Position			
Net investment in capital assets	30,588,767	33,869,014	64,457,781
Restricted:			
Stabilization by State Statute	1,448,648	-	1,448,648
General government	191,965	-	191,965
Streets	562,943	-	562,943
Public safety	252,044	-	252,044
Recreation	256,905	-	256,905
Library	22,361	-	22,361
Unrestricted	5,277,817	12,475,309	17,753,126
Total net position	<u>\$ 38,601,450</u>	<u>\$ 46,344,323</u>	<u>\$ 84,945,773</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 2,249,699	\$ 183,486	\$ 199,664	\$ -
Public safety	9,176,852	2,447,323	120,450	-
Highways and streets	1,224,621	-	-	269,286
Economic and physical development	-	-	94,340	-
Cultural and recreation	954,597	204,194	-	4,195
Library	162,679	3,054	53,075	-
Interest on long-term debt	389,976	-	-	-
Total governmental activities	14,158,424	2,838,057	467,529	273,481
Business-type activities:				
Water and sewer	5,924,219	6,880,212	-	434,544
Solid waste	904,126	952,979	6,328	-
Total business-type activities	6,828,345	7,833,191	6,328	434,544
Total primary government	\$ 20,986,769	\$ 10,671,248	\$ 473,857	\$ 708,025

General revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Gain on disposal of assets

Miscellaneous income, unrestricted

Transfers

Total general revenue

Change in net position

Net position, beginning as previously reported

Restatement for accounting change (Note 14)

Net position, beginning as restated

Net position, ending

See Notes to Financial Statements.

**Net (Expense) Revenue and
Changes in Net Position
Primary Government**

Governmental Activities	Business-type Activities	Total
\$ (1,866,549)	\$ -	\$ (1,866,549)
(6,609,079)	-	(6,609,079)
(955,335)	-	(955,335)
94,340	-	94,340
(746,208)	-	(746,208)
(106,550)	-	(106,550)
(389,976)	-	(389,976)
(10,579,357)	-	(10,579,357)
-	1,390,537	1,390,537
-	55,181	55,181
-	1,445,718	1,445,718
(10,579,357)	1,445,718	(9,133,639)
6,911,703	-	6,911,703
2,840,811	-	2,840,811
35,257	-	35,257
1,402,462	-	1,402,462
54,295	62,457	116,752
38,842	1,614	40,456
189,630	284,052	473,682
37,500	(37,500)	-
11,510,500	310,623	11,821,123
931,143	1,756,341	2,687,484
38,159,793	44,587,982	82,747,775
(489,486)	-	(489,486)
37,670,307	44,587,982	82,258,289
\$ 38,601,450	\$ 46,344,323	\$ 84,945,773

Town of Morehead City, North Carolina

Balance Sheet-Governmental Funds

June 30, 2017

	General Fund	Fire/EMS District Fund	Katherine Davis Park Capital Project Fund	Non-Major Governmental Funds	Totals
Assets:					
Cash and cash equivalents	\$ 8,061,850	\$ 1,420,465	\$ 38,903	\$ 298,376	\$ 9,819,594
Restricted cash equivalents	763,070	61,285	-	-	824,355
Receivables	1,423,524	101,846	-	-	1,525,370
Inventories	640	-	-	-	640
Prepaid items	13,255	54,526	-	-	67,781
Total assets	\$10,262,339	\$ 1,638,122	\$ 38,903	\$ 298,376	\$ 12,237,740
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 512,063	\$ 48,841	\$ -	\$ 193,867	\$ 754,771
Accrued salaries	118,957	63,249	-	-	182,206
Total liabilities	631,020	112,090	-	193,867	936,977
Deferred Inflows of Resources	149,925	-	-	-	149,925
Fund Balances:					
Non Spendable:					
Inventories	640	-	-	-	640
Prepaid items	13,255	-	-	-	13,255
Restricted:					
Stablization by State Statute	1,346,802	101,846	-	-	1,448,648
General government	8,626	-	-	183,339	191,965
Streets	562,943	-	-	-	562,943
Public safety	185,292	66,752	-	-	252,044
Recreation	218,002	-	38,903	-	256,905
Library	22,361	-	-	-	22,361
Committed:					
Sidewalk construction	160,300	-	-	-	160,300
Recreation facilities development	23,350	-	-	-	23,350
OPEB	465,745	-	-	-	465,745
Assigned:					
Public safety	-	1,281,934	-	-	1,281,934
Subsequent year's expenditures	1,603,568	75,500	-	-	1,679,068
Unassigned	4,870,510	-	-	(78,830)	4,791,680
Total fund balances	9,481,394	1,526,032	38,903	104,509	11,150,838
Total liabilities, deferred inflows of resources and fund balances	\$10,262,339	\$ 1,638,122	\$ 38,903	\$ 298,376	\$ 12,237,740

Town of Morehead City, North Carolina

**Reconciliation of the Governmental Funds Balance Sheet to Net
Position of Governmental Activities in the Statement of Net Position
June 30, 2017**

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

Total fund balances for governmental funds	\$ 11,150,838
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	40,961,168
Other long-term assets are not available to pay for current-period expenditures and therefore are:	
Property taxes receivable	76,720
Accrued interest on property taxes	12,907
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	2,225,213
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(11,843,450)
Net pension liability	(2,558,894)
Total pension liability	(1,138,005)
Accrued interest payable on long-term liabilities not recorded in the fund statements	(155,591)
Pension related deferrals	(129,456)
Net position of governmental activities	<u>\$ 38,601,450</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2017

	General Fund	Fire/EMS District Fund	Katherine Davis Park Capital Project Fund	Non-Major Governmental Funds	Totals
Revenue					
Ad valorem taxes	\$ 6,907,397	\$ -	\$ -	\$ -	\$ 6,907,397
Other taxes and licenses	35,257	-	-	-	35,257
Unrestricted intergovernmental	4,243,273	-	-	-	4,243,273
Restricted intergovernmental	733,038	169,877	-	-	902,915
Permits and fees	538,310	-	-	-	538,310
Sales and services	351,653	1,778,217	-	-	2,129,870
Investment earnings	46,549	5,860	144	1,741	54,294
Miscellaneous	138,643	44,277	-	17,900	200,820
Total revenue	12,994,120	1,998,231	144	19,641	15,012,136
Expenditures					
Current:					
General government	2,020,803	-	-	50,577	2,071,380
Public safety	4,289,430	4,346,094	-	2,291	8,637,815
Highways and streets	1,314,322	-	-	-	1,314,322
Library	129,988	-	-	-	129,988
Recreation	573,475	-	2,611,076	-	3,184,551
Parks	463,520	-	-	-	463,520
Debt service:					
Principal	304,503	27,136	-	-	331,639
Interest	229,278	74,975	-	-	304,253
Total expenditures	9,325,319	4,448,205	2,611,076	52,868	16,437,468
Revenue over (under) expenditures	3,668,801	(2,449,974)	(2,610,932)	(33,227)	(1,425,332)
Other financing sources (uses)					
Issuance of debt	-	-	2,605,000	-	2,605,000
Sales of capital assets	14,575	70,925	-	-	85,500
Transfers in	129,522	2,829,870	44,835	2,000	3,006,227
Transfers out	(2,867,844)	(29,400)	-	(71,483)	(2,968,727)
Total other financing sources (uses)	(2,723,747)	2,871,395	2,649,835	(69,483)	2,728,000
Net changes in fund balances	945,054	421,421	38,903	(102,710)	1,302,668
Fund balances:					
Beginning, as previously reported	8,165,503	1,104,611	-	207,219	9,477,333
Restatement for accounting change	370,837	-	-	-	370,837
Beginning, as restated	8,536,340	1,104,611	-	207,219	9,848,170
Ending	\$ 9,481,394	\$ 1,526,032	\$ 38,903	\$ 104,509	\$ 11,150,838

See Notes to Financial Statements.

Town of Morehead City, North Carolina

**Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balance to the Statement of Activities of Governmental Funds
For the Year Ended June 30, 2017**

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

Net changes in fund balances - total governmental funds **\$ 1,302,668**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Increase in purchased capital assets, net of decrease in construction in progress **3,820,429**
Depreciation expense **(1,454,239)**

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities **2,172,664**

Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities **52,549**

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets:

Loss on sale of capital assets **(57,848)**

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Increase in deferred property taxes **3,079**
Increase in accrued interest receivable **1,227**

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.

Additions to long-term liabilities **(6,080,964)**
Retirement of long-term liabilities **725,816**

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:

Pension expense **531,485**
Increase in accrued interest payable **(85,723)**

Total changes in net position of governmental activities **\$ 931,143**

See Notes to Financial Statements.

Town of Morehead City, North Carolina

General Fund and Fire/EMS District Fund Annually Budgeted Major Funds
Statement of Revenue, Expenditures and Changes in Fund Balance-Budget and Actual
For the Fiscal Year Ended June 30, 2017

	General Fund			Variance with Final Budget
	Budget, Original	Budget, Final	Actual	
Revenue				
Ad valorem taxes	\$ 6,747,868	\$ 6,747,868	\$ 6,907,397	\$ 159,529
Other taxes	25,000	25,000	35,257	10,257
Unrestricted intergovernmental	3,849,500	3,849,500	4,243,273	393,773
Restricted intergovernmental	430,193	710,749	733,038	22,289
Permits and fees	295,000	315,000	538,310	223,310
Sales and services	258,950	301,836	351,653	49,817
Investment earnings	11,000	11,000	46,549	35,549
Miscellaneous	18,250	95,613	138,643	43,030
Total revenue	11,635,761	12,056,566	12,994,120	937,554
Expenditures				
Current:				
General government	2,451,837	2,705,614	2,020,803	684,811
Public safety	4,337,697	4,443,599	4,289,430	154,169
Highways and streets	1,348,748	1,597,327	1,314,322	283,005
Recreation and parks	1,180,642	1,300,961	1,036,995	263,966
Library	206,170	206,170	129,988	76,182
Debt service	709,693	704,058	533,781	170,277
Total expenditures	10,234,787	10,957,729	9,325,319	1,632,410
Revenue over (under) expenditures	1,400,974	1,098,837	3,668,801	2,569,964
Other financing sources (uses)				
Sale of capital assets	-	10,050	14,575	4,525
Transfers in	-	62,622	129,522	66,900.00
Transfers out	(3,024,734)	(2,869,844)	(2,867,844)	2,000
Contingency	(150,000)	(174,290)	-	174,290
Fund balance appropriated	1,773,760	1,872,625	-	(1,872,625)
Total other financing sources (uses)	(1,400,974)	(1,098,837)	(2,723,747)	(1,624,910)
Revenue and other financing sources over expenditures and other financing uses	\$ -	\$ -	945,054	\$ 945,054
Fund balance, beginning, previously reported			8,165,503	
Restatement for accounting change (Note 14)			370,837	
Fund balance, beginning, as restated			8,536,340	
Fund balance, ending			<u>\$ 9,481,394</u>	

See Notes to Financial Statements.

Fire/EMS District Fund

Budget, Original	Budget, Final	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	209,250	169,877	(39,373)
-	-	-	-
4,665,684	1,620,450	1,778,217	157,767
-	1,500	5,860	4,360
-	31,265	44,277	13,012
<u>4,665,684</u>	<u>1,862,465</u>	<u>1,998,231</u>	<u>135,766</u>
-	-	-	-
4,665,684	4,555,398	4,346,094	209,304
-	-	-	-
-	-	-	-
-	-	-	-
-	102,112	102,111	1
<u>4,665,684</u>	<u>4,657,510</u>	<u>4,448,205</u>	<u>209,305</u>
-	(2,795,045)	(2,449,974)	345,071
-	41,000	70,925	29,925
-	2,829,869	2,829,870	1
-	-	(29,400)	(29,400)
-	(99,824)	-	99,824
-	24,000	-	(24,000)
-	<u>2,795,045</u>	<u>2,871,395</u>	<u>76,350</u>
<u>\$ -</u>	<u>\$ -</u>	421,421	<u>\$ 421,421</u>
		1,104,611	
		-	
		1,104,611	
		<u>\$ 1,526,032</u>	

Town of Morehead City, North Carolina

Statement of Net Position
 Proprietary Funds
 June 30, 2017

	Water and Sewer Fund	Solid Waste Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 11,535,358	\$ 483,098	\$ 12,018,456
Restricted cash and cash equivalents	63,836	-	63,836
Receivables	1,378,846	158,754	1,537,600
Inventories	297,185	-	297,185
Total current assets	13,275,225	641,852	13,917,077
Noncurrent assets			
Notes receivable	57,970	-	57,970
Capital assets, net	51,607,032	133,939	51,740,971
Total noncurrent assets	51,665,002	133,939	51,798,941
Total assets	64,940,227	775,791	65,716,018
Deferred Outflows of Resources			
Contributions to pension plan	402,996	9,305	412,301
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	462,281	55,520	517,801
Current maturities of long-term debt	1,119,741	-	1,119,741
Customer deposits	568,042	-	568,042
Accrued salaries	31,813	1,306	33,119
Accrued compensated absences-current portion	62,354	1,541	63,895
Accrued interest payable	50,523	-	50,523
Total current liabilities	2,294,754	58,367	2,353,121
Noncurrent liabilities			
Accrued compensated absences-long-term portion	6,929	-	6,929
Installment notes	16,752,216	-	16,752,216
Net pension liability	474,636	10,960	485,596
Net other post employment benefits obligation	151,351	5,809	157,160
Total noncurrent liabilities	17,385,132	16,769	17,401,901
Total liabilities	19,679,886	75,136	19,755,022
Deferred Inflows of Resources			
Unearned revenue	8,459	-	8,459
Pension deferrals	20,052	463	20,515
Total deferred inflows of resources	28,511	463	28,974
Net Position			
Net investment in capital assets	33,735,075	133,939	33,869,014
Unrestricted	11,899,751	575,558	12,475,309
Total net position	\$ 45,634,826	\$ 709,497	\$ 46,344,323

See Notes to Financial Statements.

Town of Morehead City, North Carolina

**Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017**

	Water and Sewer Fund	Solid Waste Fund	Totals
Operating revenue			
Charges for sales and services	\$ 6,880,212	\$ 952,979	\$ 7,833,191
Miscellaneous	283,552	500	284,052
Total operating revenue	<u>7,163,764</u>	<u>953,479</u>	<u>8,117,243</u>
Operating expenses			
Cost of sales and services	3,794,575	872,178	4,666,753
Depreciation	1,730,158	31,948	1,762,106
Total operating expenses	<u>5,524,733</u>	<u>904,126</u>	<u>6,428,859</u>
Operating income	<u>1,639,031</u>	<u>49,353</u>	<u>1,688,384</u>
Nonoperating revenue (expense)			
Interest revenue	60,304	2,153	62,457
Restricted intergovernmental	-	6,328	6,328
Sale of surplus property	1,614	-	1,614
Interest expense and fiscal charges	(399,486)	-	(399,486)
Total nonoperating revenue (expense)	<u>(337,568)</u>	<u>8,481</u>	<u>(329,087)</u>
Income (loss) before contributions and transfers	1,301,463	57,834	1,359,297
Contributed capital assets	1,648	-	1,648
Contributions - capital project funds	432,896	-	432,896
Transfers out:			
General Fund	(37,100)	(400)	(37,500)
Change in net position	<u>1,698,907</u>	<u>57,434</u>	<u>1,756,341</u>
Net position, beginning	<u>43,935,919</u>	<u>652,063</u>	<u>44,587,982</u>
Net position, ending	<u>\$ 45,634,826</u>	<u>\$ 709,497</u>	<u>\$ 46,344,323</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2017

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 6,967,245	\$ 945,318	\$ 7,912,563
Cash paid to suppliers for goods and services	(2,030,019)	(817,755)	(2,847,774)
Cash paid to employees	(1,629,153)	(53,150)	(1,682,303)
Customer deposits	17,372	-	17,372
Net cash provided by operating activities	3,325,445	74,413	3,399,858
Cash Flows from Noncapital Financing Activities:			
Restricted intergovernmental	-	6,329	6,329
Transfers to other funds	(37,100)	(400)	(37,500)
Net cash provided by (used in) noncapital financing activities	(37,100)	5,929	(31,171)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(2,103,679)	-	(2,103,679)
Contributions-capital project funds	432,896	-	432,896
Sale of surplus property	1,614	-	1,614
Debt issued	1,231,777	-	1,231,777
Principal paid on long-term debt	(1,269,225)	-	(1,269,225)
Interest paid on long-term debt	(363,312)	-	(363,312)
Net cash used in capital and related financing activities	(2,069,929)	-	(2,069,929)
Cash Flows from Investing Activities:			
Interest on investments	60,304	2,153	62,457
Net increase in cash and cash equivalents	1,278,720	82,495	1,361,215
Cash and cash equivalents, beginning	10,320,474	400,603	10,721,077
Cash and cash equivalents, ending	\$ 11,599,194	\$ 483,098	\$ 12,082,292

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2017

Page 2 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating income	\$ 1,639,031	\$ 49,353	\$ 1,688,384
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,730,158	31,948	1,762,106
Change in assets, deferred outflows of resources, and liabilities:			
Notes receivable	69,791	-	69,791
Receivables	(266,310)	(8,161)	(274,471)
Inventory	(55,423)	-	(55,423)
Increase in deferred outflows of resources - pensions	(316,132)	(7,300)	(323,432)
Increase in net pension liability	381,153	8,801	389,954
Decrease in deferred inflows of resources - pensions	(28,530)	(659)	(29,189)
Accounts payable and accrued liabilities	204,799	998	205,797
Customer deposits	17,372	-	17,372
Accrued salaries	(40,966)	(1,746)	(42,712)
Accrued other postemployment benefits	2,313	223	2,536
Accrued compensated absences	(11,811)	956	(10,855)
Net cash provided by operating activities	\$ 3,325,445	\$ 74,413	\$ 3,399,858
Supplemental Disclosure of Non-cash Transactions:			
Contributed capital assets	\$ 1,648	\$ -	\$ 1,648

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NOTES TO THE BASIC FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.

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Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Town of Morehead City was incorporated in 1858 and operates under the Council-Manager form of government. Services include police, fire and EMS, highways and streets, cultural and recreation, planning and inspections, water and sewer, solid waste disposal, and general and administrative services.

The accounting policies of the Town conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Morehead City is a municipal corporation that is governed by an elected mayor and a five-member council. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14, *The Financial Reporting Entity (as amended)*, have been considered and the Town has no component units or entities for which it is considered to be financially accountable, and is not itself a component unit of any other government.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government net position. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including the fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, parks and recreation, and general government services.

Fire and EMS District Fund - The Fire and EMS District Fund is used to account for activities of the EMS and fire department including revenue and services for districts outside of the Town limits. The primary revenues are charges for services, restricted monies from Carteret County for the Wildwood and Mitchell Village Districts, and General Fund transfers.

Katherine Davis Park Capital Project Fund – This fund is used to account for funds accumulated for the acquisition and development of Katherine Davis Park.

The Town reports the following non-major governmental funds:

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. The Town has six non-major capital project funds: MATS, Baseball Park, Newport River Water Access, JIB Waterfront Access, Fire/EMS Station #2 Replacement, and the Morehead Municipal Campus Capital Project Fund.

The Town reports the following major enterprise funds:

Water and Sewer Enterprise Fund - The Water and Sewer Enterprise Fund accounts for the water and sewer activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for pumping and distribution of water to and collection and treatment of sewage from the Town's customers. There are four Capital Project Funds and two Capital Reserve Funds which are consolidated with the Water and Sewer Enterprise Fund (the operating fund) for financial reporting purposes.

Solid Waste Enterprise Fund – The Solid Waste Enterprise Fund accounts for the solid waste disposal activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for collection and disposal of solid waste for the Town's customers. This fund is not a major fund this year but is being reported as such for consistency purposes.

The Town previously reported the following fiduciary fund type which is now part of the General Fund.

Post-Employment Benefits Fund – This fund accounts for medical benefits for Town retirees. This fund is a single-employer, public employee postemployment benefit plan not held in a trust. See note 14.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Note 1. Summary of Significant Accounting Policies (Continued)

Sales taxes and certain intergovernmental revenue, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Morehead City because the tax is levied by Carteret County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Fire/EMS District Fund and selected Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project funds utilize project ordinances. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Budget amounts are as originally adopted, or as amended by the Town as of June 30, 2017. During the year, several amendments to the original budget became necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

The following types of budgets have been adopted by the following funds:

Annual Ordinance Funds	Project Ordinance Funds
General Fund	Newport River Water Access Capital Project Fund
Fire/EMS District Fund	MATS Capital Project Fund
Water and Sewer Fund	Morehead Municipal Campus Capital Project Fund
Solid Waste Fund	Baseball Park Capital Project Fund
Water and Sewer Capital Project Fund*	Fire/EMS Station #2 Replacement Capital Project Fund
Water and Sewer Capital Reserve Fund*	Jib Waterfront Access Capital Project Fund
Water and Sewer Rebatable	Katherine Davis Park Capital Project Fund
Capital Reserve Fund*	Water/Sewer Extensions Capital Project Fund*
	WaterTreatment Capital Project Fund*
	West End Force Main Capital Project Fund*

*Funds considered a part of the Town's Water and Sewer Fund.

A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed:

- April 30 Each department head will transmit to the budget officer the budget requests and revenue estimates for their department for the budget year.
- June 1 The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.
- July 1 The budget ordinance shall be adopted by the governing board.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

Restricted Assets

The USDA requires debt reserve accounts to be set up. The Town maintains these accounts as separate bank accounts or certificates of deposit. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Town of Morehead City Restricted Cash

Governmental Activities

General Fund

Powell bill	\$ 562,943
USDA debt reserves	197,224
Drug enforcement assets	2,903
	<u>763,070</u>

Fire and EMS Fund

USDA debt reserves	<u>61,285</u>
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Total governmental activities

<u>824,355</u>

Business-Type Activities

Water and Sewer Fund

USDA debt reserves	<u>63,836</u>
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Total Restricted Cash

<u><u>\$ 888,191</u></u>

Note 1. Summary of Significant Accounting Policies (Continued)

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: equipment, vehicles, building and other improvements, \$5,000; infrastructure, \$100,000; and intangibles with an estimated useful life in excess of one year, \$25,000. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Improvements are capitalized and depreciated using the straight-line method over the remaining useful lives of the related fixed assets, as applicable. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings and system	10 – 50 years
Infrastructure	20 – 50 years
Equipment and vehicles	3 – 20 years
Operating plant	20 – 50 years

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2017 fiscal year. In addition to liabilities, the statement of financial position/balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, and pension deferrals.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. For the governmental funds financial statements, the Town records the liquidation of the liability in the fund in which the underlying salary is paid, primarily the General and Fire/EMS funds. The Town has assumed a last-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until its actually taken, no accrual for sick leave has been made.

Net Position/Fund Balances

Net Position

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

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories and prepaids - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories and prepaid items, which are not spendable resources.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill Funds.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for various public safety activities, drug law enforcement, and the USDA required loan reserve balance.

Restricted for Recreation – portion of fund balance restricted by revenue source for various recreation projects and the USDA required loan reserve balance.

Restricted for General Government – portion of fund balance restricted by revenue source for various general government projects.

Restricted for Library - portion of fund balance restricted by revenue source for library.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Morehead City's Council (highest level of decision-making authority). The Council can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Sidewalk Construction – portion of fund balance that can only be used for sidewalk construction.

Committed for Recreation Facilities Development – portion of fund balance that can only be used for acquiring, maintaining, or improving subdivision recreational land or facilities.

Committed for Other Post-Employment Benefits Fund (OPEB) – portion of fund balance that can only be used to fund accounts for medical benefits for Town retirees.

Note 1. Summary of Significant Accounting Policies (Continued)

Assigned Fund Balance – portion of fund balance that Town of Morehead City intends to use for specific purposes.

Assigned for Public Safety - portion of fund balance assigned by the Town Council for the Fire and EMS Fund.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation in certain circumstances.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Morehead City has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

The Town of Morehead City has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available unassigned fund balance is in the range of \$2,500,000 to \$2,750,000. Any portion of the general fund balance in excess of \$2,750,000 may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Morehead City's employer contributions are recognized when due and the Town of Morehead City has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. Deposits and Investments**1. Deposits**

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Town's deposits had a carrying amount of \$8,818,282 and bank balance of \$8,848,982. Of the bank balance, \$2,412,385 was covered by federal depository insurance, and \$6,436,597 was covered by collateral held under the Pooling Method. At June 30, 2017, the Town's petty cash fund totaled \$2,350.

2. Investments

At June 30, 2017, the Town's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2017	Maturity	Rating
NC Capital Management Trust – Government Portfolio	Amortized Cost	665,864	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	13,239,745	N/A	Unrated
Total:		\$ 13,905,609		

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk.

Credit risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2017. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Notes to Financial Statements

Note 3. Receivables – Allowances for Doubtful Accounts

Receivables at June 30, 2017, consist of the following:

	Major General	Major Fire & EMS District	Major Water & Sewer Fund	Major Solid Waste Fund	Total
Receivables					
Local option sales tax	\$ 780,228	\$ -	\$ -	\$ -	\$ 780,228
Property tax	96,723	-	-	-	96,723
Allowance for uncollectibles	(20,003)	-	-	-	(20,003)
	<u>76,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,720</u>
Accounts receivable:					
Services	10,489	61,430	1,203,499	157,251	1,432,669
Allowance for uncollectibles	-	-	-	-	-
	<u>10,489</u>	<u>61,430</u>	<u>1,203,499</u>	<u>157,251</u>	<u>1,432,669</u>
Due from governmental agencies	556,087	40,416	175,347	1,503	773,353
Net total receivables	<u>\$ 1,423,524</u>	<u>\$ 101,846</u>	<u>\$ 1,378,846</u>	<u>\$ 158,754</u>	<u>\$ 3,062,970</u>

Note 4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,128,842	\$ 2,683,658	\$ (10,500)	\$ 12,802,000
Intangible assets	562,831	-	-	562,831
Construction in progress	8,593	2,920,931	(2,608,751)	320,773
Total capital assets not being depreciated	<u>10,700,266</u>	<u>5,604,589</u>	<u>(2,619,251)</u>	<u>13,685,604</u>
Capital assets being depreciated:				
Buildings and other improvements	23,819,469	54,219	(44,585)	23,829,103
Infrastructure	6,609,253	270,064	-	6,879,317
Equipment and vehicles	7,219,360	500,309	(352,032)	7,367,637
Total capital assets being depreciated	<u>37,648,082</u>	<u>824,592</u>	<u>(396,617)</u>	<u>38,076,057</u>
Less accumulated depreciation for:				
Buildings and other improvements	(4,978,249)	(751,666)	25,979	(5,703,936)
Infrastructure	(1,047,809)	(134,375)	-	(1,182,184)
Equipment and vehicles	(3,669,464)	(568,198)	323,289	(3,914,373)
Total accumulated depreciation	<u>(9,695,522)</u>	<u>(1,454,239)</u>	<u>349,268</u>	<u>(10,800,493)</u>
Total capital assets being depreciated, net	<u>27,952,560</u>			<u>27,275,564</u>
Governmental activity capital assets, net	<u>\$ 38,652,826</u>			<u>\$ 40,961,168</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 913,775	\$ -	\$ -	\$ 913,775
Intangible assets	255,589	50,000	-	305,589
Construction in progress	60,456	2,213,346	(635,997)	1,637,805
Total capital assets not being depreciated	<u>1,229,820</u>	<u>2,263,346</u>	<u>(635,997)</u>	<u>2,857,169</u>
Capital assets being depreciated:				
Buildings and other improvements	6,389,670	-	-	6,389,670
Equipment and vehicles	2,149,365	281,104	(68,270)	2,362,199
Operating plant	61,924,711	196,874	-	62,121,585
Total capital assets being depreciated	<u>70,463,746</u>	<u>477,978</u>	<u>(68,270)</u>	<u>70,873,454</u>
Less accumulated depreciation for:				
Buildings and other improvements	(513,583)	(136,229)	-	(649,812)
Equipment and vehicles	(1,545,253)	(172,504)	68,270	(1,649,487)
Operating plant	(18,402,867)	(1,421,425)	-	(19,824,292)
Total accumulated depreciation	<u>(20,461,703)</u>	<u>(1,730,158)</u>	<u>68,270</u>	<u>(22,123,591)</u>
Total capital assets being depreciated, net	<u>50,002,043</u>			<u>48,749,863</u>
Water and Sewer Fund capital assets, net	<u>51,231,863</u>			<u>51,607,032</u>
Solid Waste Fund				
Capital assets being depreciated:				
Equipment and vehicles	372,935	-	-	372,935
Less accumulated depreciation for:				
Equipment and vehicles	(207,048)	(31,948)	-	(238,996)
Total capital assets being depreciated, net	<u>165,887</u>			<u>133,939</u>
Solid Waste Fund capital assets, net	<u>165,887</u>			<u>133,939</u>
Business-type activity capital assets, net	<u>\$ 51,397,750</u>			<u>\$ 51,740,971</u>

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

Governmental activities:	
General government	\$ 202,886
Public safety	638,441
Highway and streets	188,789
Parks and recreation	393,648
Library	30,475
	<u>\$ 1,454,239</u>
Business-type activities:	
Water and Sewer Fund	\$ 1,730,158
Solid Waste Fund	31,948
	<u>\$ 1,762,106</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 4. Capital Assets (Continued)

Construction Commitments

The Town has active construction projects as of June 30, 2017. At year-end, the Town's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Lift Station #9	\$ 168,195	\$ 58,865
West End Force Main	1,029,269	1,458,446
Town Garage	114,115	232,980
Brooks St. Galantis Drive Sewer	-	400,769
	<u>\$ 1,311,579</u>	<u>\$ 2,151,060</u>

Note 5. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Morehead City is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Morehead City employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Morehead City's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.25% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Morehead City were \$599,257 for the year ended June 30, 2017.

Refunds of Contributions. Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a liability of \$3,044,490 for its proportionate share of the LGERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.14345%, which was an increase of 0.00984% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$825,500. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 57,201	\$ 106,682
Changes of assumptions	208,519	-
Net difference between projected and actual earnings on pension plan investments	1,683,219	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	36,769	21,938
Town contributions subsequent to the measurement date	599,257	-
Total	<u>\$ 2,584,965</u>	<u>\$ 128,620</u>

\$599,257 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Note 5. Pension Plan and Postemployment Obligations (Continued)

Year ended June 30:

2018	\$	291,430
2019		291,513
2020		795,437
2021		478,713
2022		-
Thereafter		-

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including

Note 5. Pension Plan and Postemployment Obligations (Continued)

LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 7,225,994	\$ 3,044,490	\$ (448,214)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

The Town of Morehead City administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	7
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>41</u>
Total	<u><u>48</u></u>

Note 5. Pension Plan and Postemployment Obligations (Continued)

2. Summary of Significant Accounting Policies.

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Mortality rates are based on the following:

Deaths after Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths before Retirement: RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

Deaths after Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 123% for males and females.

Deaths after Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 103% for males and 99% for females.

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$95,319 as benefits came due for the reporting period.

Note 5. Pension Plan and Postemployment Obligations (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a total pension liability of \$1,138,005. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$88,620. See also note 14.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	21,351
Town benefit payments and plan administrative expense made subsequent to the measurement date	52,549	-
Total	<u>\$ 52,549</u>	<u>\$ 21,351</u>

\$52,549 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:

2018	\$	(4,322)
2019		(4,322)
2020		(4,322)
2021		(4,322)
2022		(4,063)
Thereafter		-

\$52,549 paid as benefits came due, and, as noted above, are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$ 1,229,474	\$ 1,138,005	\$ 1,054,620

Note 5. Pension Plan and Postemployment Obligations (Continued)

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance**

	<u>2017</u>
Beginning balance	\$ 1,166,289
Service Cost	52,773
Interest on the total pension liability	39,935
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(25,673)
Benefit payments	(95,319)
Other changes	-
Ending balance of the total pension liability	<u>\$ 1,138,005</u>

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan.

The Town made contributions of \$101,190 and law enforcement officers made contributions of \$51,674 for the reporting year. No amounts were forfeited.

d. Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description: The State of North Carolina contributes, on behalf of the Town of Morehead City, to the Firefighter's and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one

Note 5. Pension Plan and Postemployment Obligations (Continued)

appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighters' and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2016, the State contributed \$13,900,000 to the plan. The Town of Morehead City's proportionate share of the State's contribution is \$10,388.

Refunds of Contributions – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$27,171. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2016 and at June 30, 2015 was 0%.

For the year ended June 30, 2017, the Town recognized pension expense of \$7,972 and revenue of \$7,972 for support provided by the State. At June 30, 2017, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	Not applicable
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Note 5. Pension Plan and Postemployment Obligations (Continued)

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

e. Other Postemployment Benefit

Healthcare Benefits

Plan Description. Under a resolution as of June 29, 1999, the Town provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employer defined benefit plan to cover retirees of the Town who participate in the North Carolina Local Governmental Employees' Retirement System (NC LGERS) and have at least ten years of creditable continuous service with the Town of Morehead immediately prior to retirement and who meet one of the following:

- (1) 30 years of participation in the NC LGERS and are receiving benefits,
- (2) have attained 55 years of age and have a minimum of 25 years of participation in the NC LGERS and are receiving benefits, or
- (3) have attained 62 years of age and have a minimum of 15 years of participation in the NC LGERS and are receiving benefits.

The Town has elected to partially pay the future overall cost of coverage for these benefits, which are provided through private insurers. The HCB Plan is available to qualified retirees at 100% until they are eligible for Medicare. Also, retirees may purchase coverage for their dependents at the Town's group rates if the dependents were covered by the group plan at the date of the employee's retirement.

Retirees who do not meet one of the above requirements but are less than age 65 and have provided more than 5 years of service may purchase coverage at the Town's group rates. These retirees may also purchase coverage for their dependents at the Town's group rates if the dependent condition as described above is met.

The Town Council may amend the benefit provisions. The HCB plan is reported in the Town's report as an Other Postemployment Benefit Trust Fund and no standalone financial statement is issued.

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	14	5
Active plan members	117	38
	<u>131</u>	<u>43</u>

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by Town Council. The Town's members pay a monthly premium for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 2.85% of annual covered payroll. For the current year, the Town contributed \$122,545 or 1.78% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees, and none of the retirees elected to participate in the dependent care coverage benefit. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies. The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due and the Town will provide the contributions to the HCB Plan. Benefits and refunds are recognized when due and payable. The actuarial methods and assumptions used include techniques that are designed to reduce short-term effects of volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

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

Annual required contribution	\$ 207,117
Interest on net OPEB obligation	43,010
Adjustment to annual required contribution	<u>(41,088)</u>
Annual OPEB cost (expense)	209,039
Contributions made	<u>(122,545)</u>
Increase in net OPEB obligation	86,494
Net OPEB obligation, beginning of year	<u>1,075,243</u>
Net OPEB obligation, end of year	<u>\$ 1,161,737</u>

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017 were as follows:

For Year Ended	3 Year Trend Information		
	Annual	Percentage of Annual	Net OPEB
June 30,	OPEB Cost	OPEB Cost Contributed	Obligation
2017	\$ 209,039	58.6%	\$ 1,161,737
2016	288,647	47.9%	1,075,243
2015	267,967	45.7%	924,951

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,247,810. The covered payroll (annual payroll of active employees covered by the plan) was \$6,870,756, and the ratio of the UAAL to the covered payroll was 32.7 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend decrease of 7.75 to 5.00 percent. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

Note 6. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are

Notes to Financial Statements

Note 6. Other Employment Benefits (Continued)

determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Note 7. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows and inflows of resources. Deferred outflows and inflows of resources at June 30, 2017 are comprised of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension deferrals	\$ 2,637,514	\$ 149,971
General Fund:		
Prepaid taxes and fees	-	73,205
Water/Sewer Extensions Capital Project Fund:		
Developer fees not yet earned.	-	8,459
	<u>2,637,514</u>	<u>231,635</u>
General Fund		
Property taxes receivable	-	76,720
	<u>\$ 2,637,514</u>	<u>\$ 308,355</u>

Note 8. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two insurance pools administered by the North Carolina League of Municipalities. One pool (IRFFNC) provides coverage for property damage and general liability (including auto and law enforcement officers). Major policies and their limits of coverage include: public officials (\$3 million) and law enforcement liability (\$3 million), vehicle liability (\$2 million), public employee scheduled and blanket bonds (\$250,000), general liability (\$2 million), municipal equipment (\$2,957,546), vehicles (\$2,855,570), property (\$75,748,563) and employee health coverage (\$1,000,000). The other pool (NCRIMA) provides workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence losses in excess of \$1,000,000 for general liability and \$500,000 for property damage, and single occurrence losses of \$500,000 for workers' compensation. The Town provides employee health insurance through Blue Cross Blue Shield up to an unlimited lifetime benefit. The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because certain properties owned by the Town are in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of up to \$500,000 per structure through the NFIP. The Town also is eligible to and has purchased commercial flood insurance for another \$108,600 of coverage for contents.

In accordance with G. S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$250,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

Notes to Financial Statements

Note 9. Claims, Judgments and Contingent Liabilities

At June 30, 2017, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

Note 10. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position.

Changes in Long-term Liabilities – Governmental Activities

Long-term liability activity for governmental activities for the year ended June 30, 2017, is as follows:

	Beginning		Ending		Current
	Balance	Additions	Reductions	Balance	Portion of Balance
*Accrued compensated absences	\$ 451,136	\$ 409,512	\$ 394,177	\$ 466,471	\$ 396,501
Net pension liability (LGERS)	503,992	2,054,902	-	2,558,894	-
Total pension obligation (LEO)	210,413	927,592	-	1,138,005	-
Other postemployment benefits	920,619	83,958	-	1,004,577	-
Installment notes payable	297,447	-	9,869	287,578	10,276
Installment purchase contracts	7,801,593	2,605,000	321,769	10,084,824	421,851
Total	<u>\$ 10,185,200</u>	<u>\$ 6,080,964</u>	<u>\$ 725,815</u>	<u>\$ 15,540,349</u>	<u>\$ 828,628</u>

*For governmental activities, compensated absences, pension obligations and other postemployment benefits are generally liquidated by the General Fund and Fire/EMS Fund.

The Town has a \$1,200,000 installment purchase contract to finance the construction of improvements to street and drainage conditions of the Town. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 3.89% annually renegotiated to 2.49% effective May 2012. As of June 30, 2017, the remaining obligation due under this agreement totaled \$320,000.

The Town has a \$182,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2017, \$10,688 remains in a restricted account and the remaining obligation due under this agreement totaled \$138,959.

The Town has a \$195,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2017, \$11,451 remains in a restricted account and the remaining obligation due under this agreement totaled \$148,619.

The Town has a \$1,050,000 installment purchase contract from Branch Banking & Trust to finance the Shepard Street property purchase. The agreement has a term of 15 years and is collateralized by the property. The note bears interest at a rate of 4.57% annually renegotiated to 3.39% effective May 2012. As of June 30, 2017, the remaining obligation due under this agreement totaled \$560,000.

The Town has a \$4,808,000 installment purchase contract from USDA to finance the E911 Police Center. The agreement has a term of 40 years and is collateralized by the property. The note bears interest at a rate of 4.125% annually. As of June 30, 2017, \$175,085 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,464,823.

Notes to Financial Statements

Note 10. Long-Term Obligations (Continued)

The Town has a \$2,075,000 installment purchase contract from USDA to finance the construction of the new Fire and EMS station. The agreement has a term of 40 years and is collateralized by the property. The note bears interest at a rate of 3.75% annually. As of June 30, 2017, \$61,285 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,972,201.

The Town has a \$407,000 installment purchase contract from Carteret County to finance the construction of the Jib Project – Phase II. The agreement has a term of 5 years and is collateralized by the assets financed through the loan. This is an interest free note as Carteret County obtained a loan in the same amount from North Carolina’s Eastern Region and passed through those interest free funds to the Town. As of June 30, 2017, the remaining obligation due under this agreement totaled \$162,800.

The Town has a \$2,605,000 installment purchase contract from the State of North Carolina over a 20-year term to finance the Katherine Davis Park Capital Project. The note bears an annual interest rate of 3.05%. As of June 30, 2017, the obligation due under this agreement totaled \$2,605,000.

Changes in Long-term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Revenue bond	\$ 4,932,000	\$ -	\$ 75,000	\$ 4,857,000	\$ 77,000
Notes payable	12,825,921	1,231,777	1,042,741	13,014,957	1,042,741
Installment purchase contracts	151,484	-	151,484	-	-
*Accrued compensated absences	81,679	85,625	96,480	70,824	70,824
Net pension liability (LGERS)	95,642	389,954	-	485,596	-
Other postemployment benefits	154,624	2,536	-	157,160	-
Total	<u>\$ 18,241,350</u>	<u>\$ 1,709,892</u>	<u>\$ 1,365,705</u>	<u>\$ 18,585,537</u>	<u>\$ 1,190,565</u>

*For business-type activities, compensated absences and other postemployment benefits are generally liquidated by the Water and Sewer Fund and the Solid Waste Fund.

The Town has a \$1,700,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the water and sewer system. The note is payable from water and sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.6%. As of June 30, 2017, the remaining obligation due under this agreement totaled \$510,000.

The Town has a \$959,333 installment note payable to the State of North Carolina over a 19-year term to finance the acquisition and construction of improvements to the water system. The note is payable from water revenue or sales tax distributions to the Town and bears an annual interest rate of 4.02%. As of June 30, 2017, the remaining obligation due under this agreement totaled \$403,930.

The Town has a \$1,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the sewer system. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.36%. As of June 30, 2017, the remaining obligation due under this agreement totaled \$400,000.

The Town has a \$15,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the construction of a new wastewater treatment plant. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.265%. As of June 30, 2017, the remaining obligation due under this agreement totaled \$9,000,000.

Notes to Financial Statements

Note 10. Long-Term Obligations (Continued)

The Town has a \$645,000 installment note payable to the State of North Carolina over a 20-year term to finance sewer lift station improvements. The note is payable from sewer revenue or sales tax distributions to the Town and is interest free. As of June 30, 2017, the obligation due is \$419,250.

The Town has a \$1,500,000 installment note payable to the State of North Carolina over a 20-year term to finance water treatment improvements. The note is payable from water revenue or sales tax distributions to the Town and is interest free. As of June 30, 2017, the obligation due is \$1,050,000.

The Town issued \$4,932,000 in revenue bonds payable to USDA for improvements to the water treatment facilities consisting of a water tower, two water treatment plants and well. Bond terms consist of 40 annual payments beginning June 1, 2015 and bear an interest rate of 2.75%. As of June 30, 2017, \$63,836 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,857,000.

The Town has a \$2,750,000 installment note payable to the State of North Carolina over a 20-year term to finance the West End Force Main Capital Project. The note is payable from water revenue or sales tax distributions to the Town and bears an annual interest rate of 1.66%. As of June 30, 2017, the obligation due under this agreement totaled \$1,231,777.

The following table summarizes the annual requirements to amortize all long-term debt outstanding (excluding accrued compensated absences, unfunded pension contributions, and other postemployment pension obligations):

	Principal	Interest
Governmental activities		
2017-2018	\$ 432,127	\$ 375,307
2018-2019	439,264	363,805
2019-2020	365,261	352,043
2020-2021	372,925	340,014
2021-2022	300,868	328,204
2023-2027	1,493,973	1,479,352
2028-2032	1,530,700	1,220,166
2033-2037	1,803,473	924,971
2038-2042	1,119,235	641,400
2043-2047	1,362,991	397,644
2048-2052	1,151,585	111,894
2053-2057	-	-
	10,372,402	6,534,800

Notes to Financial Statements

Note 10. Long-Term Obligations (Continued)

	Principal	Interest
Business-type activities, Water and Sewer Fund		
2017-2018	1,119,742	376,355
2018-2019	1,183,330	381,181
2019-2020	1,186,330	346,766
2020-2021	1,188,330	321,077
2021-2022	1,190,330	295,333
2023-2027	5,447,668	1,104,850
2028-2032	2,739,694	616,108
2033-2037	920,944	461,698
2038-2042	763,589	353,110
2043-2047	804,000	250,168
2048-2052	920,000	133,375
2053-2057	408,000	16,940
	<u>17,871,957</u>	<u>4,656,961</u>
	<u>\$ 28,244,358</u>	<u>\$ 11,191,761</u>

Interest paid on the above obligations for the year ended June 30, 2017 totaled \$710,173. State statutes provide for a legal debt limit of 8 percent of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2017 amounts to \$159,180,007.

Note 11. Jointly Governed Organizations

The Town, in conjunction with seven counties and twenty-eight other municipalities, established the Eastern Carolina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$3,287 to the Council during the fiscal year ended June 30, 2017.

Note 12. Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Note 13. Subsequent Events

The Town has evaluated its subsequent events (events occurring after June 30, 2017) through January 17, 2018 which represents the date the financial statements were available to be issued.

In July 2017 the Town awarded the Recreation Center Restroom Renovation project to Jerry Lawrence General Contractor, Inc. for the amount of \$76,900. There is no signed contract as of the date of the printing of this report.

In August 2017 the Town entered into a development contract with Carteret Place Investors, LLC to facilitate the development of the "Preserves at Carteret Place" Project. The cost to extend water and sewer lines to the Project will be \$495,000, of which the developer agrees to pay \$257,967. The Town will execute a contract with Thomas Simpson Construction Company for completion of the extensions. The contract with Carteret Place Investors, LLC expressly states that no part of the developer's payments are for future capitalization or expansion costs associated with the Town's current or future facilities other than extended service lines, and, as such, no part of the agreement incorporates unlawful Impact Fees, in

Note 13. Subsequent Events (Continued)

the nature of those described in the North Carolina Supreme Court case 789 S.E.2d 454 (2016) "Quality Built Homes Inc. v. Town of Carthage."

In October 2017 the Town entered into contract with Calico Racquet Courts, Inc. to award the Shevans Park Tennis Court Renovation project, for the amount of \$187,000.

In December 2017 the Town held multiple Special Council Meetings regarding the effects on the Town, having previously charged and collected Impact Fees from project developers, of North Carolina Supreme Court case 789 S.E.2d 454 (2016) "Quality Built Homes Inc. v. Town of Carthage," in which it was decided that Public Enterprise Statutes allow municipalities to charge for the contemporaneous use of water and sewer services, but not for the collection of fees for future discretionary spending; thus, the statutes do not give the power necessary to assess impact fees. Currently, as a result of these meetings, meeting it has been decided that the Town will suspend any refunding of previously collected impact fees until the Supreme Court determines whether a one, two, three or ten year statute of limitations is applicable as well as determining when the limitation period begins.

Note 14. Changes in Accounting Principles/Restatements

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in the fiscal year ended June 30, 2017. The implementation of Statement No. 73 required the Town to adjust its beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (year ending December 31, 2016), which resulted in a decrease to the beginning net position of governmental activities of \$860,323. In accordance with Statement No. 74, the Town reclassified its Other Post-Employment Benefits (OPEB) fund net position to the General Fund because the account holding the plan assets did not meet the definition of a trust under Statement 74. As a result of implementing GASB Statement No. 74, the beginning net position of governmental activities and the beginning fund balance for the General Fund increased by \$370,837 and the OPEB fund's net position decreased by \$370,837. As a result of the two aforementioned accounting changes, beginning net position for the governmental activities decreased by a net change of \$489,486.

Note 15. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2017 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town,

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

GASB Statement No. 81, "Irrevocable Split-Interest Agreements." The objective of this Statement is to enhance accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Note 15. Pronouncements Issued, Not Yet Effective (Continued)

GASB Statement No. 82, "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73." The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, "Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions," and No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."

GASB Statement No. 83, "Certain Asset Retirement Obligations." This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

GASB Statement No. 84, "Fiduciary Activities." The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 85, "Omnibus 2017." The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, "Certain Debt Extinguishment Issues." The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87, "Leases." The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.

- **Schedule of Funding Progress for the Other Postemployment Benefits**
 - **Schedule of Employer Contributions for the Other Postemployment Benefits**
 - **Notes to the Required Schedules for the Other Postemployment Benefits**
 - **Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System**
 - **Schedule of Contributions to Local Government Employees' Retirement System**
 - **Schedule of Proportionate Share of Net Pension Liability for Firefighters' and Rescue Squad Workers' Pension Plan**
 - **Schedule of Changes in Total Pension Liability**
 - **Schedule of Total Pension Liability as a Percentage of Covered Payroll**
-

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Town of Morehead City, North Carolina

**Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percent of Covered Payroll ((b-a)/c)
12/31/11	-	\$ 3,024,100	\$3,024,100	0.00%	\$ 5,374,692	56.27%
12/31/13	-	2,602,002	\$2,602,002	0.00%	5,856,023	44.43%
12/31/15	-	2,247,810	\$2,247,810	0.00%	6,870,756	32.72%

Town of Morehead City, North Carolina

**Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions**

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2013	\$ 265,860	50.52%
2014	292,753	39.94%
2015	259,816	32.47%
2016	267,610	30.48%
2017	207,117	40.93%

Notes to the Required Schedules:

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

Valuation Date	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return	4.00%
Pre-medicare trend rate	Ranging from 7.75% - 5.00%
*Includes inflation at	3.00%
Cost of living adjustments	None

Town of Morehead City, North Carolina

**Schedule of Town's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years ***

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) %	0.143%	0.134%	0.124%	0.112%
Town's proportionate share of the net pension liability (asset)	\$ 3,044,490	\$ 599,634	\$ (733,408)	\$ 1,352,441
Town's covered-employee payroll	\$ 7,357,194	\$ 6,662,614	\$ 5,883,587	\$ 5,551,592
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.38%	9.00%	(12.47%)	24.36%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

Town of Morehead City, North Carolina

**Schedule of Town's Contributions
Required Supplementary Information
Last Four Fiscal Years**

Local Governmental Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 599,257	\$ 495,967	\$ 476,266	\$ 418,846
Contributions in relation to the contractually required contribution	599,257	495,967	476,266	418,846
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 8,100,246	\$ 7,357,194	\$ 6,662,614	\$ 5,883,587
Contributions as a percentage of covered-employee payroll	7.40%	6.74%	7.15%	7.12%

This schedule will not present 10 years' worth of information until fiscal year 2024.

Town of Morehead, North Carolina

**Schedule of Town's Proportionate Share of Net Pension Liability
Required Supplementary Information
Last Three Fiscal Years ***

Firefighters' and Rescue Squad Workers' Pension

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of the net pension liability (%)	0.0000%	0.0000%	0.0000%
Town's proportionate share of the net pension liability (\$)	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with Town of Morehead	27,171	21,916	18,821
Total	<u>\$ 27,171</u>	<u>\$ 21,916</u>	<u>\$ 18,821</u>
Town's covered-employee payroll	\$2,165,982	\$1,743,285	\$1,247,293
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.25%	1.26%	1.51%
Plan fiduciary net position as a percentage of the total pension liability**	84.94%	91.40%	93.42%

* The amounts presented are for the prior fiscal year.

** This will be the same percentage for all participant employers in the LGERS plan.

Town of Morehead City, North Carolina

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2017**

	<u>2017</u>
Beginning balance	\$1,166,289
Service Cost	88,620
Interest on the total pension liability	-
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(21,351)
Benefit payments	(95,553)
Other changes	-
Ending balance of the total pension liability	<u>\$ 1,138,005</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

Town of Morehead City, North Carolina

**Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2017**

	<u>2017</u>
Total pension liability	\$ 1,138,005
Covered payroll	2,052,052
Total pension liability as a percentage of covered payroll	55.46%

Notes to the schedules:

The Town of Morehead City has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

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MAJOR GOVERNMENTAL FUNDS

- **General Fund**
 - **Fire/EMS District Fund**
 - **Katherine Davis Park Capital Project Fund**
-

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GENERAL FUND

The General Fund is the principal fund of the Town and is used to account for all activities of the Town not included in other specific funds. The General Fund accounts for the normal recurring activities of the Town. These activities are funded principally by property and sales taxes on individuals and businesses, and grants from other governmental units.

Town of Morehead City, North Carolina

**General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
Year Ended June 30, 2017
With Comparative Actual Amounts for Year Ended June 30, 2016**

(Page 1 of 5)

	2017			2016
	Final Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Ad valorem taxes:				
Current year	\$ 6,683,718	\$ 6,849,273	\$ 165,555	\$ 6,710,846
Prior years	40,150	41,959	1,809	44,834
Interest and penalties	24,000	16,165	(7,835)	30,036
Total ad valorem taxes	6,747,868	6,907,397	159,529	6,785,716
Other taxes:				
Privilege licenses	-	-	-	72
Motor vehicle lease tax	25,000	35,257	10,257	29,073
Total other taxes	25,000	35,257	10,257	29,145
Unrestricted intergovernmental:				
Local option sales tax	2,453,000	2,840,811	387,811	2,484,746
Electric sales tax	868,000	828,802	(39,198)	842,566
Beer and wine tax	43,000	42,374	(626)	40,994
Carteret County ABC revenue	185,000	214,729	29,729	201,106
Video programming sales tax	123,500	125,731	2,231	125,242
Telecommunications tax	104,000	113,304	9,304	114,294
Piped natural gas tax	7,500	13,586	6,086	12,750
Payment in lieu of taxes	65,500	63,936	(1,564)	65,760
Total unrestricted intergovernmental	3,849,500	4,243,273	393,773	3,887,458
Restricted intergovernmental:				
Powell Bill	270,000	269,286	(714)	272,445
COPS grant	-	-	-	5,573
School resource officer	107,368	85,388	(21,980)	62,368
Governor's crime commission grant	14,216	14,139	(77)	-
Bullet proof vest grant	1,750	2,470	720	2,073
Controlled substance tax	3,000	7,516	4,516	10,491
Restitution funds	-	2,965	2,965	3,609
Flood mitigation study grant	15,000	14,972	(28)	-
Dredging grant	112,000	131,049	19,049	51,000
CAMA	4,000	4,195	195	6,570
Mosquito control grant	1,000	-	(1,000)	-
Teen Court grant	-	-	-	20,306
Webb Library funding	53,075	53,075	-	53,075
Housing Authority grant	35,000	19,138	(15,862)	35,000
FEMA reimbursements	-	34,505	34,505	-
NCDOC downtown revitalization grant	94,340	94,340	-	-
Total restricted governmental	710,749	733,038	22,289	522,510

(Continued)

Town of Morehead City, North Carolina

**General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
Year Ended June 30, 2017
With Comparative Actual Amounts for Year Ended June 30, 2016**

(Page 2 of 5)

	2017			2016
	Final Budget	Actual	Variance, with Final Budget	Actual
Permits and fees:				
Building permits and inspection fees	\$ 275,000	\$ 476,310	\$ 201,310	\$ 315,346
Planning/Zoning fees and charges	20,000	31,519	11,519	27,075
Sidewalk extension fees	20,000	30,106	10,106	3,040
Franchise fees	-	375	375	-
Total permits and fees	315,000	538,310	223,310	345,461
Sales and services:				
Court cost and fees	3,500	3,874	374	3,355
Lot cleaning fees	500	452	(48)	135
Cemetery fees	1,000	1,260	260	1,620
Recreation concessions	1,700	2,180	480	1,998
Sale of cemetery lots	2,500	3,500	1,000	7,500
Mail box rent and mail fees	-	5	5	754
Library fees and charges	2,250	3,054	804	2,370
Leases	115,386	112,395	(2,991)	65,897
E 911 cost sharing	15,000	22,919	7,919	24,380
Recreation fees and charges	160,000	202,014	42,014	147,200
Total sales and services	301,836	351,653	49,817	255,209
Investment earnings	11,000	46,549	35,549	16,539
Miscellaneous revenue:				
Restricted donations	38,266	38,181	(85)	9,598
Insurance reimbursements/refunds	31,883	54,451	22,568	125,890
Sale of surplus property	-	110	110	168
Police sponsorship	3,000	3,000	-	-
Miscellaneous	22,464	42,901	20,437	22,271
Total miscellaneous revenue	95,613	138,643	43,030	157,927
Total revenue	12,056,566	12,994,120	937,554	11,999,965

(Continued)

Town of Morehead City, North Carolina

**General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
Year Ended June 30, 2017
With Comparative Actual Amounts for Year Ended June 30, 2016**

(Page 3 of 5)

	2017		Variance, with Final Budget	2016
	Final Budget	Actual		Actual
Expenditures				
General government:				
Mayor - town council				
Salaries and benefits		\$ 34,720		\$ 22,540
Capital outlay		29,729		-
Other		11,313		10,758
	83,872	75,762	8,110	33,298
Administration:				
Salaries, wages and benefits		228,557		222,794
Other		20,155		13,990
	271,320	248,712	22,608	236,784
Finance:				
Salaries, wages and benefits		217,461		256,602
Other		25,432		30,167
	249,414	242,893	6,521	286,769
Central services:				
Employee benefits		116,050		118,976
Professional services		85,078		114,150
Capital outlay		142,758		-
Other		274,871		272,569
	860,155	618,757	241,398	505,695
Community projects	66,817	60,600	6,217	65,200
Information Technology				
Salaries, wages and benefits		5,426		35,122
Other		9,868		32,788
	63,411	15,294	48,117	67,910
Cemetery, buildings and grounds:				
Salaries, wages and benefits		264,214		277,098
Capital outlay		191,168		40,245
Other		93,884		141,505
	595,780	549,266	46,514	458,848
Garage:				
Salaries, wages and benefits		76,834		43,058
Capital outlay		119,080		-
Other		13,605		6,408
	514,845	209,519	305,326	49,466
Total general government	2,705,614	2,020,803	684,811	1,703,970

(Continued)

Town of Morehead City, North Carolina

**General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
Year Ended June 30, 2017
With Comparative Actual Amounts for Year Ended June 30, 2016**

(Page 4 of 5)

	2017		Variance, with Final Budget	2016
	Final Budget	Actual		Actual
Public safety:				
Police:				
Salaries, wages and benefits		\$ 3,004,690		\$ 2,865,038
Capital outlay		255,391		108,053
Other		462,694		448,228
	3,802,478	3,722,775	79,703	3,421,319
Inspections:				
Salaries, wages and benefits		498,913		426,907
Other		66,829		31,494
	637,352	565,742	71,610	458,401
Federal drug forfeit funds:				
Other		913		1,182
	3,769	913	2,856	1,182
Total public safety	4,443,599	4,289,430	154,169	3,880,902
Highways and streets:				
Transportation:				
Salaries, wages and benefits		432,171		427,604
Capital outlay		106,311		49,344
Other		437,097		321,763
	1,070,696	975,579	95,117	798,711
Powell Bill funds	526,631	338,743	187,888	89,018
Total highways and streets	1,597,327	1,314,322	283,005	887,729
Recreation:				
Salaries, wages and benefits		396,533		353,620
Capital outlay		8,475		46,769
Other		168,467		215,846
	680,525	573,475	107,050	616,235
Parks:				
Salaries, wages and benefits		183,083		121,413
Capital outlay		15,455		32,200
Other		264,982		183,229
	620,436	463,520	156,916	336,842

(Continued)

Town of Morehead City, North Carolina

**General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
Year Ended June 30, 2017
With Comparative Actual Amounts for Year Ended June 30, 2016**

(Page 5 of 5)

	2017			2016
	Final Budget	Actual	Variance, with Final Budget	Actual
Library:				
Salaries, wages and benefits		\$ 82,062		\$ 98,292
Capital outlay		-		26,400
Other		47,926		49,129
Total library	206,170	129,988	76,182	173,821
Debt service:				
Principal retirement		304,503		301,607
Interest fees		229,278		236,539
Total debt service	704,058	533,781	170,277	538,146
Total expenditures	10,957,729	9,325,319	1,632,410	8,137,645
Revenue over expenditures	1,098,837	3,668,801	2,569,964	3,862,320
Other financing sources (uses)				
Fund balance appropriated	1,872,625	-	(1,872,625)	-
Sale of capital assets	10,050	14,575	4,525	13,558
Transfers in:				
Newport River water access CPF	23	23	-	-
MATS Trail CPF	45,792	45,792	-	-
Baseball Park CPF	16,807	16,807	-	-
Fire/EMS District Fund	-	29,400	29,400	-
Water and Sewer Fund	-	37,100	37,100	-
Solid Waste Fund	-	400	400	-
Transfers out:				
Fire/EMS District Fund	(2,821,009)	(2,821,009)	-	(2,739,050)
Katherine Davis Park CPF	(44,835)	(44,835)	-	-
Baseball Park CPF	(4,000)	(2,000)	2,000	(17,970)
Contingency	(174,290)	-	174,290	-
Total other financing uses	(1,098,837)	(2,723,747)	(1,624,910)	(2,743,462)
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	945,054	\$ 945,054	1,118,858
Fund balance, beginning as previously reported		8,165,503		6,917,761
Restatement for accounting change		370,837		128,884
Fund balance, beginning as restated		8,536,340		7,046,645
Fund balance, ending		\$ 9,481,394		\$ 8,165,503

FIRE/EMS DISTRICT FUND

This fund is used to account for activities of the EMS and fire department including revenues and services for districts outside of town limits, which are restricted by North Carolina State Statutes.

Town of Morehead City, North Carolina

Fire/EMS District Fund
 Schedule of Revenue, Expenditures and Changes in Fund Balance –
 Budget and Actual
 Year Ended June 30, 2017
 With Comparative Actual Amounts for Year Ended June 30, 2016

(Page 1 of 2)

	2017			2016
	Budget	Actual	Variance with Final Budget	Actual
Revenue				
Operating revenue				
Restricted - intergovernmental				
FEMA Reimbursement	\$ 5,525	\$ 13,453	\$ 7,928	\$ -
FEMA Grant (Safer)	203,725	156,424	(47,301)	-
Charges for services	1,620,450	1,778,217	157,767	1,794,794
Total operating revenue	1,829,700	1,948,094	118,394	1,794,794
Investment earnings	1,500	5,860	4,360	1,725
Miscellaneous revenue				
Donations	1,000	-	(1,000)	1,000
Special Project Revenue	3,000	3,719	719	22,723
Sale of surplus property	-	-	-	679
Insurance reimbursements	20,665	33,131	12,466	20,612
Miscellaneous	6,600	7,427	827	-
Total miscellaneous revenue	31,265	44,277	13,012	45,014
Total revenue	1,862,465	1,998,231	135,766	1,841,533
Expenditures				
Public safety:				
Salaries, wages, and benefits		3,456,330		3,250,666
Other		836,056		754,166
Capital outlay		53,708		289,289
	4,555,398	4,346,094	209,304	4,294,121

(Continued)

Town of Morehead City, North Carolina

Fire/EMS District Fund
 Schedule of Revenue, Expenditures and Changes in Fund Balance –
 Budget and Actual
 Year Ended June 30, 2017
 With Comparative Actual Amounts for Year Ended June 30, 2016

(Page 2 of 2)

	2017			2016
	Budget	Actual	Variance with Final Budget	Actual
Debt service:				
Principal retirement		\$ 27,136		\$ 26,155
Interest fees		74,975		75,956
	<u>102,112</u>	<u>102,111</u>	-	<u>102,111</u>
Total expenditures	<u>4,657,510</u>	<u>4,448,205</u>	<u>209,304</u>	<u>4,396,232</u>
Revenue over (under) expenditures	<u>(2,795,045)</u>	<u>(2,449,974)</u>	<u>345,071</u>	<u>(2,554,699)</u>
Other financing sources (uses):				
Fund balance appropriated	24,000	-	(24,000)	-
Sale of capital assets	41,000	70,925	29,925	68,001
Transfers out:				
General Fund	-	(29,400)	(29,400)	-
Contingency	(99,824)	-	99,824	-
Operating transfer in:				
General fund	2,821,009	2,821,009	-	2,739,050
Fire/EMS Station #2	8,860	8,861	1	-
Total other financing sources (uses)	<u>2,795,045</u>	<u>2,871,395</u>	<u>76,350</u>	<u>2,807,051</u>
Revenue and other financing sources over expenditures	<u>\$ -</u>	<u>421,421</u>	<u>\$ 421,421</u>	<u>252,352</u>
Fund balance, beginning		<u>1,104,611</u>		<u>852,259</u>
Fund balance, ending		<u>\$ 1,526,032</u>		<u>\$ 1,104,611</u>

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Katherine Davis Park Capital Project Fund

This fund is used to account for funds accumulated for the acquisition and development of Katherine Davis Park.

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Town of Morehead City, North Carolina

Katherine Davis Park Capital Project Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balance
 Budget and Actual
 From Inception and for the Year Ended June 30, 2017

	Project Authorization	Actual	
		Current Year	Project To Date
Revenue			
Interest revenue	\$ -	\$ 144	\$ 144
Total revenue	-	144	144
Expenditures			
Katherine Davis Park expenditures	2,649,835	2,611,076	2,611,076
Total expenditures	2,649,835	2,611,076	2,611,076
Revenue under expenditures	(2,649,835)	(2,610,932)	(2,610,932)
Other financing sources			
Issuance of debt	2,605,000	2,605,000	2,605,000
Transfer from General Fund	44,835	44,835	44,835
Total other financing sources	2,649,835	2,649,835	2,649,835
Revenue and other financing sources over (under) expenditures	\$ -	38,903	\$ 38,903
Fund balance, beginning		-	
Fund balance, ending		\$ 38,903	

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NON-MAJOR GOVERNMENTAL FUNDS

Non-Major Capital Project Funds – Capital Project Funds account for all resources used for current and future acquisition and/or construction of major capital facilities by the Town except for those financed by proprietary funds. The Town has five non-major capital project funds.

- **MATS Capital Project Fund** - This fund is used to account for funds accumulated for construction of a multi-purpose trail related to Morehead City Alternative Transportation System program.
 - **Baseball Park Capital Project Fund** - This fund is used to account for funds accumulated for acquisition of land and development of a baseball park.
 - **Newport River Water Access Capital Project Fund** – This fund is used to account for funds accumulated for water access improvements at the Newport River access site.
 - **Jib Waterfront Access Capital Project Fund** – This fund is used to account for funds accumulated for the acquisition and development of the Jib Waterfront property.
 - **Fire/EMS Station #2 Replacement Capital Project Fund** – This fund is used to account for funds accumulated for the acquisition and replacement of the Fire/EMS Station #2.
 - **Morehead City Municipal Campus Capital Project Fund** – This fund is used to account for funds accumulated for the acquisition of the Charles Wallace School Property and additional renovations to the property.
-

Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2017

With Comparative Totals as of June 30, 2016

	Jib Waterfront Access Capital Project Fund	Morehead Municipal Campus Capital Project Fund	Totals	
			2017	2016
Assets:				
Cash and cash equivalents	\$ 271,946	\$ 26,430	\$ 298,376	\$ 454,864
Total assets	271,946	26,430	298,376	454,864
Liabilities and fund balances:				
Liabilities:				
Accounts payable and accrued liabilities	193,083	784	193,867	247,645
Total liabilities	193,083	784	193,867	247,645
Fund balances:				
Restricted				
Recreation	-	-	-	14,772
General government	78,863	104,476	183,339	214,511
Public safety	-	-	-	8,832
Assigned				
Streets	-	-	-	45,643
Unassigned	-	(78,830)	(78,830)	(76,539)
Total fund balances	78,863	25,646	104,509	207,219
Total liabilities and fund balances	\$ 271,946	\$ 26,430	\$ 298,376	\$ 454,864

Town of Morehead City, North Carolina

Non-Major Governmental Funds
 Combining Statement of Revenue, Expenditures and
 Changes in Fund Balance
 Year Ended June 30, 2017
 With Comparative Totals For Year Ended June 30, 2016

	MATS Capital Project Fund	Baseball Park Capital Project Fund	Newport River Water Access Capital Project Fund
Revenue			
Restricted intergovernmental	\$ -	\$ -	\$ -
Miscellaneous	-	-	-
Investment earnings	149	58	-
Total revenue	149	58	-
Expenditures			
Recreation	-	-	-
Public safety	-	-	-
General government	-	-	-
Total expenditures	-	-	-
Revenue over (under) expenditures	149	58	-
Other financing sources			
Issuance of debt	-	-	-
Transfers in	-	2,000	-
Transfers out	(45,792)	(16,807)	(23)
Total other financing sources	(45,792)	(14,807)	(23)
Revenue and other financing sources over (under) expenditures and other financing uses	(45,643)	(14,749)	(23)
Fund balance, beginning	45,643	14,749	23
Fund balance (deficit), ending	\$ -	\$ -	\$ -

Jib Waterfront Access Capital Project Fund	Fire/EMS Station #2 Replacement Capital Project Fund	Morehead Municipal Campus Capital Project Fund	2017 Totals	2016 Totals
\$ -	\$ -	\$ -	\$ -	\$ 200,026
17,900	-	-	17,900	241
1,297	29	208	1,741	826
<u>19,197</u>	<u>29</u>	<u>208</u>	<u>19,641</u>	<u>201,093</u>
-	-	-	-	74,176
-	-	2,291	2,291	8,892
12,625	-	37,952	50,577	89,823
<u>12,625</u>	<u>-</u>	<u>40,243</u>	<u>52,868</u>	<u>172,891</u>
<u>6,572</u>	<u>29</u>	<u>(40,035)</u>	<u>(33,227)</u>	<u>28,202</u>
-	-	-	-	-
-	-	-	2,000	17,970
-	(8,861)	-	(71,483)	-
<u>-</u>	<u>(8,861)</u>	<u>-</u>	<u>(69,483)</u>	<u>17,970</u>
6,572	(8,832)	(40,035)	(102,710)	46,172
<u>72,291</u>	<u>8,832</u>	<u>65,681</u>	<u>207,219</u>	<u>161,047</u>
<u>\$ 78,863</u>	<u>\$ -</u>	<u>\$ 25,646</u>	<u>\$ 104,509</u>	<u>\$ 207,219</u>

Town of Morehead City, North Carolina

MATS Capital Project Fund
Schedule of Revenue, Expenditures, and
Changes in Fund Balance, Budget and Actual
From Inception and for the Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental				
NCDOT Grant	\$ 287,909	\$ 287,909	\$ -	\$ 287,909
Carteret County Grant	35,989	35,989	-	35,989
Interest earnings	8,075	7,926	149	8,075
Total revenue	331,973	331,824	149	331,973
Expenditures				
Trail improvements	871,965	871,965	-	871,965
Total expenditures	871,965	871,965	-	871,965
Revenue over (under) expenditures	(539,992)	(540,141)	149	(539,992)
Other financing sources				
Transfers in				
Street Improvements Fund	127,485	127,485	-	127,485
General Fund	458,299	458,299	-	458,299
Transfers out				
General Fund	(45,792)	-	(45,792)	(45,792)
Total other financing sources	539,992	585,784	(45,792)	539,992
Revenue and other financing sources over expenditures	\$ -	\$ 45,643	(45,643)	\$ -
Fund balance, beginning			45,643	
Fund balance, ending			\$ -	

Town of Morehead City, North Carolina

Baseball Park Capital Project Fund
 Schedule of Revenue, Expenditures and
 Changes in Fund Balance, Budget and Actual
 From Inception and for the Year Ended June 30, 2017

	Project	Prior	Actual	Project
	Authorization	Years	Current	To Date
			Year	
Revenue				
Restricted intergovernmental				
LWCF grant	\$ 250,000	\$ 250,000	\$ -	\$ 250,000
PARTF grant	150,000	150,000	-	150,000
Interest revenue	33,521	33,463	58	33,521
Miscellaneous revenue - donations	264,500	264,500	-	264,500
Total revenue	698,021	697,963	58	698,021
Expenditures				
Baseball park construction	2,935,391	2,935,391	-	2,935,391
Total expenditures	2,935,391	2,935,391	-	2,935,391
Revenue under expenditures	(2,237,370)	(2,237,428)	58	(2,237,370)
Other financing sources				
Transfer from General Fund	2,247,920	2,245,920	2,000	2,247,920
Transfer from Mayberry/20th Street	6,257	6,257	-	6,257
Transfer to General Fund	(16,807)	-	(16,807)	(16,807)
Total other financing sources	2,237,370	2,252,177	(14,807)	2,237,370
Revenue and other financing sources over (under) expenditures	\$ -	\$ 14,749	(14,749)	\$ -
Fund balance, beginning			14,749	
Fund balance, ending			\$ -	

Town of Morehead City, North Carolina

Newport River Water Access Capital Project Fund
 Schedule of Revenue , Expenditures, and Changes in Fund Balance -
 Budget and Actual
 From Inception and for the Year Ended June 30, 2017

	Project Authorization	Actual		Project To Date
		Prior Years	Current Year	
Revenue				
Restricted intergovernmental				
CAMA Public Access grant	\$ 600,000	\$ 600,000	\$ -	\$ 600,000
Carteret County Water Access funds	500,000	500,000	-	500,000
WAMI grant	1,240,822	1,240,822	-	1,240,822
Coastal Rec. Fishing License grant	49,431	49,431	-	49,431
DENR/DWR Dredging grant	26,500	26,516	-	26,516
NC Marine Resources grant	156,796	156,780	-	156,780
Investment earnings	1,931	1,931	-	1,931
Total revenue	2,575,480	2,575,480	-	2,575,480
Expenditures				
Water access improvements	2,725,457	2,725,457	-	2,725,457
Total expenditures	2,725,457	2,725,457	-	2,725,457
Revenue under expenditures	(149,977)	(149,977)	-	(149,977)
Other financing sources				
Transfer from General Fund	150,000	150,000	-	150,000
Transfer to General Fund	(23)	-	(23)	(23)
Total other financing sources	149,977	150,000	(23)	149,977
Revenue under other financing sources over (under) expenditures	\$ -	\$ 23	(23)	\$ -
Fund balance, beginning			23	
Fund balance, ending			\$ -	

Town of Morehead City, North Carolina

Jib Waterfront Access Capital Project Fund
 Schedule of Revenue, Expenditures, and
 Changes in Fund Balances - Budget and Actual
 From Inception and for the Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental				
CAMA grant	\$ 400,000	\$ 400,000	\$ -	\$ 400,000
Division of Water Resources grant	300,000	300,000	-	300,000
Waterfront access	150,000	150,000	-	150,000
Interest revenue	-	657	1,297	1,954
Miscellaneous revenue - donations	149,424	129,670	17,900	147,570
Total revenue	999,424	980,327	19,197	999,524
Expenditures				
Jib waterfront access expenditures	3,187,150	2,950,288	12,625	2,962,913
Interest expense on interfund loan	4,850	4,836	-	4,836
Total expenditures	3,192,000	2,955,124	12,625	2,967,749
Revenue under expenditures	(2,192,576)	(1,974,797)	6,572	(1,968,225)
Other financing sources (uses)				
Contingency	(47,622)	-	-	-
Issuance of debt	407,000	407,000	-	407,000
Transfer from General Fund	1,830,993	1,637,897	-	1,637,897
Transfer from Shepard Street Boat Ramp	2,205	2,191	-	2,191
Transfer from Water/Sewer Fund	650,000	650,000	-	650,000
Transfer to Water/Sewer Fund	(650,000)	(650,000)	-	(650,000)
Total other financing sources (uses)	2,192,576	2,047,088	-	2,047,088
Revenue and other financing sources over (under) expenditures	\$ -	\$ 72,291	6,572	\$ 78,863
Fund balance (deficit), beginning			72,291	
Fund balance, ending			\$ 78,863	

Town of Morehead City, North Carolina

Fire/EMS Station #2 Replacement Capital Project Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
From Inception and for the Year Ended June 30, 2017

	Project Authorization	Actual		Project To Date
		Prior Years	Current Year	
Revenue				
Restricted intergovernmental-USDA grant	\$ 200,000	\$ 200,000	\$ -	\$ 200,000
Interest revenue	(6,148)	(6,177)	29	(6,148)
Miscellaneous revenue - donations	400	400	-	400
Total revenue	194,252	194,223	29	194,252
Expenditures				
Capital outlay - Fire/EMS St. #2 replacement	2,812,365	2,812,364	-	2,812,364
Interest expense on Fire/EMS St. #2 replacement	7,677	7,677	-	7,677
Total expenditures	2,820,042	2,820,041	-	2,820,041
Revenue under expenditures	(2,625,790)	(2,625,818)	29	(2,625,789)
Other financing sources				
Issuance of debt	2,075,000	2,075,000	-	2,075,000
Transfer from Fire/EMS Fund	559,650	559,650	-	559,650
Transfer to Fire/EMS Fund	(8,860)	-	(8,861)	(8,861)
Total other financing sources	2,625,790	2,634,650	(8,861)	2,625,789
Revenue and other financing sources over expenditures	\$ -	\$ 8,832	(8,832)	\$ -
Fund balance, beginning			<u>8,832</u>	
Fund balance, ending			<u>\$ -</u>	

Town of Morehead City, North Carolina

Morehead City Municipal Campus Capital Project Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balance -
 Budget and Actual
 From Inception and for the Year Ended June 30, 2017

	Project		Actual	
	Authorization	Prior	Current	Project
		Years	Year	To Date
Revenue				
Restricted intergovernmental				
Carteret County	\$ 996,754	\$ 996,754	\$ -	\$ 996,754
Interest revenue	8,923	10,138	208	10,346
Interest revenue, Build America Bonds	33,633	33,633	-	33,633
Miscellaneous revenue-rent	309,700	313,950	-	313,950
Miscellaneous revenue-insurance reimbursemer	41,101	41,088	-	41,088
Miscellaneous revenue	-	241	-	241
Total revenue	1,390,111	1,395,804	208	1,396,012
Expenditures				
General government		226,616	31,721	258,337
Capital outlay				
General government		1,111,760	6,231	1,117,991
Public safety		6,068,878	2,291	6,071,169
	7,467,236	7,407,254	40,243	7,447,497
Debt service:				
Principal retirement	5,000,000	5,000,000	-	5,000,000
Interest fees	96,100	96,094	-	96,094
	5,096,100	5,096,094	-	5,096,094
Total expenditures	12,563,336	12,503,348	40,243	12,543,591
Revenue under expenditures	(11,173,225)	(11,107,544)	(40,035)	(11,147,579)
Other financing sources (uses)				
Issuance of debt	9,808,000	9,808,000	-	9,808,000
Transfer from General Fund	1,365,225	1,365,225	-	1,365,225
Total other financing sources	11,173,225	11,173,225	-	11,173,225
Revenue and other financing sources over (under) expenditures	\$ -	\$ 65,681	(40,035)	\$ 25,646
Fund balance, beginning			65,681	
Fund balance, ending			<u>\$ 25,646</u>	

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the government's Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or the government's Board has decided that periodic determination of net income is appropriate for accountability purposes.

The Town maintains two enterprise funds.

Water and Sewer Fund - This fund is used to account for the water and sewer services, and also maintains related construction projects.

Solid Waste Fund - This fund is used to account for revenues and expenditures related to waste disposal services.

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Town of Morehead City, North Carolina

Water and Sewer Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 Year Ended June 30, 2017
 With Comparative Actual Amounts For The Year Ended June 30, 2016
 (Page 1 of 3)

	2017		Variance with Final Budget	2016
	Budget	Actual		Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 3,200,000	\$ 3,277,215	\$ 77,215	\$ 3,084,061
Water charges	3,450,000	3,558,568	108,568	3,370,208
Tap fees	20,000	44,429	24,429	35,913
Total charges for sales and services	<u>6,670,000</u>	<u>6,880,212</u>	<u>210,212</u>	<u>6,490,182</u>
Miscellaneous	276,000	283,553	7,553	312,531
Total operating revenue	<u>6,946,000</u>	<u>7,163,765</u>	<u>217,765</u>	<u>6,802,713</u>
Operating expenditures				
Cost of sales and services -				
Water, wells and pumping stations:				
Salaries, wages and employee benefits		135,184		129,793
Other		320,940		319,345
Repairs and maintenance		116,959		105,475
Total cost of sales and services - water, wells and pumping stations	<u>693,754</u>	<u>573,083</u>	<u>120,671</u>	<u>554,613</u>
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits		806,944		803,309
Other		866,114		791,714
Repairs and maintenance		74,334		55,042
Capital outlay		231,255		104,024
Total cost of sales and services - water distribution and sewer collection	<u>2,151,173</u>	<u>1,978,647</u>	<u>172,526</u>	<u>1,754,089</u>
Cost of sales and services -				
Lift stations and sewer mains:				
Other		84,050		87,202
Repairs and maintenance		55,039		54,134
Capital outlay		-		74,450
Total cost of sales and services - lift stations and sewer mains	<u>153,800</u>	<u>139,089</u>	<u>14,711</u>	<u>215,786</u>

(Continued)

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2017

With Comparative Actual Amounts For The Year Ended June 30, 2016

(Page 2 of 3)

	2017		Variance with Final Budget	2016
	Budget	Actual		Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits		\$ 488,757		\$ 470,227
Other		328,896		323,829
Repairs and maintenance		81,299		102,233
Capital outlay		32,501		-
Total cost of sales and services - wastewater treatment plant	1,094,786	931,453	163,333	896,289
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits		188,161		186,863
Other		63,746		53,747
Capital outlay		54,947		-
Total cost of sales and services - water billing and collection	423,255	306,854	116,401	240,610
Total operating expenditures	4,516,768	3,929,126	587,642	3,661,387
Operating revenue over operating expenditures	2,429,232	3,234,639	805,407	3,141,326
Nonoperating revenue (expenditures)				
Interest revenue	16,700	49,748	33,048	23,185
Restricted intergovernmental	-	-	-	6,200
Interest and fiscal charges	(405,970)	(398,545)	7,425	(342,582)
Sale of surplus property	1,000	1,614	614	-
Bond and installment agreement principal payments	(1,269,240)	(1,269,226)	14	(1,324,081)
Total nonoperating revenues (expenditures)	(1,657,510)	(1,616,409)	41,101	(1,637,278)
Revenue over expenditures	771,722	1,618,230	846,508	1,504,048

(Continued)

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2017

With Comparative Actual Amounts For The Year Ended June 30, 2016

(Page 3 of 3)

	2017		Variance with Final Budget	2016
	Budget	Actual		Actual
Other financing sources (uses)				
Capital contributions	\$ 68,150	\$ 68,143	\$ (7)	\$ 65,528
Transfers in:				
Water Reuse Capital Project Fund	-	-	-	63,766
Water and Sewer Capital Reserve Fund	208,393	208,393	-	
Water Treatment Capital Project Fund	314,783	314,783	-	
Transfers out:				
Water and Sewer Capital Project Funds	(995,000)	(503,048)	491,952	(445,136)
General Fund	-	(37,100)	(37,100)	-
Contingency	(132,674)	-	132,674	-
Fund balance appropriated	79,409	-	(79,409)	-
Reserved for future appropriation	(314,783)	-	314,783	-
Total other financing sources (uses)	(771,722)	51,171	822,893	(315,842)
Revenue and other sources over expenditures and other financing uses	\$ -	\$ 1,669,401	\$ 1,669,401	\$ 1,188,206
Reconciliation of modified accrual basis to full accrual basis:				
Revenue and other financing sources over expenditures and other financing uses		\$ 1,669,401		\$ 1,188,206
Depreciation		(1,730,158)		(1,724,011)
Note and installment agreement principal payment		1,269,226		1,324,081
Capitalized expenditures included in capital outlay and other expenditures		327,223		169,398
Net transfers to Water and Sewer Capital Project Funds		(20,128)		381,370
Contributed capital from notes receivable		(69,791)		(51,255)
Repairs and maintenance expense from capital project funds		(150,572)		(234,416)
Contributions-capital project funds		432,896		280,312
Interest expense in capital project funds		(941)		(418)
Interest earned from capital project funds		10,555		4,340
Decrease in net pension asset		-		(111,331)
Increase in deferred outflows of resources - pensions		316,132		14,550
Increase in net pension liability		(381,153)		(93,483)
Decrease in deferred inflows of resources - pensions		28,530		213,711
Increase in net other post employment benefit obligation		(2,313)		(16,991)
Net income, full accrual basis		\$ 1,698,907		\$ 1,344,063

Town of Morehead City, North Carolina

Solid Waste Fund

Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)

Year Ended June 30, 2017

With Comparative Actual Amounts for Year Ended June 30, 2016

	2017		Variance, with Final Budget	2016
	Budget	Actual		Actual
Revenue:				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 920,000	\$ 952,979	\$ 32,979	\$ 944,477
Miscellaneous	-	500	500	786
Total operating revenue	920,000	953,479	33,479	945,263
Operating expenditures:				
Contracted Services		641,043		623,650
Salaries, wages and employee benefits		53,025		53,122
Operating		177,044		179,737
Total operating expenditures	929,989	871,112	58,877	856,509
Operating revenue over (under) operating expenditures	(9,989)	82,367	92,356	88,754
Nonoperating revenue:				
Interest revenue	500	2,153	1,653	695
Restricted intergovernmental	5,700	6,328	628	6,096
Total nonoperating revenue	6,200	8,481	2,281	6,791
Revenue over expenditures	(3,789)	90,848	94,637	95,545
Other financing sources (uses)				
Transfers out:				
General Fund	-	(400)	(400)	-
Contingency	(23,738)	-	23,738	-
Fund balance appropriated	27,527	-	(27,527)	-
Total other financing uses	3,789	(400)	(4,189)	-
Revenue and other financing sources over expenditures	\$ -	\$ 90,448	\$ 90,448	\$ 95,545
Reconciliation of modified accrual basis with full accrual basis:				
Revenue and other financing sources over expenditures		\$ 90,448		\$ 95,545
Net other postemployment benefit obligation		(224)		(214)
Depreciation		(31,948)		(31,948)
Decrease in net pension asset		-		(2,787)
Increase in deferred outflows of resources - pensions		7,300		186
Increase in net pension liability		(8,801)		(2,159)
Decrease in deferred inflows of resources - pensions		659		5,444
Net income, full accrual basis		\$ 57,434		\$ 64,067

Town of Morehead City, North Carolina

Water and Sewer Capital Reserve Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 Year Ended June 30, 2017
 With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017			2016
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Impact fees	\$ 105,000	\$ 416,336	\$ 311,336	\$ 271,264
Interest	1,800	7,852	6,052	3,067
Total revenue	106,800	424,188	317,388	274,331
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(50,000)	-	50,000	(20,000)
Water and sewer fund	(208,393)	(208,393)	-	-
West end force main capital project fund	(185,000)	(185,000)	-	-
Fund balance appropriated	336,593	-	(336,593)	-
Total other financing sources (uses)	(106,800)	(393,393)	(286,593)	(20,000)
Revenue and other financing sources over other financing sources	\$ -	\$ 30,795	\$ 30,795	\$ 254,331

Town of Morehead City, North Carolina

Water and Sewer Capital Project Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 Year Ended June 30, 2017
 With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017		Variance, with Final Budget	2016
	Budget	Actual		Actual
Revenue				
Interest	\$ -	\$ (863)	\$ (863)	\$ (417)
Total revenue	-	(863)	(863)	(417)
Expenditures				
Repair and extension	300,000	11,158	288,842	90,761
Engineering	10,000	-	10,000	20,000
Contracted services-mapping	50,000	50,000	-	50,000
Improvements	30,000	-	30,000	-
Sewer rehab pilot	10,000	-	10,000	-
Land purchase	30,000	-	30,000	-
Slip lining/I & I reduction	100,000	72,982	27,018	78,208
Lift station & force main repair	425,000	327,612	97,388	155,740
Well relining repair	40,000	37,897	2,103	39,891
Well control system	50,000	3,879	46,121	14,621
Total expenditures	1,045,000	503,528	541,472	449,221
Revenue over (under) expenditures	(1,045,000)	(504,391)	540,609	(449,638)
Other financing sources				
Transfers in:				
Water and sewer fund	995,000	503,048	(491,952)	445,136
Water and sewer rebatable capital reserve fund	-	480	480	-
Water and sewer capital reserve fund	50,000	-	(50,000)	20,000
Total other financing sources and (uses)	1,045,000	503,528	(541,472)	465,136
Revenue and other financing sources over (under) expenditures	\$ -	\$ (863)	\$ (863)	\$ 15,498

Town of Morehead City, North Carolina

Water and Sewer Rebatable Capital Reserve Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 Year Ended June 30, 2017
 With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017			2016
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Contributed capital	\$ 6,000	\$ 16,560	\$ 10,560	\$ 9,048
Interest	300	1,274	974	480
Total revenue	6,300	17,834	11,534	9,528
Other financing sources (uses)				
Transfers In:				
Transfer to water and sewer fund	-	(480)	(480)	-
Reserved for future appropriation	(6,300)	-	6,300	-
Total other financing sources	(6,300)	(480)	5,820	-
Revenue over other financing uses	\$ -	\$ 17,354	\$ 17,354	\$ 9,528

Town of Morehead City, North Carolina

Water Treatment Capital Project Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2017

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
ARRA funds (PWS)-debt forgiveness	\$ 1,500,000	\$ 1,500,000	\$ -	\$ 1,500,000
ARRA funds/USDA-RDA grant	4,847,007	4,847,006	-	4,847,006
Interest	3,565	2,541	1,026	3,567
Total revenue	6,350,572	6,349,547	1,026	6,350,573
Expenditures				
Water treatment improvements	12,766,789	12,766,790	-	12,766,790
Total expenditures	12,766,789	12,766,790	-	12,766,790
Revenue under expenditures	(6,416,217)	(6,417,243)	1,026	(6,416,217)
Other financing sources				
Issuance of debt-ARRA funds (PWS)	1,500,000	1,500,000	-	1,500,000
Issuance of debt ARRA funds (USDA-RDA)	4,932,000	4,932,000	-	4,932,000
Issuance of bond anticipation notes	4,932,000	4,932,000	-	4,932,000
Principal - interim bond anticipation notes	(4,932,000)	(4,932,000)	-	(4,932,000)
Transfers In:				
Transfer to water and sewer fund	(314,783)	-	(314,783)	(314,783)
Transfers Out:				
Transfer from water/sewer fund	299,000	299,000	-	299,000
Total other financing sources	6,416,217	6,731,000	(314,783)	6,416,217
Revenue and other financing sources over expenditures	\$ -	\$ 313,757	\$ (313,757)	\$ -

Town of Morehead City, North Carolina

Water/Sewer Extensions Improvement Capital Project Fund
 Statement of Revenue and Expenditures -Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2017

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
Rural Center Grant - Vinings	\$ 40,000	\$ 40,000	\$ -	\$ 40,000
Contributed Capital - Radio Island	713,616	713,618	-	713,618
Contributed Capital - SCYC	486,414	486,413	-	486,413
Contributed Capital - Mariners Point	827,795	827,795	-	827,795
Contributed Capital - Morgan Street	123,964	123,964	-	123,964
Contributed Capital - Vinings Apts.	349,699	341,241	-	341,241
Contributed Capital - S&W Ready Mix	96,626	96,627	-	96,627
Contributed Capital - 26th/Evans Sewer	24,749	24,748	-	24,748
Interest earned	76,910	77,174	403	77,577
Total revenue	2,739,773	2,731,580	403	2,731,983
Expenditures				
Water and sewer improvements	3,129,284	3,120,820	-	3,120,820
Total expenditures	3,129,284	3,120,820	-	3,120,820
Revenue under expenditures	(389,511)	(389,240)	403	(388,837)
Other financing sources (uses)				
Transfer to Water & Sewer	(182,128)	(182,128)	-	(182,128)
Transfers in:				
Water & Sewer Rebatale Capital Reserve	77,297	77,297	-	77,297
Radio Island Capital Project Fund	391,913	391,912	-	391,912
Water & Sewer Fund	176,500	176,500	-	176,500
Reserved for future appropriations	(74,071)	-	-	-
Total other financing sources	389,511	463,581	-	463,581
Revenue and other financing sources over expenditures	\$ -	\$ 74,341	\$ 403	\$ 74,744

Town of Morehead City, North Carolina

West End Force Main Capital Project Fund

Statement of Revenue and Expenditures -Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2017

	Project Authorization	Current Year	Project to Date
Revenue			
Interest	\$ -	\$ (78)	\$ (78)
Total revenue	-	(78)	(78)
Expenditures			
Legal services	59,000	55,958	55,958
Engineering	209,000	271,242	271,242
Inspections	182,000	54,712	54,712
Construction	2,435,000	1,000,682	1,000,682
Total expenditures	2,885,000	1,382,594	1,382,594
Revenue over (under) expenditures	(2,885,000)	(1,382,672)	(1,382,672)
Other financing sources			
Transfer in:			
Water and sewer capital reserve fund	185,000	185,000	185,000
Division of Water Infrastructure loan proceeds	2,750,000	1,231,777	1,231,777
Contingency	(50,000)	-	-
Total other financing sources	2,885,000	1,416,777	1,416,777
Revenue and other financing sources over expenditures	\$ -	\$ 34,105	\$ 34,105

OTHER FINANCIAL INFORMATION

Other financial information includes additional detailed analysis of particular aspects of the Town's financial position or results of operations.

- **Schedule of Ad Valorem Taxes Receivable**
- **Analysis of Current Tax Levy**

Town of Morehead City, North Carolina

**Schedule of Ad Valorem Taxes Receivable
June 30, 2017**

Year Ended June 30	Uncollected Balance June 30, 2016	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 6,976,525	\$ 6,928,822	\$ 47,703
2015-2016	49,539	(241)	31,775	17,523
2014-2015	12,198	1	5,492	6,707
2013-2014	8,230	(1)	2,296	5,933
2012-2013	9,682	-	2,167	7,515
2011-2012	4,886	(1)	418	4,467
2010-2011	1,101	-	513	588
2009-2010	547	-	-	547
2008-2009	4,422	(27)	-	4,395
2007-2008	689	-	-	689
2006-2007	655	1	-	656
	<u>\$ 91,949</u>	<u>\$ 6,976,257</u>	<u>\$ 6,971,483</u>	96,723
Less allowance for doubtful accounts				<u>(20,003)</u>
				<u>\$ 76,720</u>

Reconciliation with revenues:

Taxes - Ad valorem, General Fund	\$ 6,907,397
Net collection adjustments	704
Amounts adjusted for tax discount	79,547
Less penalties and interest collected, net	<u>(16,165)</u>
Total collections and credits	<u>\$ 6,971,483</u>

Town of Morehead City, North Carolina

**Analysis of Current Tax Levy
For the Year Ended June 30, 2017**

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 1,977,882,493	0.350	\$ 6,922,589	\$ 6,624,726	\$ 297,863
Late listing penalties	-	-	15,651	15,651	-
Total	1,977,882,493		6,938,240	6,640,377	297,863
Discoveries:					
Current year taxes	33,122,928	0.350	116,517	115,930	587
Prior year taxes	1,740,917	0.330	5,745	5,745	-
Prior year taxes	1,433,567	0.315	4,516	4,516	-
Prior year taxes	3,647,386	0.285	10,395	10,395	-
Total	39,944,798		137,173	136,586	587
Abatements					
Current year taxes	28,077,208	0.350	98,270	98,270	-
Other adjustments	-	-	36	36	-
Total	28,077,208		98,306	98,306	-
Total property valuation	<u><u>\$ 1,989,750,083</u></u>				
Net levy			6,977,107	6,678,657	298,450
Uncollected taxes at June 30, 2017			47,703	47,703	-
Current year's taxes collected			<u><u>\$ 6,929,404</u></u>	<u><u>\$ 6,630,954</u></u>	<u><u>\$ 298,450</u></u>
Current levy collection percentage			<u><u>99.32%</u></u>	<u><u>99.29%</u></u>	<u><u>100.00%</u></u>

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**STATISTICAL SECTION
(Unaudited)**

This part of the Town of Morehead City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time	104
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	115
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	119
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	125
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	129

Town of Morehead City, North Carolina

Net Position By Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	2008	2009	2010	2011
Governmental activities:				
Net investment in capital assets	\$ 14,487,313	\$ 20,038,930	\$ 27,397,697	\$ 28,415,541
Restricted	44,853	49,870	49,870	2,604,295
Unrestricted	6,110,999	5,319,695	3,541,078	2,902,265
Total governmental activities net position	\$ 20,643,165	\$ 25,408,495	\$ 30,988,645	\$ 33,922,101
Business-type activities:				
Net investment in capital assets	\$ 22,276,242	\$ 23,703,651	\$ 25,608,344	\$ 27,669,652
Unrestricted	6,784,898	6,663,538	5,696,777	6,339,091
Total business-type activities net position	\$ 29,061,140	\$ 30,367,189	\$ 31,305,121	\$ 34,008,743
Primary government:				
Net investment in capital assets	\$ 36,763,555	\$ 43,742,581	\$ 53,006,041	\$ 56,085,193
Restricted	44,853	49,870	49,870	2,604,295
Unrestricted	12,895,897	11,983,233	9,237,855	9,241,356
Total primary government net position	\$ 49,704,305	\$ 55,775,684	\$ 62,293,766	\$ 67,930,844

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 28,409,590	\$ 29,832,269	\$ 29,797,242	\$ 30,996,748	\$ 30,553,783	\$ 30,588,767
3,029,403	2,236,110	2,328,152	2,251,305	2,512,603	2,734,866
3,318,508	3,043,941	3,226,255	4,023,536	5,093,407	5,277,817
\$ 34,757,501	\$ 35,112,320	\$ 35,351,649	\$ 37,271,589	\$ 38,159,793	\$ 38,601,450
\$ 28,868,465	\$ 28,439,320	\$ 31,102,147	\$ 33,535,086	\$ 33,488,345	\$ 33,869,014
5,908,427	7,291,817	7,933,557	9,644,766	11,099,637	12,475,309
\$ 34,776,892	\$ 35,731,137	\$ 39,035,704	\$ 43,179,852	\$ 44,587,982	\$ 46,344,323
\$ 57,278,055	\$ 58,271,589	\$ 60,899,389	\$ 64,531,834	\$ 64,042,128	\$ 64,457,781
3,029,403	2,236,110	2,328,152	2,251,305	2,512,603	2,734,866
9,226,935	10,335,758	11,159,812	13,668,302	16,193,044	17,753,126
\$ 69,534,393	\$ 70,843,457	\$ 74,387,353	\$ 80,451,441	\$ 82,747,775	\$ 84,945,773

Town of Morehead City, North Carolina

Changes In Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	2008	2009	2010	2011
Expenses:				
Governmental activities:				
General government	\$ 1,500,379	\$ 1,435,315	\$ 1,374,988	\$ 1,439,277
Public safety	5,685,970	5,797,619	5,877,638	5,924,665
Highways and streets	913,660	922,125	861,275	960,596
Cultural and recreation	935,483	791,320	719,211	1,266,613
Library	-	138,631	138,268	141,726
Interest on long-term debt	92,389	72,241	70,524	208,152
Total governmental activities expenses	9,127,881	9,157,251	9,041,904	9,941,029
Business-type activities:				
Water and sewer	4,317,521	4,405,690	4,521,842	4,667,772
Solid waste	798,825	803,220	857,002	895,433
Total business-type activities expenses	5,116,346	5,208,910	5,378,844	5,563,205
Total primary government expenses	14,244,227	14,366,161	14,420,748	15,504,234
Program revenue:				
Governmental activities:				
Charges for services:				
General government	63,521	78,207	72,296	144,243
Public safety	720,403	772,663	904,846	816,709
Highways and streets	10,472	61,406	-	-
Cultural and recreation	118,773	80,794	124,142	103,932
Library	-	31,336	7,759	7,818
Operating grants and contributions:				
General government	2,135	33,871	2,381	-
Public safety	269,149	247,953	291,185	180,140
Highways and streets	337,333	275,479	250,052	249,100
Economic and physical development	-	-	-	-
Cultural and recreation	55,000	18,979	133,991	-
Library	-	55,000	53,075	53,075
Capital grants and contributions:				
General government	-	107,028	-	-
Public safety	-	53,253	935,555	537,023
Highways and streets	-	1,866,084	127,876	-
Economic and physical development	-	-	-	-
Cultural and recreation	797,500	1,347,082	3,049,718	2,003,391
Library	-	30,806	-	-
Total governmental activities program revenue	2,374,286	5,059,941	5,952,876	4,095,431
Business-type activities:				
Charges for services:				
Water and sewer	4,187,986	4,249,027	4,356,093	4,707,662
Solid waste	757,122	810,719	821,547	846,708
Operating grants and contributions:				
-	-	-	9,431	5,985
Capital grants and contributions:				
-	1,388,956	1,294,674	806,506	2,374,606
Total business-type activities program revenue	6,334,064	6,354,420	5,993,577	7,934,961
Total primary government program revenue	8,708,350	11,414,361	11,946,453	12,030,392

(Continued)

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 1,608,076	\$ 1,805,015	\$ 1,787,898	\$ 1,797,065	\$ 1,667,275	\$ 2,249,699
5,941,696	7,074,479	7,315,678	7,663,099	8,629,216	9,176,852
932,790	231,503	1,019,054	939,536	999,423	1,224,621
1,066,750	763,721	1,159,643	1,139,113	1,425,224	954,597
135,880	140,368	158,508	170,326	205,802	162,679
340,508	297,958	314,150	319,016	311,099	389,976
10,025,700	10,313,044	11,754,931	12,028,155	13,238,039	14,158,424
4,933,504	4,907,070	5,028,282	5,382,993	5,786,961	5,924,219
966,224	872,407	899,208	906,383	887,987	904,126
5,899,728	5,779,477	5,927,490	6,289,376	6,674,948	6,828,345
15,925,428	16,092,521	17,682,421	18,317,531	19,912,987	20,986,769
91,956	87,547	66,419	116,299	109,376	183,486
115,574	621,344	1,187,605	2,019,975	2,134,520	2,447,323
-	-	-	-	-	-
103,211	114,772	138,247	160,427	149,198	204,194
7,947	6,858	5,070	3,760	2,370	3,054
47,863	39,525	39,286	35,000	86,000	199,664
304,801	263,607	537,708	167,796	106,174	120,450
252,306	-	-	-	-	-
-	-	-	-	-	94,340
-	-	-	-	-	-
53,075	53,075	53,075	53,075	53,075	53,075
-	-	150,000	200,000	-	-
179,812	200,000	-	1,324,477	-	-
498,563	339,608	271,051	274,388	272,445	269,286
-	-	-	-	-	-
100,000	195,251	-	144,953	206,596	4,195
-	-	-	-	-	-
1,755,108	1,921,587	2,448,461	4,500,150	3,119,754	3,579,067
4,758,541	5,160,283	5,486,373	6,040,613	6,490,182	6,880,212
927,927	920,217	927,360	945,157	944,477	952,979
127,767	255,525	14,853	81,053	6,096	6,328
522,823	77,691	2,447,316	3,171,344	300,785	434,544
6,337,058	6,413,716	8,875,902	10,238,167	7,741,540	8,274,063
8,092,166	8,335,303	11,324,363	14,738,317	10,861,294	11,853,130

Town of Morehead City, North Carolina

Changes In Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2008	2009	2010	2011
Net (expense) revenue:				
Governmental activities	(6,753,595)	(4,097,310)	(3,089,028)	(5,845,598)
Business-type activities	1,217,718	1,145,510	614,733	2,371,756
Total primary government net expense	(5,535,877)	(2,951,800)	(2,474,295)	(3,473,842)
General revenue and other changes in net position:				
Governmental activities:				
Taxes:				
Property taxes, levied for general purpose	5,514,458	5,769,140	5,785,183	5,775,012
Local option sales tax	1,897,449	1,717,304	1,485,898	1,511,872
Other taxes	87,954	90,484	255,550	254,620
Unrestricted intergovernmental	998,888	1,100,858	1,054,303	1,121,557
Investment earnings, unrestricted	257,686	108,206	36,910	56,951
Gain (Loss) on disposal of assets	-	-	-	-
Miscellaneous income, unrestricted	1,291,629	76,648	51,334	59,042
Transfers	-	-	-	-
Total governmental activities	10,048,064	8,862,640	8,669,178	8,779,054
Business-type activities:				
Investment earnings	324,294	160,539	60,010	44,917
Gain (Loss) on disposal of assets	-	-	-	-
Miscellaneous income	-	-	263,189	286,949
Transfers	-	-	-	-
Total business-type activities	324,294	160,539	323,199	331,866
Total primary government	10,372,358	9,023,179	8,992,377	9,110,920
Changes in net position:				
Governmental activities	3,294,469	4,765,330	5,580,150	2,933,456
Business-type activities	1,542,012	1,306,049	937,932	2,703,622
Total primary government	\$ 4,836,481	\$ 6,071,379	\$ 6,518,082	\$ 5,637,078

2012	2013	2014	2015	2016	2017
(8,270,592)	(8,391,457)	(9,306,470)	(7,528,005)	(10,118,285)	(10,579,357)
437,330	634,239	2,948,412	3,948,791	1,066,592	1,445,718
(7,833,262)	(7,757,218)	(6,358,058)	(3,579,214)	(9,051,693)	(9,133,639)
5,953,304	5,411,825	6,110,807	6,322,041	6,785,757	6,911,703
1,842,063	2,006,679	1,963,754	2,307,936	2,484,746	2,840,811
263,509	93,464	93,306	74,189	29,145	35,257
902,888	1,089,515	1,118,241	1,353,173	1,402,712	1,402,462
21,560	11,551	8,939	3,629	19,089	54,295
-	-	-	-	(47,026)	38,842
122,668	133,242	250,752	177,698	203,182	189,630
-	-	-	(2,427)	-	37,500
9,105,992	8,746,276	9,545,799	10,236,239	10,877,605	11,510,500
36,205	27,689	23,066	18,660	28,221	62,457
-	-	-	-	-	1,614
294,614	292,317	333,089	319,532	313,317	284,052
-	-	-	2,427	-	(37,500)
330,819	320,006	356,155	340,619	341,538	310,623
9,436,811	9,066,282	9,901,954	10,576,858	11,219,143	11,821,123
835,400	354,819	239,329	2,708,234	759,320	931,143
768,149	954,245	3,304,567	4,289,410	1,408,130	1,756,341
\$ 1,603,549	\$ 1,309,064	\$ 3,543,896	\$ 6,997,644	\$ 2,167,450	\$ 2,687,484

Town of Morehead City, North Carolina

**Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)**

	Fiscal Year		
	2008	2009	2010
General Fund:			
Reserved	\$ 1,295,931	\$ 1,058,644	\$ 1,356,068
Unreserved	3,036,393	3,297,549	3,760,096
Total General Fund	\$ 4,332,324	\$ 4,356,193	\$ 5,116,164
All Other Governmental Funds:			
Reserved	\$ 424,139	\$ 338,140	\$ 4,525,157
Unreserved, reported in:			
Special revenue funds	433,635	849,191	63,131
Capital projects funds	1,255,086	225,666	(2,253,538)
Total all other Government Funds	\$ 2,112,860	\$ 1,412,997	\$ 2,334,750

Town of Morehead City, North Carolina

Fund Balances, Governmental Funds

Last Seven Years

(Modified Accrual Basis of Accounting)

(Unaudited)

	Fiscal Year				
	2011	2012	2013	2014	2015
General Fund:					
Non Spendable	\$ 5,704	\$ 3,506	\$ 3,886	\$ 4,403	\$ 9,752
Restricted	1,396,236	1,306,003	1,493,214	1,921,287	1,873,344
Committed	131,979	131,979	131,979	132,979	150,503
Assigned	743,829	955,600	129,500	571,850	603,900
Unassigned	2,750,836	3,078,547	3,423,270	3,279,443	4,280,262
Total General Fund	\$ 5,028,584	\$ 5,475,635	\$ 5,181,849	\$ 5,909,962	\$ 6,917,761
All Other Governmental Funds:					
Non Spendable	\$ 20,785	\$ 7,189	\$ -	\$ -	\$ -
Restricted	1,208,059	1,723,400	742,896	400,865	377,961
Assigned	434,965	927,864	461,662	608,569	753,456
Unassigned	(783,374)	(145,110)	-	(117,951)	(118,111)
Total all other Governmental Funds	\$ 880,435	\$ 2,513,343	\$ 1,204,558	\$ 891,483	\$ 1,013,306

Note: The Town began to report its governmental fund balances in accordance with GASB 54 for the fiscal year ending June 30, 2011.

Town of Morehead City, North Carolina

Fund Balances, Governmental Funds (Continued)
Last Seven Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year	
	2016	2017
General Fund:		
Non Spendable	\$ 3,381	\$ 13,895
Restricted	2,076,481	2,344,026
Committed	282,427	649,395
Assigned	1,742,091	1,603,568
Unassigned	4,061,123	4,870,510
Total General Fund	\$ 8,165,503	\$ 9,481,394
All Other Governmental Funds:		
Non Spendable	\$ -	\$ -
Restricted	436,122	390,840
Assigned	952,246	1,357,434
Unassigned	(76,539)	(78,830)
Total all other Governmental Funds	\$ 1,311,829	\$ 1,669,444

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Town of Morehead City, North Carolina

Changes In Fund Balances, Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Unaudited)

	Fiscal Year			
	2008	2009	2010	2011
Revenue:				
Taxes	\$ 5,510,995	\$ 5,766,103	\$ 5,752,282	\$ 5,794,269
Other taxes and licenses	87,954	285,374	255,550	254,620
Intergovernmental	4,115,879	3,674,288	4,609,859	5,594,738
Permits and fees	296,788	250,492	130,440	207,628
Sales and services	566,135	680,616	683,340	708,283
Investment earnings	257,686	108,206	37,179	56,951
Miscellaneous	380,096	193,977	155,857	165,862
Total revenue	11,215,533	10,959,056	11,624,507	12,782,351
Expenditures:				
General government	1,493,602	1,302,666	1,118,017	1,272,341
Public safety	5,368,924	5,518,315	5,618,063	5,550,763
Highway and streets	814,348	771,565	715,181	839,748
Culture and recreation	813,027	757,067	645,897	774,498
Capital outlay	2,617,912	2,669,623	7,587,018	5,274,968
Debt service:				
Interest	97,371	79,404	61,200	196,232
Principal	460,274	536,410	247,407	5,223,696
Total expenditures	11,665,458	11,635,050	15,992,783	19,132,246
Excess of revenue (under) expenditures	(449,925)	(675,994)	(4,368,276)	(6,349,895)
Other financing sources (uses):				
Sales of capital assets	-	-	-	-
Transfers in	2,270,721	1,831,074	2,088,594	2,371,207
Transfers out	(2,270,721)	(1,831,074)	(2,088,594)	(2,371,207)
Debt issued	330,000	-	6,050,000	4,808,000
Total other financing sources	330,000	-	6,050,000	4,808,000
Net changes in fund balance	\$ (119,925)	\$ (675,994)	\$ 1,681,724	\$ (1,541,895)
Debt service as a percentage of noncapital expenditures	6.16%	5.59%	3.67%	38.10%

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 5,921,562	\$ 5,405,814	\$ 6,106,245	\$ 6,331,129	\$ 6,785,716	\$ 6,907,397
263,509	93,464	93,306	74,189	29,145	35,257
3,595,747	4,149,263	4,133,115	4,544,321	4,609,994	5,146,188
119,754	193,414	263,773	329,559	345,461	538,310
657,197	1,170,479	1,228,315	1,762,902	2,050,003	2,129,870
21,560	11,551	8,939	7,652	19,089	54,294
154,852	133,242	250,752	170,622	203,182	200,820
10,734,181	11,157,227	12,084,445	13,220,374	14,042,590	15,012,136
1,316,704	1,329,077	1,492,138	1,606,902	1,598,377	1,920,483
5,603,595	5,814,771	6,695,853	7,351,304	7,812,983	8,380,586
811,191	840,581	866,211	1,033,748	840,835	1,014,976
822,249	797,993	924,901	1,658,429	1,172,332	665,102
1,601,481	2,879,010	1,122,716	202,747	641,985	3,820,429
297,089	300,644	328,535	324,036	312,495	304,253
276,913	281,816	239,053	320,586	327,762	331,639
10,729,222	12,243,892	11,669,407	12,497,752	12,706,769	16,437,468
4,959	(1,086,665)	415,038	722,622	1,335,821	(1,425,332)
-	-	-	-	81,559	85,500
1,565,000	2,553,133	2,063,847	2,203,261	2,757,020	3,006,227
(1,565,000)	(2,553,133)	(2,063,847)	(2,203,261)	(2,757,020)	(2,968,727)
2,075,000	-	-	407,000	-	2,605,000
2,075,000	-	-	407,000	81,559	2,728,000
\$ 2,079,959	\$ (1,086,665)	\$ 415,038	\$ 1,129,622	\$ 1,417,380	\$ 1,302,668
6.29%	6.22%	5.38%	5.24%	5.31%	5.04%

Town of Morehead City, North Carolina

**Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year Ending June 30	Real Property*	Personal Property*#	Public Service Companies*	Total Assessed Value*	Total Direct Tax Rate	Estimated Actual Taxable Value*	Taxable Assessed Value as a Percentage of Actual Taxable Value of Real Property	
2008	1,989,594,948	185,678,265	29,112,844	2,204,386,057	0.0022	2,204,386,057	100.00%	100.00%
2009	2,262,441,716	175,944,310	30,386,490	2,468,772,516	0.0022	2,505,560,186	98.40%	98.53%
2010	2,122,207,558	179,711,084	32,984,173	2,334,902,815	0.0022	2,096,590,115	112.65%	111.37%
2011	2,129,549,437	177,889,405	31,869,633	2,339,308,475	0.0022	2,382,103,664	98.03%	98.20%
2012	1,681,511,072	184,162,834	30,263,614	1,895,937,520	0.0029	1,895,937,520	100.00%	100.00%
2013	1,697,292,892	185,708,092	29,795,181	1,912,796,165	0.0029	1,767,526,766	109.36%	108.22%
2014	1,706,716,318	211,826,554	29,723,837	1,948,266,709	0.0032	1,802,190,770	109.36%	108.11%
2015	1,715,148,131	189,872,631	26,079,819	1,931,100,581	0.0033	1,797,900,551	108.42%	107.41%
2016	1,684,259,780	240,557,404	29,027,941	1,953,845,125	0.0035	1,823,330,530	108.40%	107.16%
2017	1,704,583,269	255,545,185	29,621,629	1,989,750,083	0.0035	1,990,432,189	99.96%	99.97%

Source: Carteret County Tax Scrolls

Notes:

- 1 The North Carolina General Statutes require a revaluation of real property at least every eight years. Real property is valued at 100% of estimated value as of the date of the latest revaluation. The last revaluation was effective for the fiscal year ending June 30, 2012.
- 2 Personal property is valued at 100% of estimated value.
- 3 Public service property is generally valued at 100% of estimated value. It may be valued at less than 100% in years in which the County's sales to assessment ratio on real property is less than 80%.
- 4 The Town bills and collects property taxes for real, public service, nonregistered motor vehicles, and personal property. Carteret County billed & collected for property taxes for registered motor vehicles on behalf of the Town through October 2013. The County continues to collect delinquent taxes on registered motor vehicles for which it billed. The North Carolina Department of Motor Vehicles began billing/collecting property taxes for registered motor vehicles through the Tax & Tag program that was implemented during the fiscal year

Town of Morehead City, North Carolina

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years**

Fiscal Year Ending <u>June 30.</u>	Direct Rate Morehead <u>City</u>	Overlapping Rate Carteret <u>County</u>
2008	0.220	0.230
2009	0.220	0.230
2010	0.220	0.230
2011	0.220	0.230
2012	0.285	0.300
2013	0.285	0.290
2014	0.315	0.290
2015	0.330	0.300
2016	0.350	0.300
2017	0.350	0.350

Notes:

1 Source of County tax rates - Carteret County Tax Office.

Town of Morehead City, North Carolina

**Principal Property Tax Owners
Current Year and Nine Years Ago
(Unaudited)**

Customer	Fiscal Year Ending June 30, 2017			Fiscal Year Ending June 30, 2008		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
ITAC 192 LLC	\$ 25,357,352	1	1.33	10,872,205	8	0.51
STEVENS TOWING COMPANY	21,070,438	2	1.11			
US PORTFOLIO FIVE LLC	20,274,257	3	1.06			
DUKE ENERGY PROGRESS INC	15,270,779	4	0.80			
WAL MART REAL EST BUSINESS TR	15,027,141	5	0.79	15,701,138	2	0.74
4 SISTERS-00 LLC ETAL	13,588,577	6	0.71			
VININGS AT MOREHEAD LLC	11,302,080	7	0.59			
ZP NO 185 LLC	8,648,101	9	0.45			
RADIO ISLAND MARINA CLUB INC	7,817,000	10	0.41			
USPG PORTFOLIO TWO LLC				17,583,231	1	0.83
MOREHEAD PLAZA LLC				14,257,867	3	0.67
CARTERET INVESTMENT ASSOCIATES				8,475,596	10	0.40
SOUTHSTAR HOLDING MOREHEAD LLC				13,657,722	4	0.64
OLD TOWNE YACHT CLUB				13,078,510	5	0.62
PROGRESS ENERGY CAROLINAS				12,200,337	6	0.58
SHORES DEVELOPMENT				12,159,809	7	0.57
CAROLINA TELEPHONE				9,482,703	9	0.45
	<u>\$ 138,355,725</u>		<u>7.26</u>	<u>\$127,469,118</u>		<u>6.01</u>

NOTES:

1 Values reported above include amounts for property billed and collected by the Town. It excludes values for registered motor vehicles billed and collected by Carteret County and the NC Department of Motor Vehicles on behalf of the Town.

Town of Morehead City, North Carolina

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	4,671,447	4,647,776	99.49%	18,667	4,666,443	99.89%
2009	4,986,367	4,956,797	99.41%	20,685	4,977,482	99.82%
2010	5,014,647	4,970,086	99.11%	41,379	5,011,465	99.94%
2011	5,015,615	4,982,951	99.35%	31,558	5,014,509	99.98%
2012	5,240,988	5,181,661	98.87%	57,232	5,238,893	99.96%
2013	5,260,008	5,205,324	98.96%	47,887	5,253,211	99.87%
2014	5,865,417	5,810,430	99.06%	49,395	5,859,825	99.90%
2015	6,131,180	6,089,596	99.32%	29,311	6,118,907	99.80%
2016	6,558,115	6,508,576	99.24%	31,751	6,508,576	99.24%
2017	6,678,662	6,630,957	99.29%	-	6,630,957	99.29%

Source: Town of Morehead City tax reports.

Note: Excludes motor vehicle taxes

Town of Morehead City, North Carolina

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Installment Contracts	Notes Payable	Capital Leases
2008	-	1,841,615	363,553	10,965
2009	-	1,323,313	356,411	-
2010	-	7,133,343	348,974	-
2011	-	6,725,391	341,230	-
2012	-	8,531,541	333,167	-
2013	-	8,258,121	324,771	-
2014	-	8,027,810	316,029	-
2015	-	8,119,877	306,925	-
2016	-	7,801,593	297,447	-
2017	-	10,084,824	287,577	-

Note: Details regarding the Town's outstanding debt may be found in the notes to the financial statements

N/A Not Available

Business-Type Activities			Total Primary Government	Population Estimate	Total Debt Per Capita	Total debt as Percentage of Personal Income
Revenue Bonds	Installment Contracts	Notes Payable				
-	2,593,358	13,811,891	18,621,382	8,691	2,143	0.78%
-	3,858,590	16,667,915	22,206,229	8,763	2,534	0.90%
-	2,341,124	16,774,299	26,597,740	8,830	3,012	1.03%
-	1,987,380	17,188,307	26,242,308	8,693	3,019	0.99%
-	1,620,429	16,318,704	26,803,841	8,810	3,042	0.95%
-	1,236,578	20,886,144	30,705,614	9,163	3,351	N/A
-	840,289	19,843,403	29,027,531	9,313	3,117	N/A
4,932,000	432,824	13,868,662	27,660,288	9,319	2,968	N/A
4,932,000	151,484	12,825,921	26,008,445	9,362	2,778	N/A
4,857,000	-	12,839,610	28,069,011	9,361	2,999	N/A

Town of Morehead City, North Carolina

**Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	General Bonded Debt Outstanding	Estimated Actual Taxable Value	Percentage of Actual Taxable Value of Property	Population Estimate	Total debt Per Capita
2008	-	2,119,387,966	0.00%	8,691	-
2009	-	2,506,054,275	0.00%	8,763	-
2010	-	2,096,590,115	0.00%	8,830	-
2011	-	2,382,103,664	0.00%	8,693	-
2012	-	1,895,937,520	0.00%	8,810	-
2013	-	1,912,796,165	0.00%	9,163	-
2014	-	1,948,266,709	0.00%	9,313	-
2015	-	1,931,100,581	0.00%	9,319	-
2016	-	1,953,845,125	0.00%	9,362	-
2017	-	1,989,750,083	0.00%	9,361	-

Note: Details regarding the Town's outstanding debt may be found in the notes to the financial statements.

Town of Morehead City, North Carolina

**Direct and Overlapping Governmental Activities Debt
For the Year Ended June 30, 2017
(Unaudited)**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Carteret County Debt	\$ 31,585,000	13.37%	\$ 4,223,817
Subtotal, overlapping debt	<u>\$ 31,585,000</u>		<u>4,223,817</u>
Town direct debt	-	100.00%	10,372,401
Total direct and overlapping debt			<u><u>\$ 14,596,218</u></u>

Notes:

- 1 Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the Town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Morehead City. This process recognizes that, when considering the Town's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident-and therefore responsible for repaying the debt-of each overlapping government.
- 2 The source of County debt is the Carteret County Finance Office.

Town of Morehead City, North Carolina

**Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)
(Unaudited)**

	2008	2009	2010	2011	2012
Debt limit	\$ 176,350,885	\$ 186,156,521	\$ 186,792,225	\$ 187,144,678	\$ 151,675,002
Total net debt applicable to limit	-	-	-	-	-
Legal debt margin	<u>\$ 176,350,885</u>	<u>\$ 186,156,521</u>	<u>\$ 186,792,225</u>	<u>\$ 187,144,678</u>	<u>\$ 151,675,002</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%
Legal Debt Margin Calculation for Fiscal Year 2017					
Total assessed valuation	1,989,750,083				
Debt limit (8% of assessed value)	<u>159,180,007</u>				
Legal debt margin	<u>\$ 159,180,007</u>				

2013	2014	2015	2016	2017
\$ 153,023,693	\$ 155,861,337	\$ 154,488,046	\$ 156,307,610	\$ 159,180,007
-	-	-	-	-
<u>\$ 153,023,693</u>	<u>\$ 155,861,337</u>	<u>\$ 154,488,046</u>	<u>\$ 156,307,610</u>	<u>\$ 159,180,007</u>
0.00%	0.00%	0.00%	0.00%	0.00%

Town of Morehead City, North Carolina

**Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year Ending June 30,	Population (1)	Carteret County Public School Enrollment (2)	Morehead City Public School Enrollment (2)	Average Annual Unemployment Rate (3)	Per Capita Personal Income (4)	Personal Income (4)
2008	8,691	8,371	2,514	4.3%	37,796	2,401,852
2009	8,763	8,295	2,528	7.4%	38,455	2,477,362
2010	8,830	8,353	2,565	8.4%	38,728	2,583,758
2011	8,693	8,491	2,608	8.5%	39,174	2,639,299
2012	8,810	8,540	2,585	9.3%	41,761	2,824,360
2013	9,163	8,307	2,588	8.5%	42,214	2,888,870
2014	9,313	8,615	2,599	6.5%	43,903	3,021,043
2015	9,319	8,451	2,665	5.8%	44,199	3,044,352
2016	9,362	8,139	2,526	5.6%	N/A	N/A
2017	9,361	8,486	2,620	4.9%	N/A	N/A

Notes:

1 Population and median age provided by NC Office of Planning-State Demographer

2 Public school enrollment provided by the Carteret County Board of Education

3 Unemployment provided by the NC Dept. of Commerce and is presented at the County level

4 Per capita personal income and personal income provided by the U S Bureau of Economic Analysis. Information is available at the county level and presented on that basis. (In thousands)

N/A - information not yet available for the year listed.

Town of Morehead City, North Carolina

**Principal Employers
Current Year and Ten Years Ago
(Unaudited)**

Employer	2017		2007	
	Employees	Rank	Employees	Rank
Carteret County General Hospital	1000-1499	1	1000-1499	1
Carteret County Board of Education	250-499	2	500-999	3
Carteret Community College	250-499	3	250-499	4
Bally Refrigerated Boxes, Inc	100-249	4	100-249	7
Town of Morehead City	100-249	5	100-249	9
Lowe's Home Improvement	100-249	6	100-249	8
NC Dept of Environment & Natural Res	100-249	6		
Lowe's Food	50-99	8	100-249	6
Big Rock Sports	50-99	9		
Food Lion	50-99	10	100-249	5
Walmart	-	-	500-999	2
Creative Outlet	-	-	100-249	10

Notes:

- 1 Information for number of employees only available in ranges.
- 2 Source of information is NC Department of Commerce
- 3 N/A = Information not available.

Town of Morehead City, North Carolina

**Full-Time Equivalent Town Government Employees By Functions/Programs
Last Ten Fiscal Years
(Unaudited)**

FUNCTION	Full-Time Equivalent Employees as of June 30									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Government:										
Administration	5	5	5	5	5	5	5	5	4	4
Finance	7	7	7	7	7	6	6	6	6	6
Building & Grounds	5	5	6	5	5	5	7	7	7	8
Garage	2	2	2	2	2	2	1	1	1	1
Public Safety:										
Police	47	46	46	48	47	45	45	53	51	51
Fire/EMS	52	49	44	38	35	34	34	34	33	33
Planning & Inspections	7	7	7	7	7	6	6	7	7	7
Transportation:										
Streets	9	9	9	9	9	9	9	9	10	10
Recreation & Culture:										
Recreation	8	7	8	7	7	6	8	8	8	8
Parks	4	3	3	3	3	3	1	1	1	0
Library	3	3	3	3	5	4	4	4	4	4
Water & Sewer:										
Billing & collections	4	4	4	4	4	4	4	4	4	4
Wells & water treatment	2	2	2	2	1	-	-	-	-	-
Water Distbr. & sewer collect.	16	14	15	14	14	15	15	14	14	14
Wastewater treatment	8	9	8	8	8	7	7	7	6	6
Solid Waste:										
Operations	1	1	1	1	1	1	1	1	1	1
TOTAL	180	173	170	163	160	152	153	161	157	157

Notes:

1 Source of Information Town of Morehead City Finance Department

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Town of Morehead City, North Carolina

Operating Indicators By Function/Program

Last Ten Fiscal Years

(Unaudited)

Function/Program	Calendar Year			
	2008	2009	2010	2011
Function/Program				
Public Safety				
Police calls dispatched ##	96,127	98,291	84,586	81,015
Number of building permits issued ##	953	890	813	943
Construction value of building permits issued \$	48,035,938	\$ 27,011,019	\$ 25,341,471	\$ 24,851,031
Fire/EMS area served in square miles ##	N/A	14.20	14.20	14.20
Fire calls answered ##	772	807	727	966
EMS calls answered ##	1,619	1,665	1,893	1,801
Highways and Streets				
Miles of streets maintained **	47.15	49.38	49.56	49.82
Water/Sewer				
Number of customers served **	5,299	5,322	5,299	5,323
Daily avg. gallons water consumption ##	1,254,000	1,212,000	1,244,000	1,209,000
Daily avg. gallons waste water treated ##	1,321,000	1,156,000	1,329,000	1,199,000
Sanitation				
Solid waste collected annually (tons) **	3,392	3,293	3,246	3,235
Recyclables collected annually (tons) **	369	434	398	397

Notes:

1 Items noted with ## are presented on a calendar year basis. 2 Items noted with ** are presented on a fiscal year basis.

3 N/A = information not available

4 Source of Information Various Town of Morehead City Departments

2012	2013	2014	2015	2016	2017
72,351	72,194	75,004	68,038	58,144	59,164
1,050	1,256	985	1,094	1,256	1,110
\$ 38,126,292	\$ 21,528,398	\$ 26,764,940	\$ 68,690,713	\$ 37,701,802	\$ 36,314,424
15.73	15.73	15.73	28.00	28.00	28.00
1,015	762	707	667	785	507
2,058	2,261	2,505	2,499	3,201	3,470
50.27	50.27	50.27	50.35	50.35	50.35
5,375	5,419	5,454	5,339	5,534	5,623
1,208,000	1,163,000	1,165,000	1,160,000	1,191,000	990,000
1,169,000	1,121,000	1,144,000	1,340,000	1,438,000	1,396,000
3,204	3,077	3,080	3,010	3,056	3,047
398	366	365	435	469	515

Town of Morehead City, North Carolina

**Capital Asset Statistics By Function/Program
Last Ten Fiscal Years
(Unaudited)**

Function/Program	Calendar Year			
	2008	2009	2010	2011
General Government				
Number of cemeteries	3	3	3	3
Public Safety				
Number of police stations/substations	3	3	4	4
Number of patrol units	44	44	52	52
Number of police boats	1	1	1	1
Number of Fire/EMS stations	4	4	4	4
Number of engines	6	5	5	5
Number of ambulances	3	3	3	3
Number of Fire/EMS boats	1	1	1	1
Highways and Streets				
Miles of streets	47.15	49.38	49.56	49.82
Culture and Recreation				
Number of parks	13	13	16	16
Number of public water accesses	19	19	22	22
Park acreage	74.00	74.00	76.00	76.00
Tennis and multipurpose courts	7	7	7	7
Playgrounds	4	4	4	4
Ballfields	8	10	11	11
Number of libraries	1	1	1	1
Water/Sewer				
Miles of water mains	78.82	82.04	83.25	83.25
Miles of sanitary sewers	76.95	79.14	79.50	79.50
Number of water treatment plants	0	0	0	0
Number of treatment plants	2	2	2	2
Sanitation				
Number of yard waste trucks	2	2	2	2

Notes:

1 Source of Information Various Town of Morehead City Departments

2012	2013	2014	2015	2016	2017
3	3	3	3	3	3
4	2	2	2	2	2
50	46	46	48	47	44
1	1	1	1	1	1
4	3	3	3	3	3
5	5	5	7	7	7
4	5	5	5	5	5
1	1	1	1	1	1
50.27	50.27	50.27	50.35	50.35	50.35
16	16	16	16	16	16
22	22	23	23	23	23
76.00	77.50	77.50	77.50	77.50	77.50
7	7	7	7	7	7
5	6	6	6	6	6
11	10	10	10	10	10
1	1	1	1	1	1
83.25	83.25	83.25	83.50	83.50	83.50
79.50	79.50	79.50	80.00	80.00	80.00
1	1	1	3	3	3
2	2	2	2	2	2
2	2	2	2	2	2

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COMPLIANCE SECTION

The Compliance Section contains various schedules and Auditor opinions reflecting Federal, State and Local matching participation in various projects and programs of the Town. The Single Audit Amendments Act of 1996 established audit requirements for State and Local governments that receive Federal assistance. The audit requirements were established to ensure that audits are conducted on an organization-wide basis, rather than on a grant-by-grant basis.

**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***

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Town of Morehead City's basic financial statements, and have issued our report thereon dated January 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Morehead City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Morehead City's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (2017-001, 2017-002, 2017-003)

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (2017-004)

Compliance and Other Matters

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

Town of Morehead City's Response to Findings

Town of Morehead City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Morehead City, North Carolina
January 17, 2018

**Report On Compliance For the Major Federal Program and On
Internal Control Over Compliance In Accordance With
the Uniform Guidance and the State Single Audit Implementation Act**

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited Town of Morehead City, North Carolina's compliance with the types of compliance requirements described in the OMB Compliance Supplement and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on Town of Morehead City's major federal program for the year ended June 30, 2017. Town of Morehead City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Town of Morehead City's major federal program based on our audit of the types of compliance requirements referred to above. 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, the Uniform Guidance and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City'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 on compliance for the major federal program. However, our audit does not provide a legal determination on Town of Morehead City's compliance.

Opinion on the Major Federal Program

In our opinion, Town of Morehead City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Morehead City's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Town'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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Morehead City, North Carolina
January 17, 2018

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017**

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were presented in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted

 yes X no

Federal Awards

Internal control over major Federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 yes X no

Identification of major Federal program:

<u>CFDA No.</u>	<u>Names of Federal Program or Cluster</u>
66.458	Clean Water State Revolving Fund

(Continued)

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017**

Dollar threshold used to distinguish
between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? Yes X no

State Awards

There were no major State programs for the Town of Morehead City for the fiscal year ended June 30, 2017.

Section II. Financial Statement Findings

MATERIAL WEAKNESSES

Finding: 2017-001– Year-end accrual accounting for debt proceeds was not recorded

Criteria: According to Governmental Accounting Standards Board (GASB) Statement No. 34, local governments are required to present Government-wide and proprietary fund financial statements prepared using the economic resources measurement focus and the accrual basis of accounting, which includes recognition of liabilities when incurred, and governmental fund financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, which more closely follows a government’s budgetary process in transaction recognition for fund financial statement purposes.

Condition and Context: The Town of Morehead City did not record a liability for the proceeds from a new construction loan aggregating approximately \$1.06 Mil received during the fiscal year.

Effect: The debt recorded in the Town of Morehead City’s trial balance was incorrect.

Cause: Human error/oversight. The Town of Morehead City maintains its general ledger on the modified accrual basis and makes accrual basis adjustments at year end for reporting purposes. This adjustment was overlooked.

Recommendation: We recommend a year end procedure be put in place to reconcile debt proceeds within the capital project funds with debt per the enterprise funds.

Views of Responsible Management: See management’s corrective action plan.

Finding: 2017-002- Year-end accrual accounting for accounts receivable, specifically related to ambulance fees, were not recorded

Criteria: According to Governmental Accounting Standards Board (GASB) Statement No. 34, local governments are required to present Government-wide and proprietary fund financial statements prepared using the economic resources measurement focus and the accrual basis of accounting, which includes recognition of liabilities when incurred, and governmental fund financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, which more closely follows a government’s budgetary process in transaction recognition for fund financial statement purposes.

Condition and Context: The Town of Morehead City calculates the receivable for ambulance fees based on the amount provided by third party, with the allowance for doubtful accounts being recorded based on actual revenue collected during the 60 days following year end. During the current year, the Town inadvertently duplicated some of the data received from the third party when recording the entry for the ambulance fees receivable and allowance for doubtful accounts, overbooking the revenues and receivable by \$90,238.

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017**

Section II. Financial Statement Findings (Continued)

Effect: Ambulance fee revenues and receivables were overstated in the Town of Morehead City's trial balance.

Cause: Human error/oversight, coupled with inadequate review.

Recommendation: We recommend that controls be implemented or strengthened in order to confirm that entries prepared and booked based on third party figures agree to original source documentation received from third party.

Views of Responsible Management: See management's corrective action plan.

Finding: 2017-003- Year-end accrual accounting for properly recording accounts receivable not executed

Criteria: According to Governmental Accounting Standards Board (GASB) Statement No. 34, local governments are required to present Government-wide and proprietary fund financial statements prepared using the economic resources measurement focus and the accrual basis of accounting, which includes recognition of liabilities when incurred, and governmental fund financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, which more closely follows a government's budgetary process in transaction recognition for fund financial statement purposes.

Condition and Context: The Town of Morehead City recorded the fourth draw on new debt, received after year-end, as \$143,406, when the actual amount requested and received based on qualifying expenditures was \$175,347 and no adjustment to actual was made. Additionally, the Town of Morehead City did not record a liability for fourth drawdown in the amount of \$175,347 on a new construction loan which was recorded by the Town as a receivable and received after year end.

Effect: The amount of debt recorded in the Town of Morehead City's trial balance was incorrect and accounts receivable were understated.

Cause: Human error/oversight. The Town of Morehead City maintains its general ledger on the modified accrual basis and makes accrual basis adjustments at year end for reporting purposes. This adjustment was overlooked.

Recommendation: We recommend a year end procedure be put in place to ensure that accounts receivables associated with new debt be reviewed for corresponding debt recording.

Views of Responsible Management: See management's corrective action plan.

SIGNIFICANT DEFICIENCY

Finding: 2017-004- Proper recording of asset transfer and disposal activity not executed

Criteria: According to Governmental Accounting Standards Board (GASB) Statement No. 34, local governments are required to present Government-wide and proprietary fund financial statements prepared using the economic resources measurement focus and the accrual basis of accounting, which includes recognition of liabilities when incurred, and governmental fund financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, which more closely follows a government's budgetary process in transaction recognition for fund financial statement purposes.

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017**

Section II. Financial Statement Findings (Continued)

Condition and Context: The Town of Morehead City did not record the transfers and disposals activity of equipment and vehicles within the Water & Sewer Fund.

Effect: Fixed assets and associated accumulated depreciation were improperly recorded in the trial balance.

Cause: Human error/oversight, coupled with inadequate review.

Recommendation: We recommend procedures be put in place to ensure the proper recording, and adequate review, of asset activity.

Views of Responsible Management: See management's corrective action plan.

Section III. Findings and Questioned Costs for Federal Awards

None reported.

Section IV. Findings and Questioned Costs for State Awards

None reported.

MOREHEAD CITY
NORTH CAROLINA

Gerald A. Jones, Jr., Mayor

COUNCIL

George W. Ballou, Mayor Pro Tem
William F. Taylor
Diane C. Warrender
Harvey N. Walker, Jr.
Keri V. McCann

708 Arendell Street
Morehead City, North Carolina 28557-4234
TEL (252) 726-8848
FAX (252) 726-2287
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Ralph Clark
Interim City Manager

**Corrective Action Plan
For the Fiscal Year Ended June 30, 2017**

Section II. Financial Statement Findings

Name of contact person: Jewel Lasater, Finance Director

Proposed completion date: January 2, 2018

MATERIAL WEAKNESSES

Finding: 2017-001

Corrective Action: The Town of Morehead City has booked an audit adjustment to correct the current year deficiency. Going forward, the Assistant Finance Director will reconcile debt proceeds within the capital project funds with debt per the enterprise funds, and the Finance Director will carefully review for accuracy.

Finding: 2017-002

Corrective Action: The Town of Morehead City has booked an audit adjustment to correct the current year deficiency. Going forward, the Assistant Finance Director will confirm third party figures are correct, and confirm the proper transfer of data anytime a change in format is required, and the Finance Director will review all entries carefully for accuracy.

Finding: 2017-003

Corrective Action: The Town of Morehead City has booked an audit adjustment to correct the current year deficiency. Going forward, the Assistant Finance Director will inspect year end receivables associated with new debt and verify that corresponding debt has been recorded. The Finance Director will carefully review for accuracy.

SIGNIFICANT DEFICIENCY

Finding: 2017-004

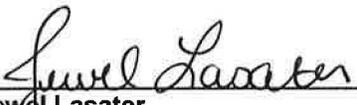
Corrective Action: The Town of Morehead City has booked an audit adjustment to correct the current year deficiency. Going forward, the Assistant Finance Director will ensure that asset activity has been properly accounted for, and the Finance Director will carefully review and verify all entries.

Section III. Findings and Questioned Costs for Federal Awards

No corrective action plan is required in the current year.

Section IV. Findings and Questioned Costs for State Awards

No corrective action plan is required in the current year.



Jewel Lasater
Finance Director

MOREHEAD CITY NORTH CAROLINA

Gerald A. Jones, Jr., Mayor

COUNCIL

George W. Ballou, *Mayor Pro Tem*
William F. Taylor
Diane C. Warrender
Harvey N. Walker, Jr.
Keri V. McCann

708 Arendell Street
Morehead City, North Carolina 28557-4234
TEL (252) 728-8848
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Ralph Clark
Interim City Manager

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2017

Section 2. Financial Statement Findings

None noted in the prior year.

Section 3. Findings and Questioned Costs for Federal Awards

No compliance requirement in the prior year.

Section 4. Findings and Questioned Costs for State Awards

No compliance requirement in the prior year.

TOWN OF MOREHEAD CITY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2017

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
Federal Assistance:					
US Department of Commerce Pass through NC Department of Environmental Quality Division of Water Quality Coastal Zone Management Awards-Minor Permit/County Aid	11.419	State Contract #6924	\$ 14,972	\$ -	\$ 4,991
US Department of Housing and Urban Development Pass through East Carolina Regional Housing Authority Public Housing Drug Elimination Program	14.854	NC19P010022-95A	19,138	-	-
US Department of Justice Direct Programs:					
Bulletproof Vest Partnership Grant	16.607		3,511	-	-
Radio Replenishment Grant	16.738		14,139	-	-
Equitable Sharing Program	16.922		913	-	-
Pass through Carteret County Board of Education School Resource Officer	16.594	N/A	85,388	-	-
Total US Department of Justice			103,951	-	-
US Environmental Protection Agency Pass through: NC Department of Environmental Quality Division of Water Infrastructure Clean Water State Revolving Loan	66.458	E-SRF-T-16-430	M 1,231,777	-	150,818
US Department of Homeland Security Pass through Dept of Public Safety Staffing for Adequate Fire and Emergency Response (SAFER)	97.083		\$ 156,424	\$ -	\$ -
Public Assistance Grant (FEMA)	97.036		47,958	-	-
			204,382	-	-
State Assistance					
NC Department of Environmental Quality Division of Water Resources Water Resources Development Project - Dredging		7015 & 6688	-	49,233	44,405
NC Department of Commerce Department of Commerce Downtown Revitalization		2017-038-1257-1534	-	94,340	2,097
NC Department of Transportation Nonstate System Street Aid Allocation		N/A	-	177,378	-
Total federal expenditures			\$ 1,574,220		
Total state expenditures				\$ 320,951	
Total local expenditures					\$ 202,311

M indicates Major Program

See Notes to the Schedule of Expenditures of Federal and State Awards.

Town of Morehead City, North Carolina

Notes to the Schedule of Expenditures of Federal and State Awards For the Year Ended June 30, 2017

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Morehead City under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFSA presents only a select portion of the operations of the Town of Morehead City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town of Morehead City. There were no federal or state awards passed through to subrecipients for the year ended June 30, 2017.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Negative amounts shown on the SEFSA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Town of Morehead City has not adopted the 10-Percent de minimis rule for indirect cost allocations.

Note 3. Loans Outstanding

The Town of Morehead City has outstanding loan balances from federal and State funding sources that are not required to be presented within the SEFSA because there are no continuing requirements beyond the repayment of the loan balances in accordance with loan agreement provisions. The outstanding balances of the Safe Drinking Water Revolving Loan Fund, the Drinking Water Bond, the Clean Water Revolving Loan Fund, the Clean Water State Revolving Loan Fund, the Drinking Water State Revolving Loan Fund, and Katherine Davis Park at June 30, 2017 were \$510,000, \$403,930, \$400,000, \$9,000,000, \$419,250, \$1,050,000, and \$2,605,000, respectively. The outstanding balances of the USDA train depot loans, the Police Station E911 Building loan, Fire/EMS Station #2, and the water treatment facilities at June 30, 2017 were \$287,578, \$4,464,823, \$1,972,201, and \$4,857,000, respectively.