

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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) 726-6648
FAX (252) 726-2267
www.moreheadcity.nc.gov



Ryan Eggleston
City Manager

February 28, 2019

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, 2018. 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, 2018 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, 2018. 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 and Subpart F of Title 2 U.S. code Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Programs (Uniform Guidance), which supersedes OMB Circular A-133 and the State Single Audit Implementation Act.

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 9,380 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 135-inpatient 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 2018 population for the Town increased by 0.2% to 9,380 compared to the 2017 estimate of 9,361. 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 4.0% unemployment rate in June 2018 compared to 4.2% statewide and 4.0% 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 2017-2018 fiscal year was \$40.0 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. 2017-2018 major initiatives undertaken in the governmental funds to meet this goal included the continuation of constructing an extension of a force mains to citizens and allow for future growth of the system. The Town began developing and analyzing plans for either renovation or reconstruction of the Charles Wallace Building for a new Town Hall. The Town also began developing a plan for the Katherine Davis Park to increase the usage of its citizens. Renovations of lighting at the Shevans Park Tennis Courts was completed and electrical repairs were done on the Evans St. Docks. Electrical repairs & improvements were also done at the Webb Library. Engineering began for the paving & resurfacing of 4th, 5th & Evans St. and also for Blair Farms Parkway. The Town purchased and implemented Phase I of III an 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 four various types of public safety vehicles, police voice recorder, document migration software and renovations of the west restrooms at the Recreation Center.

In the Water & Sewer Fund repairs were completed for Pump Station #9 during 2017-2018. Brooks St. & Galantis Dr. sewer improvements were started during 2017-2018.

For the Future

The Town Council adopted the fiscal year 2018-2019 budget in June 2018. 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 repaving & resurfacing projects and also additional projects were budgeted for. A new position has been approved for a Communication's Officer to increase the view and flow of information to the public. The demolition of the Charles Wallace building has been budgeted in order to move forward with the construction of a new Town Hall. Multiple repairs will be completed during fiscal year 2018-2019 across all departments throughout the Town due to Hurricane Florence. Plans and discussions are being developed for Fire Station #3 on the west end of Town that was heavily damaged during the storm. Phase II of III of the Enterprise Resource Solution software was implemented during fiscal year 2018-2019 and

Phase III which involves the billing & collections of taxes, utilities and other miscellaneous revenues will begin during fiscal year 2019-2020. A consultant has been contracted to assist the Town in developing a plan to deal with the increasing issue of Storm water. 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, Certified Public Accountants, to meet these requirements and their report follows and 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, 2017. This was the twenty eighth 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,



Jewel A. Lasater, Finance Director

Town of Morehead City, North Carolina

**List of Principal Officials
June 30, 2018**

Town Council

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

Diane C. Warrender

George W. Ballou

George W. Ballou
Mayor Pro Tem

Harvey N. Walker, Jr.

Demus L. Thompson

Administration

Ryan Eggleston
City Manager

Cathy Campbell
City Clerk

Jewel A Lasater
Finance Director

Daniel K. Williams
Public Services Director

Jamie E. Fulk
Chief, Fire & EMS Department

Bernette Morris
Chief, Police Department

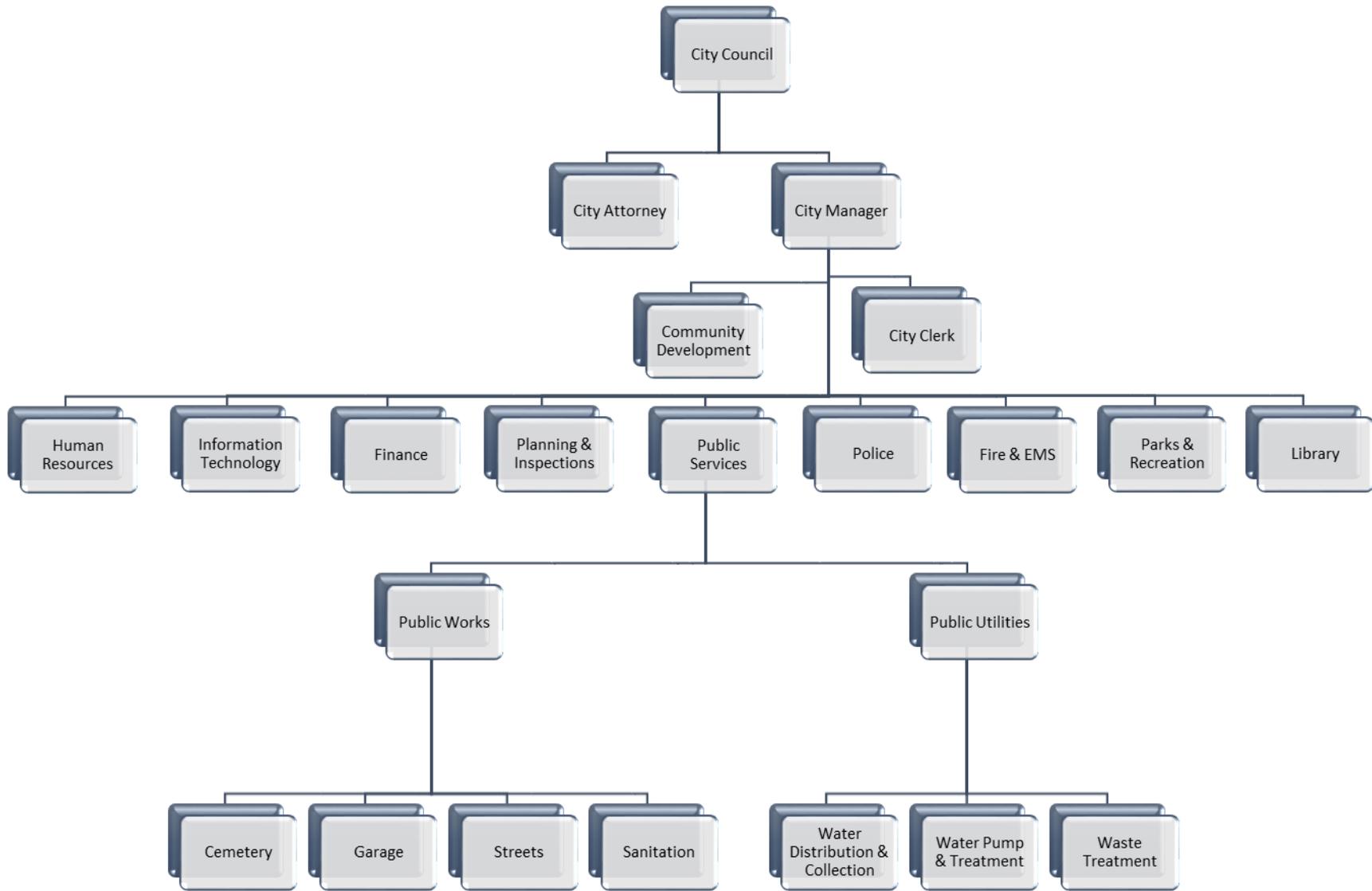
James Swann
Acting Library Director

S. Craig Lands
Parks and Recreation Director

Robert Davis
Interim 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, 2017

Christopher P. Morill

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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RSM US LLP

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, 2018 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, 2018, 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, 2018, the Town adopted new accounting guidance provided in Governmental Accounting Standards Board Statement Number 75, *Accounting and Financial Reporting for Other Post-Employment Benefits*. 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, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability, 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, and the Schedules of Changes in the Total OPEB liability on pages 64 through 69 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 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.

Prior-Year Comparative Information

We have previously audited the Town's 2017 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated January 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived. The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2017, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's 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
February 28, 2019

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Town of Morehead City, North Carolina

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2018

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, 2018. 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.

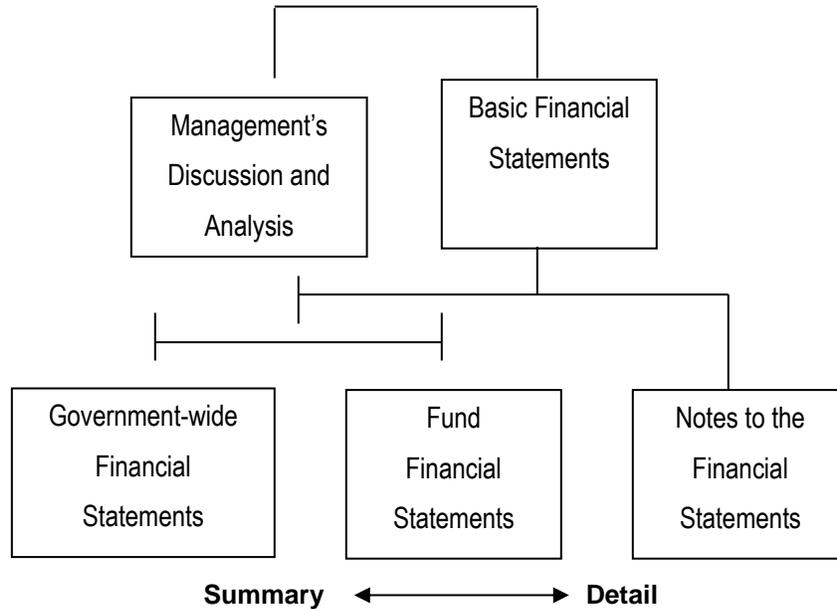
Financial Highlights

- The overall financial position of the Town improved in 2018 as evidenced by an increase in total net position of \$1.0 million. This increase was from both governmental (\$0.38 million) and business-type (\$0.62 million) activities. The increase for the governmental activities was due to increased property, sales, and other shared tax revenue, and increased operating grants and contributions and a decrease in spending of the governmental departments. 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 \$85.9 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 \$12.5 million, an increase of \$1.3 million in comparison with the prior year. Approximately 56.5% or \$7.04 million is nonspendable, restricted, committed, or assigned.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$5.4 million or approximately 43.6% 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 decreased \$0.2 million primarily due to the amount of accumulation of depreciation above the acquisition of capital assets. Business-type net capital assets increased \$.4 million primarily as a result of the continuation of construction in progress of the West End Force Main.
- The Town's total debt decreased by \$0.4 million during the current fiscal year. Debt in the governmental activities decreased \$4.2 million due to principal repayments. Debt in the business-type activities increased \$0.3 million due to the installment note resulting from the construction in progress of the West End Force Main of \$1.4 million. For business-type activities principal repayments totaled \$1.1 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 20 – 22 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.

The fund financial statements are on pages 23 – 32 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 33 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 64 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, 2018 and 2017 is presented below:

	Town of Morehead City's Net Position					
	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 13,666,878	\$ 12,250,648	\$ 15,209,714	\$ 13,917,077	\$ 28,876,592	\$ 26,167,725
Other non current assets	-	-	57,970	57,970	57,970	57,970
Capital assets	40,779,991	40,961,168	52,167,859	51,740,971	92,947,850	92,702,139
Total assets	54,446,869	53,211,816	67,435,543	65,716,018	121,882,412	118,927,834
Deferred outflows of resources	1,546,879	2,225,213	262,814	412,301	1,809,693	2,637,514
Total assets and deferred outflows of resources	55,993,748	55,437,029	67,698,357	66,128,319	123,692,105	121,565,348
Long-term liabilities outstanding	14,694,476	14,711,721	17,719,026	17,401,901	32,413,502	32,113,622
Other liabilities	1,908,342	1,921,197	2,971,809	2,353,121	4,880,151	4,274,318
Total liabilities	16,602,818	16,632,918	20,690,835	19,755,022	37,293,653	36,387,940
Deferred inflows of resources	414,175	202,661	42,370	28,974	456,545	231,635
Total liabilities and deferred inflows of resources	17,016,993	16,835,579	20,733,205	19,783,996	37,750,198	36,619,575
Net position:						
Net investment in capital assets	30,839,716	30,588,767	33,989,708	33,932,850	64,829,424	64,521,617
Restricted	3,425,647	2,734,866	-	-	3,425,647	2,734,866
Unrestricted	4,711,392	5,277,817	12,975,444	12,411,473	17,686,836	17,689,290
Total net position	\$ 38,976,755	\$ 38,601,450	\$ 46,965,152	\$ 46,344,323	\$ 85,941,907	\$ 84,945,773

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 \$1.0 million for the fiscal year ended June 30, 2018. However, the largest portion (64.8%) 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 (4.0%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$17.7 million (20.6%) is unrestricted.

Governmental Activities

Net position of the governmental activities increased \$.38 million, or 0.97 percent, to \$38.9 million. \$34.2 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.). \$4.7 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 2017 was 98.92%.
- Increased sales tax revenues of approximately \$126,000 and increased Ad valorem tax revenue of approximately \$92,000 due to economic growth in the City.

Business-type Activities

The net position of the business-type activities increased by \$0.62 million, or 1.34 percent, to \$46.9 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 75, relating to Post Employment Benefits other than Pensions. The restatement to record the effect of the implementation of this statement decreased beginning net position by \$1.0 million for the governmental activities and .3 million for the business-type activities.

Changes in Net Position: The following table presents the Town's changes in net position for the fiscal years ended June 30, 2018 and 2017:

	Town of Morehead City's Changes in Net Position					
	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program revenue:						
Charges for services	\$ 2,224,339	\$ 2,838,057	\$ 7,931,155	\$ 7,833,191	\$ 10,155,494	\$ 10,671,248
Operating grants and contributions	1,117,599	467,529	6,235	6,328	1,123,834	473,857
Capital grants and contributions	289,522	273,481	104,876	434,544	394,398	708,025
General revenue:						
Property taxes	7,004,591	6,911,703	-	-	7,004,591	6,911,703
Other taxes	3,002,735	2,876,068	-	-	3,002,735	2,876,068
Grants and contributions not restricted to specific programs	1,397,389	1,402,462	-	-	1,397,389	1,402,462
Other	203,801	282,767	470,894	348,123	674,695	630,890
Total revenue	<u>15,239,976</u>	<u>15,052,067</u>	<u>8,513,160</u>	<u>8,622,186</u>	<u>23,753,136</u>	<u>23,674,253</u>
Expenses:						
General government	1,530,546	2,249,699	-	-	1,530,546	2,249,699
Public safety	9,269,368	9,176,852	-	-	9,269,368	9,176,852
Highways and streets	1,073,074	1,224,621	-	-	1,073,074	1,224,621
Culture and recreation	1,388,170	954,597	-	-	1,388,170	954,597
Library	227,680	162,679	-	-	227,680	162,679
Interest on long-term debt	370,413	389,976	-	-	370,413	389,976
Water and sewer	-	-	6,665,800	5,924,219	6,665,800	5,924,219
Solid waste	-	-	954,371	904,126	954,371	904,126
Total expenses	<u>13,859,251</u>	<u>14,158,424</u>	<u>7,620,171</u>	<u>6,828,345</u>	<u>21,479,422</u>	<u>20,986,769</u>
Increase in net position before transfers	1,380,725	893,643	892,989	1,793,841	2,273,714	2,687,484
Transfers	-	37,500	-	(37,500)	-	-
Increase in net position	<u>1,380,725</u>	<u>931,143</u>	<u>892,989</u>	<u>1,756,341</u>	<u>2,273,714</u>	<u>2,687,484</u>
Net position, July 1	38,601,450	37,670,307	46,344,323	44,587,982	84,945,773	82,258,289
Restatement	(1,005,420)	-	(272,160)	-	(1,277,580)	-
Net position, July 1 as restated	<u>37,596,030</u>	<u>37,670,307</u>	<u>46,072,163</u>	<u>44,587,982</u>	<u>83,668,193</u>	<u>82,258,289</u>
Net position, June 30	<u>\$38,976,755</u>	<u>\$38,601,450</u>	<u>\$46,965,152</u>	<u>\$46,344,323</u>	<u>\$85,941,907</u>	<u>\$84,945,773</u>

Total government-wide revenue of \$23.7 million was primarily derived from charges for services (42.8%), property taxes (29.5%) and other taxes (12.6%). 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 43.2% and water and sewer for 31.0%.

Governmental Activities

Governmental activities increased the Town's net position by \$1.38 million (before the restatement of beginning net pension relating to GASB 75), and accounted for 37.6% of the total growth in the net position (after the restatement relating to GASB 75) of the Town of Morehead City. Key elements related to governmental activities are as follows:

- Property taxes increased approximately \$92,000 over the preceding year, primarily as a result of an increase in the amount of assessed valuations.
- Charges for services increased \$0.6 million, due mainly to permits and inspection fees relating to a large development project in the prior fiscal year.
- Other taxes increased approximately \$126,000 primarily due to increased sales tax distributions from the State.
- Expenses decreased approximately \$300,000 (2.0%) compared to the prior period.
 - General Government decreased \$0.7 million. The largest portion of this decrease is the reduction of capital expenditures and other expenditures from the prior year. This decrease offset the increases to salaries, wages & benefits of all governmental activities which make up approximately 40% of the expenditures.

Business-type Activities

Business-type activities increased the Town of Morehead City's net position by \$0.9 million (before the restatement of beginning net pension relating to GASB 75), and accounted for 62.4% of the total growth

(after the restatement relating to GASB 75) 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 \$98,000 or a 1.2% 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.
- Other revenue increased approximately \$123,000 or a 35.3% increase over the prior year.
- The Water and Sewer Fund expenses increased approximately \$791,000 or 11.6% from the preceding year.
- 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 \$5.4 million, while total fund balance was \$9.7 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 43.6% of total General Fund expenditures and transfers out of \$12.45 million, while total fund balance represents 78.4% 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, 2018, the governmental funds of the Town of Morehead City reported a combined fund balance of \$12.5 million, up from \$11.2 million the previous year. The General Fund fund balance increased \$0.3 million. This increase is mainly attributable to increases in property tax, other state shared tax revenue and operating grants and contributions. This was coupled with decreases in expenditures other than salaries, wages & benefits as departments closely monitored their budgets. Revenues increased \$0.2 millions and expenditures decreased \$0.3 million. The fund balance in the Fire/EMS Fund increased \$0.7 million. This is primarily attributable to the transfer in from the general fund over the amount of revenue over (under) expenditures by approximately \$560,000. The fund balance in the Major and Non-Major Capital Project Funds increased \$0.3 million due to completion of multiple capital projects and transferring those funds to the General Fund in the prior fiscal year.

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 \$145,000 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 \$12.5 million in the Water and Sewer fund and \$0.5 million in the Solid Waste fund. Unrestricted net position in the Water and Sewer Fund increased approximately \$0.6 million. Unrestricted net position in the Solid Waste Fund decreased 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, 2018, the Town had \$92.9 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 \$0.2 million, or .3%, over last year and is result of the addition of capital assets over depreciation. The summary of capital assets at June 30, 2018 and 2017 is presented below:

	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Land	\$ 12,802,000	\$ 12,802,000	\$ 913,775	\$ 913,775	\$ 13,715,775	\$ 13,715,775
Intangible assets	562,831	562,831	355,585	305,589	918,416	868,420
Infrastructure	5,559,568	5,697,133	-	-	5,559,568	5,697,133
Buildings and other improvements	18,683,472	18,125,167	5,605,941	5,739,858	24,289,413	23,865,025
Equipment and vehicles	2,838,051	3,453,264	808,083	846,651	3,646,134	4,299,915
Operating plant	-	-	41,165,220	42,297,293	41,165,220	42,297,293
Construction in progress	334,069	320,773	3,319,255	1,637,805	3,653,324	1,958,578
Total	\$ 40,779,991	\$ 40,961,168	\$ 52,167,859	\$ 51,740,971	\$ 92,947,850	\$ 92,702,139

This year's major capital asset changes included:

- Increase in infrastructure, buildings and other improvements - \$0.5 million
- Decreases in buildings and other improvements, infrastructure and equipment and vehicles as depreciation exceeded asset additions in these categories - \$1.9 million
- Increase in construction in progress - \$1.7 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, 2018, the City had \$28.1 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:

	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Installment contracts	\$ 9,662,974	\$ 10,084,824	\$ -	\$ -	\$ 9,662,974	\$ 10,084,824
Revenue bond	-	-	4,780,000	4,857,000	4,780,000	4,857,000
Notes payable	277,302	287,578	13,398,152	13,014,957	13,675,454	13,302,535
Total	\$ 9,940,276	\$ 10,372,402	\$ 18,178,152	\$ 17,871,957	28,118,428	28,244,359

The Town of Morehead City's total long-term debt decreased by \$0.1 million (0.4%) during the past fiscal year.

- Debt increased by approximately \$1.4 million in business-type activities due to the note payable in relation to the construction of the West End Force Main.
- Principal payments of \$.4 million and \$1.1 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 \$161,367,841

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, 2018 1,363 permits were issued with a value of \$40.7 million compared to 1,185 permits with a value of \$54.7 million for fiscal year ended June 30, 2017. There was one large permit with the value of \$14.3 million for the fiscal year ended June 30, 2017 for a large development. The value of permits issued for fiscal year ended June 30, 2017 is approximately \$40.4 million if remove the one outlier.
- The June 2018 unemployment rate for Carteret County (unadjusted) was 4.0 percent compared to 4.2 percent for the state and 4.0 percent for the nation.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities

The General Fund initial budget for 2018-2019 decreased 4.0% from \$14.5 million to \$13.9 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 \$1.7 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 2018-2019 increased 12.0% from \$5.0 million to 5.6 million in the Fire/EMS Fund. The 2018-2019 budget includes three positions to be that are currently paid with a grant award. Transfers from the General Fund provided \$3.2 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.

Business-type Activities

The initial 2018-2019 budget for the Water and Sewer Fund increased \$0.2 million from \$7.4 million to \$7.6 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 2018-2019 budget for the Solid Waste Fund increased \$.03 million (3.2%) from \$0.96 million to \$0.99 million. 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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 10,765,605	\$ 13,392,459	\$ 24,158,064
Taxes receivable (net)	89,456	-	89,456
Accrued interest receivable on taxes	15,673	-	15,673
Customer receivables (net)	62,887	1,373,277	1,436,164
Due from governmental agencies	627,606	99,512	727,118
Local option sales tax receivable	839,006	-	839,006
Inventories	3,118	259,538	262,656
Prepaid expense	28,687	-	28,687
Restricted cash and investments	1,234,840	84,928	1,319,768
Total current assets	13,666,878	15,209,714	28,876,592
Non-current assets:			
Notes receivable	-	57,970	57,970
Capital assets:			
Land and construction in process	13,698,900	4,588,615	18,287,515
Other capital assets, net of depreciation	27,081,091	47,579,244	74,660,335
Total capital assets	40,779,991	52,167,859	92,947,850
Total assets	54,446,869	67,435,543	121,882,412
Deferred Outflows of Resources			
Pension deferrals	1,463,214	244,944	1,708,158
OPEB deferrals	83,665	17,870	101,535
Total deferred outflows of resources	1,546,879	262,814	1,809,693
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	980,548	1,006,302	1,986,850
Accrued interest payable	150,695	50,522	201,217
Customer deposits	-	578,390	578,390
Prepaid fees	-	8,459	8,459
Current portion of long-term liabilities	777,099	1,328,136	2,105,235
Total current liabilities	1,908,342	2,971,809	4,880,151
Long-term liabilities:			
Net pension liability (LGRS)	1,901,837	345,138	2,246,975
Total pension liability (LEOSSA)	1,081,661	-	1,081,661
Total OPEB liability	2,078,586	443,970	2,522,556
Due in more than one year	9,632,392	16,929,918	26,562,310
Total long-term liabilities	14,694,476	17,719,026	32,413,502
Total liabilities	16,602,818	20,690,835	34,771,097
Deferred Inflows of Resources			
Prepaid taxes and fees	112,323	-	112,323
Pension deferrals	189,901	18,458	208,359
OPEB deferrals	111,951	23,912	135,863
Total deferred inflows of resources	414,175	42,370	456,545
Net Position			
Net investment in capital assets	30,839,716	33,989,708	64,829,424
Restricted:			
Stabilization by State Statute	1,529,492	-	1,529,492
General government	437,905	-	437,905
Streets	645,025	-	645,025
Public safety	536,574	-	536,574
Recreation	63,009	-	63,009
Library	20,559	-	20,559
Unrestricted	4,904,475	12,975,444	17,879,919
Total net position	\$ 38,976,755	\$ 46,965,152	\$ 85,941,907

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,530,546	\$ 145,116	\$ 60,553	\$ -
Public safety	9,269,368	1,901,309	766,054	260,000
Highways and streets	1,073,074	-	237,917	29,522
Cultural and recreation	1,388,170	175,230	-	-
Library	227,680	2,684	53,075	-
Interest on long-term debt	370,413	-	-	-
Total governmental activities	13,859,251	2,224,339	1,117,599	289,522
Business-type activities:				
Water and sewer	6,665,800	6,976,210	-	104,876
Solid waste	954,371	954,945	6,235	-
Total business-type activities	7,620,171	7,931,155	6,235	104,876
Total primary government	\$ 21,479,422	\$ 10,155,494	\$ 1,123,834	\$ 394,398

General revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Gain (loss) on disposal of assets

Miscellaneous income, unrestricted

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
\$ (1,324,877)	\$ -	\$ (1,324,877)
(6,342,005)	-	(6,342,005)
(805,635)	-	(805,635)
(1,212,940)	-	(1,212,940)
(171,921)	-	(171,921)
(370,413)	-	(370,413)
(10,227,791)	-	(10,227,791)
-	415,286	415,286
-	6,809	6,809
-	422,095	422,095
(10,227,791)	422,095	(9,805,696)
7,004,591	-	7,004,591
2,972,776	-	2,972,776
29,959	-	29,959
1,397,389	-	1,397,389
114,618	125,561	240,179
(17,483)	21,185	3,702
106,666	324,148	430,814
11,608,516	470,894	12,079,410
1,380,725	892,989	2,273,714
38,601,450	46,344,323	84,945,773
(1,005,420)	(272,160)	(1,277,580)
37,596,030	46,072,163	83,668,193
\$ 38,976,755	\$ 46,965,152	\$ 85,941,907

Town of Morehead City, North Carolina

Balance Sheet-Governmental Funds

June 30, 2018

	General Fund	Fire/EMS District Fund	Katherine Davis Park Capital Project Fund	Non-Major Governmental Funds	Totals
Assets:					
Cash and cash equivalents	\$ 8,207,246	\$ 1,860,567	\$ 64,743	\$ 633,049	\$ 10,765,605
Restricted cash equivalents	906,330	328,510	-	-	1,234,840
Receivables (net)	1,449,802	169,155	-	-	1,618,957
Inventories	3,118	-	-	-	3,118
Prepaid items	28,687	-	-	-	28,687
Total assets	\$10,595,183	\$ 2,358,232	\$ 64,743	\$ 633,049	\$ 13,651,207
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 506,370	\$ 48,579	\$ 26,652	\$ 202,908	\$ 784,509
Accrued salaries	120,457	75,582	-	-	196,039
Total liabilities	626,827	124,161	26,652	202,908	980,548
Deferred Inflows of Resources	201,779	-	-	-	201,779
Fund Balances:					
Non Spendable:					
Inventories	3,118	-	-	-	3,118
Prepaid items	28,687	-	-	-	28,687
Restricted:					
Stabilization by State Statute	1,360,337	169,155	-	-	1,529,492
General government	7,764	-	-	430,141	437,905
Streets	645,025	-	-	-	645,025
Public safety	208,064	328,510	-	-	536,574
Recreation	24,918	-	38,091	-	63,009
Library	20,559	-	-	-	20,559
Committed:					
Sidewalk construction	160,300	-	-	-	160,300
Recreation facilities development	28,049	-	-	-	28,049
Public safety	-	1,736,406	-	-	1,736,406
Assigned:					
Subsequent year's expenditures	1,660,014	-	-	-	1,660,014
Unassigned	5,619,742	-	-	-	5,619,742
Total fund balances	9,766,577	2,234,071	38,091	430,141	12,468,880
Total liabilities, deferred inflows of resources and fund balances	\$10,595,183	\$ 2,358,232	\$ 64,743	\$ 633,049	\$ 13,651,207

See Notes to Financial Statements.

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, 2018**

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

Total fund balances for governmental funds	\$ 12,468,880
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	40,779,991
Other long-term assets are not available to pay for current-period expenditures and therefore are:	
Property taxes receivable	89,456
Accrued interest on property taxes	15,673
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	1,463,214
Deferred outflows of resources related to OPEB are not reported in the funds	83,665
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(10,409,493)
Net pension liability (LGERS)	(1,901,837)
Total pension liability (LEOSSA)	(1,081,661)
Total OPEB liability	(2,078,586)
Accrued interest payable on long-term liabilities not recorded in the fund statements	(150,695)
Deferred inflows of resources related to OPEB are not reported in the funds	(189,901)
Deferred inflows of resources related to pensions are not reported in the funds	(111,951)
Net position of governmental activities	<u>\$ 38,976,755</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, 2018

	General Fund	Fire/EMS District Fund	Katherine Davis Park Capital Project Fund	Non-Major Governmental Funds	Totals
Revenue					
Ad valorem taxes	\$ 6,989,089	\$ -	\$ -	\$ -	\$ 6,989,089
Other taxes and licenses	29,959	-	-	-	29,959
Unrestricted intergovernmental	4,370,165	-	-	-	4,370,165
Restricted intergovernmental	508,551	550,998	-	-	1,059,549
Permits and fees	339,069	-	-	-	339,069
Sales and services	358,560	1,865,779	-	-	2,224,339
Investment earnings	93,089	15,153	708	5,668	114,618
Miscellaneous	30,170	53,651	-	7,109	90,930
Total revenue	12,718,652	2,485,581	708	12,777	15,217,718
Expenditures					
Current:					
General government	1,471,074	-	-	79,409	1,550,483
Public safety	4,393,529	4,664,032	-	-	9,057,561
Highways and streets	913,235	-	-	-	913,235
Library	227,012	-	-	-	227,012
Recreation	655,319	-	61,520	-	716,839
Parks	643,739	-	-	-	643,739
Debt service:					
Principal	403,973	28,153	-	-	432,126
Interest	301,351	73,958	-	-	375,309
Total expenditures	9,009,232	4,766,143	61,520	79,409	13,916,304
Revenue over (under) expenditures	3,709,420	(2,280,562)	(60,812)	(66,632)	1,301,414
Other financing sources (uses)					
Sales of capital assets	16,628	-	-	-	16,628
Transfers in	-	2,988,601	60,000	392,264	3,440,865
Transfers out	(3,440,865)	-	-	-	(3,440,865)
Total other financing sources (uses)	(3,424,237)	2,988,601	60,000	392,264	16,628
Net changes in fund balances	285,183	708,039	(812)	325,632	1,318,042
Fund balances:					
Fund balances, beginning	9,481,394	1,526,032	38,903	104,509	11,150,838
Fund balances, ending	\$ 9,766,577	\$ 2,234,071	\$ 38,091	\$ 430,141	\$ 12,468,880

See Notes to Financial Statements.

Town of Morehead City, North Carolina

**Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balances of the Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018**

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

Net change in fund balances - total governmental funds	\$ 1,318,042
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	1,278,067
Depreciation expense	(1,450,899)
Pension and OPEB plans deferred outflows of resources	(678,334)
Pension and OPEB plan deferred inflows of resources	(172,396)
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	(8,345)
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	12,736
Increase in accrued interest receivable	2,766
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	(342,468)
Retirement of long-term liabilities	1,518,374
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 and OPEB expense	(258,823)
Decrease in accrued interest payable	4,897
Total change in net position of governmental activities	<u>\$ 1,380,725</u>

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, 2018

	General Fund			Variance with Final Budget
	Budget, Original	Budget, Final	Actual	
Revenue				
Ad valorem taxes	\$ 6,909,046	\$ 6,909,046	\$ 6,989,089	\$ 80,043
Other taxes	28,000	28,000	29,959	1,959
Unrestricted intergovernmental	4,066,700	4,066,700	4,370,165	303,465
Restricted intergovernmental	881,060	953,860	508,247	(445,613)
Permits and fees	295,000	295,000	339,069	44,069
Sales and services	264,627	264,627	358,560	93,933
Investment earnings	25,000	25,000	93,089	68,089
Miscellaneous	18,000	31,857	30,474	(1,383)
Total revenue	12,487,433	12,574,090	12,718,652	144,562
Expenditures				
Current:				
General government	2,802,642	1,911,366	1,471,074	440,292
Public safety	4,577,435	4,831,724	4,393,529	438,195
Highways and streets	2,322,272	2,404,837	913,235	1,491,602
Recreation and parks	1,294,118	1,504,073	1,299,058	205,015
Library	321,115	321,115	227,012	94,103
Debt service	705,326	705,326	705,324	2
Total expenditures	12,022,908	11,678,441	9,009,232	2,669,209
Revenue over (under) expenditures	464,525	895,649	3,709,420	2,813,771
Other financing sources (uses)				
Sale of capital assets	-	18,513	16,628	(1,885)
Transfers in	1,113,247	-	-	-
Transfers out	(3,377,865)	(3,440,865)	(3,440,865)	-
Contingency	(224,723)	(40,388)	-	40,388
Fund balance appropriated	2,024,816	2,567,091	-	(2,567,091)
Total other financing sources (uses)	(464,525)	(895,649)	(3,424,237)	(2,528,588)
Revenue and other financing sources over expenditures and other financing uses	\$ -	\$ -	285,183	\$ 285,183
Fund balance, beginning			9,481,394	
Fund balance, ending			\$ 9,766,577	

See Notes to Financial Statements.

Fire/EMS District Fund

Budget, Original	Budget, Final	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
203,976	568,402	550,998	(17,404)
-	-	-	-
1,770,600	1,770,600	1,865,779	95,179
3,000	3,000	15,153	12,153
3,500	3,500	53,651	50,151
<u>1,981,076</u>	<u>2,345,502</u>	<u>2,485,581</u>	<u>140,079</u>
-	-	-	-
4,843,201	5,265,436	4,664,032	601,404
-	-	-	-
-	-	-	-
-	-	-	-
102,112	102,112	102,111	1
<u>4,945,313</u>	<u>5,367,548</u>	<u>4,766,143</u>	<u>601,405</u>
<u>(2,964,237.00)</u>	<u>(3,022,046)</u>	<u>(2,280,562)</u>	<u>741,484</u>
-	-	-	-
2,985,601	2,988,601	2,988,601	-
-	-	-	-
(96,864)	(46,055)	-	46,055
75,500	79,500	-	(79,500)
<u>2,964,237</u>	<u>3,022,046</u>	<u>2,988,601</u>	<u>(33,445)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>708,039</u>	<u>\$ 708,039</u>
		<u>1,526,032</u>	
		<u>\$ 2,234,071</u>	

Town of Morehead City, North Carolina

Statement of Net Position

Proprietary Funds

June 30, 2018

	Water and Sewer Fund	Solid Waste Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 12,961,588	\$ 430,871	\$ 13,392,459
Restricted cash and cash equivalents	84,928	-	84,928
Receivables	1,318,248	154,541	1,472,789
Inventories	259,538	-	259,538
Total current assets	14,624,302	585,412	15,209,714
Noncurrent assets			
Notes receivable	57,970	-	57,970
Capital assets, net	51,944,017	223,842	52,167,859
Total noncurrent assets	52,001,987	223,842	52,225,829
Total assets	66,626,289	809,254	67,435,543
Deferred Outflows of Resources			
Contributions to pension plan	239,325	5,619	244,944
OPEB deferrals	17,261	609	17,870
Total deferred outflows of resources	256,586	6,228	262,814
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	914,385	56,338	970,723
Current maturities of long-term debt	1,254,627	-	1,254,627
Customer deposits	578,390	-	578,390
Accrued salaries	34,231	1,348	35,579
Prepaid fees	8,459	-	8,459
Accrued compensated absences-current portion	71,358	2,151	73,509
Accrued interest payable	50,522	-	50,522
Total current liabilities	2,911,972	59,837	2,971,809
Noncurrent liabilities			
Accrued compensated absences-long-term portion	6,206	188	6,394
Installment notes	16,923,524	-	16,923,524
Net pension liability	337,272	7,866	345,138
Total OPEB liability	428,835	15,135	443,970
Total noncurrent liabilities	17,695,837	23,189	17,719,026
Total liabilities	20,607,809	83,026	20,690,835
Deferred Inflows of Resources			
Pension deferrals	18,040	418	18,458
OPEB deferrals	23,097	815	23,912
Total deferred inflows of resources	41,137	1,233	42,370
Net Position			
Net investment in capital assets	33,765,866	223,842	33,989,708
Unrestricted	12,468,063	507,381	12,975,444
Total net position	\$ 46,233,929	\$ 731,223	\$ 46,965,152

See Notes to Financial Statements.

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**Statement of Revenue, Expenses and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2018**

	Water and Sewer Fund	Solid Waste Fund	Totals
Operating revenue			
Charges for sales and services	\$ 6,976,210	\$ 954,945	\$ 7,931,155
Miscellaneous	323,627	521	324,148
Total operating revenue	<u>7,299,837</u>	<u>955,466</u>	<u>8,255,303</u>
Operating expenses			
Cost of sales and services	4,044,671	916,443	4,961,114
Depreciation	1,698,619	37,928	1,736,547
Total operating expenses	<u>5,743,290</u>	<u>954,371</u>	<u>6,697,661</u>
Operating income	<u>1,556,547</u>	<u>1,095</u>	<u>1,557,642</u>
Nonoperating revenue (expense)			
Interest revenue	121,338	4,223	125,561
Restricted intergovernmental	-	6,235	6,235
Sale of surplus property	2,185	19,000	21,185
Impact fee settlements	(546,154)	-	(546,154)
Interest expense and fiscal charges	(376,356)	-	(376,356)
Total nonoperating revenue (expense)	<u>(798,987)</u>	<u>29,458</u>	<u>(769,529)</u>
Income before contributions and transfers	<u>757,560</u>	<u>30,553</u>	<u>788,113</u>
Contributed capital	<u>104,876</u>	-	<u>104,876</u>
Change in net position	<u>862,436</u>	<u>30,553</u>	<u>892,989</u>
Net position, beginning	45,634,826	709,497	46,344,323
Restatement for accounting change (Note 14)	(263,333)	(8,827)	(272,160)
Beginning of year, July 1, as restated	<u>45,371,493</u>	<u>700,670</u>	<u>46,072,163</u>
Net position, ending	<u>\$ 46,233,929</u>	<u>\$ 731,223</u>	<u>\$ 46,965,152</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, 2018

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 7,360,435	\$ 959,679	\$ 8,320,114
Cash paid to suppliers for goods and services	(2,552,580)	(859,440)	(3,412,020)
Cash paid to employees	(1,397,752)	(54,093)	(1,451,845)
Customer deposits	10,348	-	10,348
Net cash provided by operating activities	3,420,451	46,146	3,466,597
Cash Flows from Noncapital Financing Activities:			
Impact fee settlements	(33,576)	-	(33,576)
Restricted intergovernmental	-	6,235	6,235
Net cash provided by (used in) noncapital financing activities	(33,576)	6,235	(27,341)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(2,093,939)	(127,831)	(2,221,770)
Contributions-capital project funds	104,876	-	104,876
Sale of surplus property	2,185	19,000	21,185
Debt issued	1,425,936	-	1,425,936
Principal paid on long-term debt	(1,119,741)	-	(1,119,741)
Interest paid on long-term debt	(380,208)	-	(380,208)
Net cash used in capital and related financing activities	(2,060,891)	(108,831)	(2,169,722)
Cash Flows from Investing Activities:			
Interest on investments	121,338	4,223	125,561
Net increase (decrease) in cash and cash equivalents	1,447,322	(52,227)	1,395,095
Cash and cash equivalents, beginning	11,599,194	483,098	12,082,292
Cash and cash equivalents, ending	\$ 13,046,516	\$ 430,871	\$ 13,477,387

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)

Proprietary Funds

For the Fiscal Year Ended June 30, 2018

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	\$ 1,556,547	\$ 1,095	\$ 1,557,642
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,698,619	37,928	1,736,547
Change in assets, deferred outflows of resources, and liabilities:			
Increase in receivables	60,598	4,213	64,811
Decrease in Inventory	37,647	-	37,647
Decrease in deferred outflows of resources	146,410	3,078	149,488
Increase (decrease) in net pension liability	(137,364)	3,094	(134,270)
Increase (decrease) in deferred inflows of resources	21,085	(770)	20,315
Increase in accounts payable and accrued liabilities	1,712	818	2,530
Increase in customer deposits	10,348	-	10,348
Increase in accrued salaries	2,418	42	2,460
Increase (decrease) in accrued other postemployment benefits	14,151	(2,555)	11,596
Increase (decrease) in accrued compensated absences	8,280	(797)	7,483
Net cash provided by operating activities	\$ 3,420,451	\$ 46,146	\$ 3,466,597

See Notes to Financial Statements.

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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, North Carolina (the Town) 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 Codification Section 2100 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. Separate statements for each fund category – *governmental and proprietary* – 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.

Town of Morehead City, North Carolina

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 fund is not major for 2018 but is presented as such for consistency.

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 two non-major capital project funds: JIB Waterfront Access 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 three Capital Project Funds and three 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.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all non-proprietary type 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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, OPEB and pension, 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.

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, 2018. 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Annual Ordinance Funds	Project Ordinance Funds
General Fund	Morehead Municipal Campus Capital Project Fund
Fire/EMS District Fund	Jib Waterfront Access Capital Project Fund
Water and Sewer Fund	Katherine Davis Park Capital Project Fund
Solid Waste Fund	Water/Sewer Extensions Capital Project Fund*
Water and Sewer Capital Project Fund*	West End Force Main Capital Project Fund*
Water and Sewer Capital Reserve Fund*	
Water and Sewer Rebatable Capital Reserve Fund*	
Water/Sewer System Development Capital Reserve 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.

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. Except for debt reserves, the Town pools moneys from several funds to facilitate disbursement and investment and maximize investment income.

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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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	\$	645,025
USDA debt reserves		222,252
Restricted donations		36,123
Drug enforcement assets		2,930
		<u>906,330</u>

Fire and EMS Fund

Restricted donations		4,909
Equipment grant		252,097
USDA debt reserves		71,504
		<u>328,510</u>

Total governmental activities

1,234,840

Business-Type Activities Water and Sewer Fund

USDA debt reserves		<u>84,928</u>
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Total Restricted Cash

\$ 1,319,768

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, 2017. 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 value or net realizable value. 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.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 one year. 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

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 two items that meets this criterion, pension and OPEB deferrals for the 2018 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 and fees, property taxes receivable, and pension and OPEB 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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)]. This primarily represents outstanding receivables and cannot be budgeted in the next year.

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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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 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 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, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2018, the Town's deposits had a carrying amount of \$8,937,498 and bank balance of \$8,979,150. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$8,729,150 was covered by collateral held under the Pooling Method. At June 30, 2018, the Town's petty cash fund totaled \$2,350.

2. Investments

At June 30, 2018, the Town's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2018	Maturity	Rating
NC Capital Management Trust – Government Portfolio	Amortized Cost	1,287,424	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	15,250,561	.09 years*	Unrated
Total:		\$ 16,537,985		

*This is the duration for the Term Portfolio

All investments are measured using the market approach: using prices and other relevant information

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

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, 2018. 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.

Note 3. Receivables – Allowances for Doubtful Accounts

Receivables at June 30, 2018, consist of the following:

	Major General	Major Fire & EMS District	Major Water & Sewer Fund	Major Solid Waste Fund	Total
Receivables					
Local option sales tax	\$ 839,006	\$ -	\$ -	\$ -	\$ 839,006
Property tax	111,306	-	-	-	111,306
Allowance for uncollectibles	(21,850)	-	-	-	(21,850)
	<u>89,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,456</u>
Accounts receivable:					
Services	-	62,887	1,220,067	153,210	1,436,164
Allowance for uncollectibles	-	-	-	-	-
	<u>-</u>	<u>62,887</u>	<u>1,220,067</u>	<u>153,210</u>	<u>1,436,164</u>
Due from governmental agencies	521,338	106,268	98,181	1,331	727,118
Net total receivables	<u>\$ 1,449,800</u>	<u>\$ 169,155</u>	<u>\$ 1,318,248</u>	<u>\$ 154,541</u>	<u>\$ 3,091,744</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 4. Capital Assets

Primary Government

Capital asset activity for the Town for the year ended June 30, 2018, was as follows:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,802,000	\$ -	\$ -	\$ 12,802,000
Intangible assets	562,831	-	-	562,831
Construction in progress	320,773	572,248	(558,952)	334,069
Total capital assets not being depreciated	<u>13,685,604</u>	<u>572,248</u>	<u>(558,952)</u>	<u>13,698,900</u>
Capital assets being depreciated:				
Buildings and other improvements	23,829,103	1,694,135	-	25,523,238
Infrastructure	6,879,317	-	-	6,879,317
Equipment and vehicles	7,367,637	308,019	(873,367)	6,802,289
Total capital assets being depreciated	<u>38,076,057</u>	<u>2,002,154</u>	<u>(873,367)</u>	<u>39,204,844</u>
Less accumulated depreciation for:				
Buildings and other improvements	(5,703,936)	(1,135,830)	-	(6,839,766)
Infrastructure	(1,182,184)	(137,565)	-	(1,319,749)
Equipment and vehicles	(3,914,373)	(177,504)	127,639	(3,964,238)
Total accumulated depreciation	<u>(10,800,493)</u>	<u>(1,450,899)</u>	<u>127,639</u>	<u>(12,123,753)</u>
Total capital assets being depreciated, net	<u>27,275,564</u>			<u>27,081,091</u>
Governmental activity capital assets, net	<u>\$ 40,961,168</u>			<u>\$ 40,779,991</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	305,589	49,996	-	355,585
Construction in progress	1,637,805	2,035,602	(354,152)	3,319,255
Total capital assets not being depreciated	<u>2,857,169</u>	<u>2,085,598</u>	<u>(354,152)</u>	<u>4,588,615</u>
Capital assets being depreciated:				
Buildings and other improvements	6,389,670	25,201	-	6,414,871
Equipment and vehicles	2,362,199	86,592	(106,414)	2,342,377
Operating plant	62,121,585	280,405	-	62,401,990
Total capital assets being depreciated	<u>70,873,454</u>	<u>392,198</u>	<u>(106,414)</u>	<u>71,159,238</u>
Less accumulated depreciation for:				
Buildings and other improvements	(649,812)	(159,118)	-	(808,930)
Equipment and vehicles	(1,649,487)	(127,023)	18,374	(1,758,136)
Operating plant	(19,824,292)	(1,412,478)	-	(21,236,770)
Total accumulated depreciation	<u>(22,123,591)</u>	<u>(1,698,619)</u>	<u>18,374</u>	<u>(23,803,836)</u>
Total capital assets being depreciated, net	<u>48,749,863</u>			<u>47,355,402</u>
Water and Sewer Fund capital assets, net	<u>51,607,032</u>			<u>51,944,017</u>
Solid Waste Fund				
Capital assets being depreciated:				
Equipment and vehicles	372,935	127,831	(85,420)	415,346
Less accumulated depreciation for:				
Equipment and vehicles	(238,996)	(37,928)	85,420	(191,504)
Total capital assets being depreciated, net	<u>133,939</u>			<u>223,842</u>
Solid Waste Fund capital assets, net	<u>133,939</u>			<u>223,842</u>
Business-type activity capital assets, net	<u>\$ 51,740,971</u>			<u>\$ 52,167,859</u>

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

Governmental activities:	
General government	\$ 184,136
Public safety	669,577
Highway and streets	170,372
Parks and recreation	396,192
Library	30,622
	<u>\$ 1,450,899</u>
Business-type activities:	
Water and Sewer Fund	\$ 1,698,619
Solid Waste Fund	37,928
	<u>\$ 1,736,547</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, 2018. At year-end, the Town's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
West End Force Main	\$ 2,384,380	\$ 80,783
Brooks St. Galantis Drive Sewer	325,174	75,595
	<u>\$ 2,709,554</u>	<u>\$ 156,378</u>

Note 5. Pension Plan and Postemployment Liabilities

a. Local Governmental Employees' Retirement System

Plan Description. The Town 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

Town of Morehead City, North Carolina

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, 2018, was 8.25% of compensation for law enforcement officers and 7.50% 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 \$619,467 for the year ended June 30, 2018.

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, 2018, the Town reported a liability of \$2,246,975 for its proportionate share of the LGERS net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the Town's proportion was 0.14708%, which was an increase of 0.00363% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$759,716. At June 30, 2018, 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	\$ 129,447	\$ 63,605
Changes of assumptions	320,899	-
Net difference between projected and actual earnings on pension plan investments	545,569	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	19,333	53,335
Town contributions subsequent to the measurement date	619,467	-
Total	<u>\$ 1,634,715</u>	<u>\$ 116,940</u>

\$619,467 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 outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Year ended June 30:

2019	\$	121,872
2020		638,927
2021		314,228
2022		(176,719)
2023		-
Thereafter		-
	<u>\$</u>	<u>898,308</u>

Actuarial Assumptions. The total pension liability in the December 31, 2016 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	7.20 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, 2016 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, 2017 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	<u>100%</u>	

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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 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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Town's proportionate share of the net pension liability (asset)	\$ 6,745,470	\$ 2,246,975	\$ (1,507,848)

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>39</u>
Total	<u><u>46</u></u>

Notes to Financial Statements

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, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

Mortality rates are based on the following:

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

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

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

Deaths after Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 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 \$97,174 as benefits came due for the reporting period.

Town of Morehead City, North Carolina

Notes to Financial Statements

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, 2018, the Town reported a total pension liability of \$1,081,661. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$77,335. See also note 14.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 91,419
Changes of assumptions	34,031	-
Town benefit payments and plan administrative expense made subsequent to the measurement date	39,412	-
Total	<u>\$ 73,443</u>	<u>\$ 91,419</u>

\$39,412 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30 :

2019	\$ (12,661)
2020	(12,661)
2021	(12,661)
2022	(12,402)
2023	(7,003)
Thereafter	-

\$39,412 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 3.16 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 (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$ 1,172,064	\$ 1,081,661	\$ 999,447

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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

	2018
Beginning balance	\$ 1,138,005
Service Cost	47,476
Interest on the total pension liability	42,052
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(110,307)
Changes of assumptions or other inputs	61,609
Benefit payments	(97,174)
Other changes	-
Ending balance of the total pension liability	\$ 1,081,661

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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 760,524	\$ 77,335	\$ 837,859
Pension Liability	2,246,975	1,081,661	3,328,636
Proportionate share of the net pension liability	0.14708%	n/a	
Deferred Outflows of Resources			
Differences between expected and actual experience	129,447	-	129,447
Changes of assumptions	320,899	34,031	354,930
Net difference between projected and actual earnings on plan investments	545,569	-	545,569
Changes in proportion and differences between contributions and proportionate share of contributions	19,333	-	19,333
Benefit payments and administrative costs paid subsequent to the measurement date	619,467	39,412	658,879
Deferred Inflows of Resources			
Differences between expected and actual experience	63,605	91,419	155,024
Changes in proportion and differences between contributions and proportionate share of contributions	53,335	-	53,335

Note 5. Pension Plan and Postemployment Obligations (Continued)

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 \$99,494 and law enforcement officers made contributions of \$65,862 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 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, 2017, the State contributed \$17,602,000 to the plan. The Town of Morehead City's proportionate share of the State's contribution is \$14,100.

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.

Notes to Financial Statements

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, 2018, 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 \$38,860. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017 and at June 30, 2016 was 0%.

For the year ended June 30, 2018, the Town recognized pension expense of \$8,503 and revenue of \$8,503 for support provided by the State. At June 30, 2018, 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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

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 7.20%. 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 (OPEB)

Healthcare Benefits

Plan Description. Employees who retire under the provisions of the North Carolina Local Government Employees' Retirement System (NCLGERS) and have five or more years of service with the Town at the time of retirement are eligible to participate in the Town's OPEB plan until age 65 or until eligible for Medicare, whichever occurs first.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Plan Description: 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 meet requirements established by the Town Council.

Benefits Provided: OPEB plan benefits are available to eligible retirees who were hired before July 1, 2016 and who have at least 10 years of continuous service with the Town immediately prior to retirement, and also meet one of the following conditions:

- (1) 30 years of service with NCLGERS, regardless of age,
- (2) have attained 55 years of age and have a minimum of 25 years of service with NCLGERS, or
- (3) have attained 62 years of age and have a minimum of 15 years of service with NCLGERS.

Eligible retirees who were hired before July 1, 2016 may remain on the Town's medical plan and pay for coverage in the same manner as active employees. Currently, active employees have single coverage provided at no cost.

Employees hired before July 1, 2016 not meeting one of the requirements listed above can continue coverage in the Town's group health care plan by paying the full premiums for coverage.

Eligible retirees hired after July 1, 2016 who service retire from NCLGERS with unreduced benefits after completing 10 years of continued service with the Town, will receive a reimbursement of medical premiums equal to \$5.00 per month for each year of employment with the Town with a maximum monthly amount of \$150.00 for an employee working thirty or more years with the Town.

The Town Council has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Health care and prescription drug coverage are provided in the Town's group health care plan until the retiree becomes eligible for Medicare for those hired prior to July 1, 2016. A medical premium reimbursement is provided until age 65 for those hired after July 1, 2016.

The retiree hired prior to July 1, 2016 may continue dependent coverage (and pay the full required contribution for this coverage) if enrolled in dependent coverage at the time of retirement. Dependent coverage terminates whenever the retiree or dependent becomes eligible for Medicare, or upon the retiree's death.

Membership of the HCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	16
Inactive members entitled to but not yet receiving benefits	0
Active plan members	165
Total	<u>181</u>

Total OPEB Liability

The Town's total OPEB liability of \$2,522,556 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Discount rate	3.56 percent
Healthcare cost trend rates	7.50 percent for 2017 decreasing to an ultimate rate of 5.00 percent by 2023

The discount rate was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 2,561,862
Charges for the year	
Service cost	155,365
Interest	75,281
Changes of benefit terms	-
Differences between expected and actual experience	5,250
Changes in assumptions or other inputs	(152,657)
Benefit payments	(122,545)
Net changes	<u>(39,306)</u>
Balance at June 30, 2018	<u><u>\$ 2,522,556</u></u>

Since the Prior Measurement Date (June 30, 2016), the Discount Rate has changed from 3.01 percent to 3.56 percent due to a change in the Municipal Bond Rate.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	<u>Discount Rate Sensitivity</u>		
	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	\$ 2,808,228	\$ 2,522,556	\$ 2,271,100

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Health Care Cost Trend Rate Sensitivity		
	1% Decrease	Current	1% Increase
Total OPEB liability	\$ 2,206,555	\$ 2,522,556	\$ 2,908,373

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized OPEB expense of \$219,246. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,672	\$ -
Changes of assumptions	-	135,863
Benefit payments and plan administrative expense made subsequent to the measurement date	96,863	-
Total	<u>\$ 101,535</u>	<u>\$ 135,863</u>

\$96,863 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 ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:

2018	\$ (16,216)
2019	(16,216)
2020	(16,216)
2021	(16,216)
2022	(16,216)
Thereafter	(50,111)

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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Other Employment Benefits (Continued)

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 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, 2018 are comprised of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Government-Wide		
Prepaid taxes and fees	\$ -	\$ 120,782
Pension deferrals	1,708,158	208,359
OPEB deferrals	101,535	135,863
	<u>\$ 1,809,693</u>	<u>\$ 465,004</u>
General Fund:		
Prepaid taxes and fees	\$ -	\$ 112,323
Property taxes receivable	-	89,456
	<u>\$ -</u>	<u>\$ 201,779</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 (\$3,318,525), vehicles (\$3,063,394), property (\$75,746,876) 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Claims, Judgments and Contingent Liabilities

At June 30, 2018, 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, 2018, is as follows:

	Restated			Ending	Current
	Beginning		Reductions	Balance	Portion of
	Balance	Additions		Balance	Balance
*Accrued compensated absences	\$ 466,471	\$ 342,468	\$ 339,724	469,215	\$ 337,835
Net pension liability (LGERS)	2,558,894	-	657,057	1,901,837	-
Total pension liability (LEO)	1,138,005	-	56,344	1,081,661	-
Total OPEB liability	2,111,709	-	33,123	2,078,586	-
Installment notes payable	287,578	-	10,276	277,302	10,700
Installment purchase contracts	10,084,824	-	421,850	9,662,974	428,564
Total	\$ 16,647,481	\$ 342,468	\$ 1,518,374	\$ 15,471,575	\$ 777,099

*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, 2018, the remaining obligation due under this agreement totaled \$240,000.

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, 2018, \$10,688 remains in a restricted account and the remaining obligation due under this agreement totaled \$134,005.

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, 2018, \$11,451 remains in a restricted account and the remaining obligation due under this agreement totaled \$143,297.

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, 2018, the remaining obligation due under this agreement totaled \$490,000.

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, 2018, \$200,113 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,398,982.

Town of Morehead City, North Carolina

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, 2018, \$71,504 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,944,047.

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, 2018, the remaining obligation due under this agreement totaled \$81,400.

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, 2018, the obligation due under this agreement totaled \$2,508,545.

Changes in Long-term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2018, is as follows:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Revenue bond	\$ 4,857,000	\$ -	\$ 77,000	\$ 4,780,000	\$ 79,000
Notes payable	13,014,957	1,425,936	1,042,741	13,398,152	1,175,627
*Accrued compensated absences	70,824	82,983	73,905	79,902	73,509
Net pension liability (LGERS)	485,596	-	140,458	345,138	-
Total OPEB liability	450,153	-	6,183	443,970	-
Total	<u>\$ 18,878,530</u>	<u>\$ 1,508,919</u>	<u>\$ 1,340,287</u>	<u>\$ 19,047,162</u>	<u>\$ 1,328,136</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, 2018, the remaining obligation due under this agreement totaled \$425,000.

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, 2018, the remaining obligation due under this agreement totaled \$353,439.

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, 2018, the remaining obligation due under this agreement totaled \$350,000.

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, 2018, the remaining obligation due under this agreement totaled \$8,250,000.

Town of Morehead City, North Carolina

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, 2018, the obligation due is \$387,000.

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, 2018, the obligation due is \$975,000.

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. The bonds are payable from water and sewer revenue. Bond terms consist of 40 annual payments beginning June 1, 2015 and bear an interest rate of 2.75%. As of June 30, 2018, \$84,928 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,780,000.

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, 2018, the obligation due under this agreement totaled \$2,657,713.

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		
2018-2019	\$ 439,264	\$ 363,805
2019-2020	365,261	352,043
2020-2021	372,925	340,014
2021-2022	300,868	328,204
2022-2023	309,100	317,599
2024-2028	1,469,849	1,426,950
2029-2033	1,585,578	1,165,289
2034-2038	1,670,184	860,214
2039-2043	1,164,216	596,419
2044-2048	1,417,786	342,849
2049-2053	845,245	66,107
	<u>9,940,276</u>	<u>6,159,493</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 10. Long-Term Obligations (Continued)

	Principal	Interest
Business-type activities, Water and Sewer Fund		
2018-2019	1,254,627	414,865
2019-2020	1,257,627	369,163
2020-2021	1,259,627	342,295
	1,261,627	315,372
	1,263,627	288,394
	5,631,661	1,066,715
	2,253,928	609,436
	1,294,428	457,386
	721,000	332,778
	826,000	228,058
	946,000	108,075
	208,000	5,720
	<u>18,178,152</u>	<u>4,538,257</u>
	<u>\$ 28,118,428</u>	<u>\$ 10,697,750</u>

Interest paid on the above obligations for the year ended June 30, 2018 totaled \$751,662. 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, 2018 amounts to \$161,367,841.

The Town is in compliance with the covenants contained in the USDA bond order as set forth in Article 5.01. The significant bond covenants require: a) that the net revenues (excluding depreciation) for each fiscal year shall not be less than 110% of the amount of the debt service requirement for each fiscal year and shall not be less than 100% of the subordinated indebtedness debt service requirement for each fiscal year and b) The Town shall establish a debt service reserve account to provide for at least one average annual loan installment.

The net revenues coverage calculation for the year ended June 30, 2018, is as follows:

Operating revenues.	\$ 7,299,837
Operating expenses	<u>5,743,619</u>
Operating income	1,556,218
Non-operating income	226,214
Non-operating expense*	<u>546,154</u>
Net revenues available for debt service	<u>\$ 1,236,278</u>
110% of FY 17/18 maximum debt service requirement	\$ 1,119,741
Debt service coverage ratio	<u>110.41%</u>
100% of FY 17/18 subordinated indebtedness debt service requirement	\$ 909,173
Debt service coverage ratio	<u>135.98%</u>

* Operating expenses do not include depreciation or interest

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 \$3,305 to the Council during the fiscal year ended June 30, 2018.

Town of Morehead City, North Carolina

Notes to Financial Statements

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. Interfund Transfers

Interfund transfers for the year ended June 30, 2018 are as follows:

	From	To	Purpose
General Fund	\$ 3,440,865	\$ -	
Major Fire/EMS District Fund	-	2,988,601	Portion of operations
Major Katherine Davis Park CPF	-	60,000	Portion of construction
Morehead Municipal Campus CPF	-	392,264	Portion of construction
Total	<u>\$ 3,440,865</u>	<u>\$ 3,440,865</u>	

Note 14. Subsequent Events

The Town has evaluated its subsequent events (events occurring after June 30, 2018) through February 28, 2019 which represents the date the financial statements were available to be issued.

Hurricane Florence impacted the Town over a period of several days beginning on September 13, 2018. Hurricane Florence was a powerful Cape Verde hurricane that caused severe damages in the Carolinas. Hurricane expenditures of \$2,100,000 have been paid or encumbered through February 2019. Costs should be recoverable through FEMA or insurance.

The Town awarded a contract to KBS Construction LLC for \$151,300 for Pump Stations # 16 and 17 in September 2018. The Town awarded a contract to DOT Construction, Inc. for \$220,332 for 6th Street Dock reconstruction in January 2019. The Town awarded a contract to Target Construction for \$515,600 to demolish the Charles Wallace Building.

Note 15. Changes in Accounting Principles/Restatements

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending December 31, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$1,005,420 and \$272,160 for the business-type activities.

Note 16. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2018 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. 83, "Certain Asset Retirement Obligations." This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a

Note 16. Pronouncements Issued, Not Yet Effective (Continued)

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. 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.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve

the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This statements also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for fiscal years beginning after December 15, 2018.

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REQUIRED SUPPLEMENTAL FINANCIAL DATA - UNAUDITED

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

- **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**
 - **Schedule of Changes in the Total OPEB Liability**
-

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Town of Morehead City, North Carolina

**Schedule of Town's Proportionate Share of Net Pension
Required Supplementary Information - Unaudited
Last Five Fiscal Years ***

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) %	0.147%	0.143%	0.134%	0.124%	0.112%
Town's proportionate share of the net pension liability (asset)	\$ 2,246,975	\$ 3,044,490	\$ 599,634	\$ (733,408)	\$ 1,352,441
Town's covered-employee payroll	\$ 8,100,246	\$ 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	27.74%	41.38%	9.00%	(12.47%)	24.36%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were

** This will be the same percentage for all participant
This schedule will not present 10 years' worth of information until fiscal year 2024.

Town of Morehead City, North Carolina

**Schedule of Town's Contributions
Required Supplementary Information - Unaudited
Last Five Fiscal Years**

Local Governmental Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 619,467	\$ 599,257	\$ 495,967	\$ 476,266	\$ 418,846
Contributions in relation to the contractually required contribution	619,467	599,257	495,967	476,266	418,846
Contribution deficiency (excess)	<u>\$ -</u>				
Town's covered-employee payroll	\$ 8,027,679	\$ 8,100,246	\$ 7,357,194	\$ 6,662,614	\$ 5,883,587
Contributions as a percentage of covered-employee payroll	7.72%	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 Four Fiscal Years ***

Firefighters' and Rescue Squad Workers' Pension

	2018	2017	2016	2015
Town's proportionate share of the net pension liability (%)	0.0000%	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	38,860	27,171	21,916	18,821
Total	\$ 38,860	\$ 27,171	\$ 21,916	\$ 18,821
Town's covered-employee payroll	\$2,272,111	\$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	1.71%	1.25%	1.26%	1.51%
Plan fiduciary net position as a percentage of the total pension liability**	89.35%	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.
This schedule will not present 10 years' worth of information until fiscal year 2024.

Town of Morehead City, North Carolina

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
Required
Last Two Fiscal Years***

	<u>2018</u>	<u>2017</u>
Beginning balance	\$1,138,005	\$1,166,289
Service Cost	47,476	88,620
Interest on the total pension liability	42,052	-
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(110,307)	-
Changes of assumptions or other inputs	61,609	(21,351)
Benefit payments	(97,174)	(95,553)
Other changes	-	-
Ending balance of the total pension liability	<u>\$ 1,081,661</u>	<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
Required
Last Two Fiscal Years***

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 1,081,661	\$ 1,138,005
Covered payroll	1,963,851	2,052,052
Total pension liability as a percentage of covered payroll	55.08%	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.

*This schedule will present 10 years' worth of information when available.

Town of Morehead City, North Carolina

**Schedule of Changes in the Total OPEB Liability and Related Ratios
Required Supplementary Information - Unaudited
Last Fiscal Year***

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 155,365
Interest	75,281
Change of benefit terms	-
Differences between expected and actual experience	5,250
Change of assumptions	(152,657)
Benefit payments	(122,545)
Net change in total OPEB Liability	<u>(39,306)</u>
Total OPEB liability - beginning	2,561,862
Total OPEB liability - ending	<u>\$ 2,522,556</u>
Covered payroll	\$ 7,462,546
Total OPEB liability as a percentage of covered payroll	34%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2017	3.01%

*This schedule will present 10 years' worth of information when available.

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, 2018
With Comparative Actual Amounts for Year Ended June 30, 2017**

(Page 1 of 5)

	2018			2017
	Final Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Ad valorem taxes:				
Current year	\$ 6,845,046	\$ 6,941,639	\$ 96,593	\$ 6,849,273
Prior years	40,000	33,330	(6,670)	41,959
Interest and penalties	24,000	14,120	(9,880)	16,165
Total ad valorem taxes	6,909,046	6,989,089	80,043	6,907,397
Other taxes:				
Privilege licenses	-	-	-	-
Motor vehicle lease tax	28,000	29,959	1,959	35,257
Total other taxes	28,000	29,959	1,959	35,257
Unrestricted intergovernmental:				
Local option sales tax	2,700,000	2,972,776	272,776	2,840,811
Electric sales tax	839,900	836,425	(3,475)	828,802
Beer and wine tax	40,000	40,545	545	42,374
Carteret County ABC revenue	190,000	212,193	22,193	214,729
Video programming sales tax	119,000	120,804	1,804	125,731
Telecommunications tax	102,000	103,913	1,913	113,304
Piped natural gas tax	10,300	17,293	6,993	13,586
Payment in lieu of taxes	65,500	66,216	716	63,936
Total unrestricted intergovernmental	4,066,700	4,370,165	303,465	4,243,273
Restricted intergovernmental:				
Powell Bill	270,000	267,439	(2,561)	269,286
School resource officer	107,368	110,260	2,892	85,388
Governor's crime commission grant	-	-	-	14,139
Bullet proof vest grant	1,950	1,390	(560)	2,470
Controlled substance tax	3,000	15,530	12,530	7,516
Restitution funds	-	1,903	1,903	2,965
Flood mitigation study grant	-	-	-	14,972
Dredging grant	466,667	20,000	(446,667)	131,049
CAMA	4,000	3,650	(350)	4,195
Webb Library funding	53,075	53,075	-	53,075
Housing Authority grant	35,000	35,000	-	19,138
FEMA reimbursements	-	-	-	34,505
NCDOC downtown revitalization grant	-	-	-	94,340
CAMA S. 10th St. grant	12,800	-	(12,800)	-
Total restricted governmental	953,860	508,247	(445,613)	733,038

(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, 2018
With Comparative Actual Amounts for Year Ended June 30, 2017**

(Page 2 of 5)

	2018			2017
	Final Budget	Actual	Variance, with Final Budget	Actual
Permits and fees:				
Building permits and inspection fees	\$ 275,000	\$ 310,551	\$ 35,551	\$ 476,310
Planning/Zoning fees and charges	20,000	28,393	8,393	31,519
Sidewalk extension fees	-	-	-	30,106
Franchise fees	-	125	125	375
Total permits and fees	295,000	339,069	44,069	538,310
Sales and services:				
Court cost and fees	3,500	4,062	562	3,874
Lot cleaning fees	500	-	(500)	452
Cemetery fees	1,000	1,680	680	1,260
Recreation concessions	1,700	1,363	(337)	2,180
Sale of cemetery lots	2,500	24,550	22,050	3,500
Mail box rent and mail fees	-	-	-	5
Library fees and charges	2,050	2,684	634	3,054
Leases	108,877	114,824	5,947	112,395
E 911 cost sharing	15,000	35,530	20,530	22,919
Recreation fees and charges	129,500	173,867	44,367	202,014
Total sales and services	264,627	358,560	93,933	351,653
Investment earnings	25,000	93,089	68,089	46,549
Miscellaneous revenue:				
Restricted donations	7,785	12,002	4,217	38,181
Insurance reimbursements/refunds	6,072	7,663	1,591	54,451
Sale of surplus property	-	-	-	110
Police sponsorship	3,000	6,000	3,000	3,000
Miscellaneous	15,000	4,809	(10,191)	42,901
Total miscellaneous revenue	31,857	30,474	(1,383)	138,643
Total revenue	12,574,090	12,718,652	144,562	12,994,120

(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, 2018
With Comparative Actual Amounts for Year Ended June 30, 2017**

(Page 3 of 5)

	2018		2017
	Final Budget	Actual	Actual
		Variance, with Final Budget	
Expenditures			
General government:			
Mayor - town council			
Salaries and benefits	\$ 22,191		\$ 34,720
Capital outlay	-		29,729
Other	14,517		11,313
	38,920	36,708	75,762
Administration:			
Salaries, wages and benefits	125,396		228,557
Other	20,991		20,155
	182,829	146,387	248,712
Finance:			
Salaries, wages and benefits	253,335		217,461
Other	35,769		25,432
	319,093	289,104	242,893
Central services:			
Employee benefits	122,705		116,050
Professional services	78,561		85,078
Capital outlay	37,842		142,758
Other	241,018		274,871
	690,247	480,126	618,757
Community projects	73,427	66,793	60,600
Information Technology:			
Salaries, wages and benefits	580		5,426
Other	(580)		9,868
	33,952	-	15,294
Cemetery, buildings and grounds:			
Salaries, wages and benefits	278,485		264,214
Capital outlay	6,968		191,168
Other	84,617		93,884
	434,677	370,070	549,266
Garage:			
Salaries, wages and benefits	18,696		76,834
Capital outlay	59,171		119,080
Other	4,019		13,605
	138,221	81,886	209,519
Total general government	1,911,366	1,471,074	2,020,803

(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, 2018
With Comparative Actual Amounts for Year Ended June 30, 2017**

(Page 4 of 5)

	2018		Variance, with Final Budget	2017
	Final Budget	Actual		Actual
Public safety:				
Police:				
Salaries, wages and benefits		\$ 3,013,134		\$ 3,004,690
Capital outlay		372,617		255,391
Other		476,194		462,694
	4,089,194	3,861,945	227,249	3,722,775
Inspections:				
Salaries, wages and benefits		490,103		498,913
Other		41,481		66,829
	739,628	531,584	208,044	565,742
Federal drug forfeit funds:				
Other		-		913
	2,902	-	2,902	913
Total public safety	4,831,724	4,393,529	438,195	4,289,430
Highways and streets:				
Transportation:				
Salaries, wages and benefits		391,301		432,171
Capital outlay		-		106,311
Other		338,617		437,097
	1,338,797	729,918	608,879	975,579
Powell Bill funds	1,066,040	183,317	882,723	338,743
Total highways and streets	2,404,837	913,235	1,491,602	1,314,322
Recreation:				
Salaries, wages and benefits		412,519		396,533
Capital outlay		78,603		8,475
Other		164,197		168,467
Total recreation	721,901	655,319	66,582	573,475
Parks:				
Salaries, wages and benefits		199,880		183,083
Capital outlay		189,708		15,455
Other		254,151		264,982
Total parks	782,172	643,739	138,433	463,520

(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, 2018
With Comparative Actual Amounts for Year Ended June 30, 2017
(Page 5 of 5)**

	2018			2017
	Final Budget	Actual	Variance, with Final Budget	Actual
Library:				
Salaries, wages and benefits		\$ 84,139		\$ 82,062
Capital outlay		88,340		-
Other		54,533		47,926
Total library	321,115	227,012	94,103	129,988
Debt service:				
Principal retirement		403,973		304,503
Interest fees		301,351		229,278
Total debt service	705,326	705,324	2	533,781
Total expenditures	11,678,441	9,009,232	2,669,209	9,325,319
Revenue over expenditures	895,649	3,709,420	2,813,771	3,668,801
Other financing sources (uses)				
Fund balance appropriated	2,567,091	-	(2,567,091)	-
Sale of capital assets	18,513	16,628	(1,885)	14,575
Transfers in:				
Newport River water access CPF	-	-	-	23
MATS Trail CPF	-	-	-	45,792
Baseball Park CPF	-	-	-	16,807
Fire/EMS District Fund	-	-	-	29,400
Water and Sewer Fund	-	-	-	37,100
Solid Waste Fund	-	-	-	400
Transfers out:				
Fire/EMS District Fund	(2,988,601)	(2,988,601)	-	(2,821,009)
Katherine Davis Park CPF	(60,000)	(60,000)	-	(44,835)
Baseball Park CPF	-	-	-	(2,000)
MMC CPF	(392,264)	(392,264)	-	-
Contingency	(40,388)	-	40,388	-
Total other financing uses	(895,649)	(3,424,237)	(2,528,588)	(2,723,747)
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	285,183	\$ 285,183	945,054
Fund balance, beginning		9,481,394		8,165,503
		-		370,837
		9,481,394		8,536,340
		<u>\$ 9,766,577</u>		<u>\$ 9,481,394</u>

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, 2018
 With Comparative Actual Amounts for Year Ended June 30, 2017

(Page 1 of 2)

	2018			2017
	Budget	Actual	Variance with Final Budget	Actual
Revenue				
Operating revenue				
Restricted - intergovernmental				
FEMA Reimbursement	\$ -	\$ -	\$ -	\$ 13,453
FEMA Grant (Safer)	308,402	290,998	(17,404)	156,424
Carteret County Equipment Grant	260,000	260,000	-	-
Charges for services	1,770,600	1,865,779	95,179	1,778,217
Total operating revenue	2,339,002	2,416,777	77,775	1,948,094
Investment earnings	3,000	15,153	12,153	5,860
Miscellaneous revenue				
Donations	500	-	(500)	-
Special Project Revenue	3,000	8,234	5,234	3,719
Sale of surplus property	-	-	-	-
Insurance reimbursements	-	950	950	33,131
Miscellaneous	-	44,467	44,467	7,427
Total miscellaneous revenue	3,500	53,651	50,151	44,277
Total revenue	2,345,502	2,485,581	140,079	1,998,231
Expenditures				
Public safety:				
Salaries, wages, and benefits		3,732,752		3,456,330
Other		871,380		836,056
Capital outlay		59,900		53,708
Total	5,265,436	4,664,032	601,404	4,346,094

(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, 2018
 With Comparative Actual Amounts for Year Ended June 30, 2017

(Page 2 of 2)

	2018			2017
	Budget	Actual	Variance with Final Budget	Actual
Debt service:				
Principal retirement		\$ 28,153		\$ 27,136
Interest fees		73,958		74,975
	<u>102,112</u>	<u>102,111</u>	<u>1</u>	<u>102,111</u>
Total expenditures	<u>5,367,548</u>	<u>4,766,143</u>	<u>601,405</u>	<u>4,448,205</u>
Revenue over (under) expenditures	<u>(3,022,046)</u>	<u>(2,280,562)</u>	<u>741,484</u>	<u>(2,449,974)</u>
Other financing sources (uses):				
Fund balance appropriated	79,500	-	(79,500)	-
Sale of capital assets	-	-	-	70,925
Transfers out:				
General Fund	-	-	-	(29,400)
Contingency	(46,055)	-	46,055	-
Operating transfer in:				
General fund	2,988,601	2,988,601	-	2,821,009
Fire/EMS Station #2	-	-	-	8,861
Total other financing sources (uses)	<u>3,022,046</u>	<u>2,988,601</u>	<u>(33,445)</u>	<u>2,871,395</u>
Revenue and other financing sources over expenditures	<u>\$ -</u>	<u>708,039</u>	<u>\$ 708,039</u>	<u>421,421</u>
		<u>\$ 2,234,071</u>		<u>\$ 1,526,032</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, 2018

	Project Authorization	Actual		
		Prior Years	Current Year	Project To Date
Revenue				
Interest revenue	\$ -	\$ 144	\$ 708	\$ 852
Total revenue	-	144	708	852
Expenditures				
Katherine Davis Park expenditures	2,709,835	2,611,076	61,520	2,672,596
Total expenditures	2,709,835	2,611,076	61,520	2,672,596
Revenue under expenditures	(2,709,835)	(2,610,932)	(60,812)	(2,671,744)
Other financing sources				
Issuance of debt	2,605,000	2,605,000	-	2,605,000
Transfer from General Fund	104,835	44,835	60,000	104,835
Total other financing sources	2,709,835	2,649,835	60,000	2,709,835
Revenue and other financing sources over (under) expenditures	\$ -	\$ 38,903	(812)	\$ 38,091
Fund balance, beginning			<u>38,903</u>	
Fund balance, ending			<u>\$ 38,091</u>	

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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.

- **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.
 - **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, 2018

With Comparative Totals as of June 30, 2017

	Jib Waterfront Access Capital Project Fund	Morehead Municipal Campus Capital Project Fund	Totals	
			2018	2017
Assets:				
Cash and cash equivalents	\$ 260,684	\$ 372,365	\$ 633,049	\$ 298,376
Total assets	260,684	372,365	633,049	298,376
Liabilities and fund balances:				
Liabilities:				
Accounts payable and accrued liabilities	202,528	380	202,908	193,867
Total liabilities	202,528	380	202,908	193,867
Fund balances:				
Restricted				
General government	58,156	371,985	430,141	183,339
Unassigned	-	-	-	(78,830)
Total fund balances	58,156	371,985	430,141	104,509
Total liabilities and fund balances	\$ 260,684	\$ 372,365	\$ 633,049	\$ 298,376

Town of Morehead City, North Carolina

**Non-Major Governmental Funds
Combining Statement of Revenue, Expenditures and
Changes in Fund Balance
Year Ended June 30, 2018
With Comparative Totals For Year Ended June 30, 2017**

	Jib Waterfront Access Capital Project Fund	Morehead Municipal Campus Capital Project Fund	2018 Totals	2017 Totals
Revenue				
Miscellaneous	\$ 7,109	\$ -	\$ 7,109	\$ 17,900
Investment earnings	2,538	3,130	5,668	1,741
Total revenue	9,647	3,130	12,777	19,641
Expenditures				
Recreation	-	-	-	-
Public safety	-	-	-	2,291
General government	30,354	49,055	79,409	50,577
Total expenditures	30,354	49,055	79,409	52,868
Revenue over (under) expenditures	(20,707)	(45,925)	(66,632)	(33,227)
Other financing sources				
Issuance of debt	-	-	-	-
Transfers in	-	392,264	392,264	2,000
Transfers out	-	-	-	(71,483)
Total other financing sources	-	392,264	392,264	(69,483)
Revenue and other financing sources over (under) expenditures and other financing uses	(20,707)	346,339	325,632	(102,710)
Fund balance, beginning	78,863	25,646	104,509	207,219
Fund balance, ending	\$ 58,156	\$ 371,985	\$ 430,141	\$ 104,509

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, 2018

	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	-	1,954	2,538	4,492
Miscellaneous revenue - donations	149,424	147,570	7,109	154,679
Total revenue	999,424	999,524	9,647	1,009,171
Expenditures				
Jib waterfront access expenditures	3,187,150	2,962,913	30,354	2,993,267
Interest expense on interfund loan	4,850	4,836	-	4,836
Total expenditures	3,192,000	2,967,749	30,354	2,998,103
Revenue under expenditures	(2,192,576)	(1,968,225)	(20,707)	(1,988,932)
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	\$ -	\$ 78,863	\$ (20,707)	\$ 58,156
Fund balance, beginning			78,863	
Fund balance, ending			\$ 58,156	

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, 2018

	Project	Actual		Project
	Authorization	Prior	Current	To Date
		Years	Year	
Revenue				
Restricted intergovernmental				
Carteret County	\$ 996,754	\$ 996,754	\$ -	\$ 996,754
Interest revenue	10,363	10,346	3,130	13,476
Interest revenue, Build America Bonds	33,633	33,633	-	33,633
Miscellaneous revenue-rent	313,950	313,950	-	313,950
Miscellaneous revenue-insurance reimbursement	41,088	41,088	-	41,088
Miscellaneous revenue	241	241	-	241
Total revenue	1,396,029	1,396,012	3,130	1,399,142
Expenditures				
General government	-	258,337	8,892	267,229
Capital outlay				
General government	-	1,117,991	40,163	1,158,154
Public safety	-	6,071,169	-	6,071,169
	7,865,424	7,447,497	49,055	7,496,552
Debt service:				
Principal retirement	5,000,000	5,000,000	-	5,000,000
Interest fees	96,094	96,094	-	96,094
	5,096,094	5,096,094	-	5,096,094
Total expenditures	12,961,518	12,543,591	49,055	12,592,646
Revenue under expenditures	(11,565,489)	(11,147,579)	(45,925)	(11,193,504)
Other financing sources (uses)				
Issuance of debt	9,808,000	9,808,000	-	9,808,000
Transfer from General Fund	1,757,489	1,365,225	392,264	1,757,489
Total other financing sources	11,565,489	11,173,225	392,264	11,565,489
Revenue and other financing sources over (under) expenditures	\$ -	\$ 25,646	\$ 346,339	\$ 371,985
Fund balance, beginning			25,646	
Fund balance, ending			\$ 371,985	

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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, 2018

With Comparative Actual Amounts For The Year Ended June 30, 2017

(Page 1 of 3)

	2018		Variance with Final Budget	2017
	Budget	Actual		Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 3,308,000	\$ 3,309,313	\$ 1,313	\$ 3,277,215
Water charges	3,608,000	3,623,688	15,688	3,558,568
Tap fees	33,300	43,209	9,909	44,429
Total charges for sales and services	6,949,300	6,976,210	26,910	6,880,212
Miscellaneous	280,000	323,627	43,627	283,553
Total operating revenue	7,229,300	7,299,837	70,537	7,163,765
Operating expenditures				
Cost of sales and services -				
Water, wells and pumping stations:				
Salaries, wages and employee benefits		143,791		135,184
Other		310,923		320,940
Repairs and maintenance		122,430		116,959
Total cost of sales and services - water, wells and pumping stations	708,549	577,144	131,405	573,083
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits		831,386		806,944
Other		1,133,969		866,114
Repairs and maintenance		60,254		74,334
Capital outlay		36,291		231,255
Total cost of sales and services - water distribution and sewer collection	2,177,436	2,061,900	115,536	1,978,647
Cost of sales and services -				
Lift stations and sewer mains:				
Other		88,797		84,050
Repairs and maintenance		43,715		55,039
Capital outlay		-		-
Total cost of sales and services - lift stations and sewer mains	154,300	132,512	21,788	139,089

(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, 2018
 With Comparative Actual Amounts For The Year Ended June 30, 2017
 (Page 2 of 3)

	2018		Variance with Final Budget	2017
	Budget	Actual		Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits		\$ 512,258		\$ 488,757
Other		322,535		328,896
Repairs and maintenance		86,674		81,299
Capital outlay		-		32,501
Total cost of sales and services - wastewater treatment plant	1,036,385	921,467	114,918	931,453
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits		182,223		188,161
Other		67,312		63,746
Capital outlay		27,877		54,947
Total cost of sales and services - water billing and collection	401,030	277,412	123,618	306,854
Total operating expenditures	4,477,700	3,970,435	507,265	3,929,126
Operating revenue over operating expenditures	2,751,600	3,329,402	577,802	3,234,639
Nonoperating revenue (expenditures)				
Interest revenue	22,330	103,428	81,098	49,748
Interest and fiscal charges	(426,826)	(376,356)	50,470	(398,545)
Capital recovery fees	115,000	30,912	(84,088)	-
Impact fee settlement	(36,120)	(546,154)	(510,034)	-
Sale of surplus property	1,000	2,185	1,185	1,614
Bond and installment agreement principal payments	(1,231,826)	(1,119,741)	112,085	(1,269,226)
Total nonoperating revenues (expenditures)	(1,556,442)	(1,905,726)	(349,284)	(1,616,409)
Revenue over expenditures	1,195,158	1,423,676	228,518	1,618,230

(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, 2018

With Comparative Actual Amounts For The Year Ended June 30, 2017

(Page 3 of 3)

	2018		Variance with Final Budget	2017
	Budget	Actual		Actual
Other financing sources (uses)				
Capital contributions	\$ 68,150	\$ 7,246	\$ (60,904)	\$ 68,143
Transfers in:				
Water and Sewer Capital Reserve Fund	36,120	-	(36,120)	208,393
Water Treatment Capital Project Fund	-	-	-	314,783
Transfers out:				
Water and Sewer Capital Project Funds	(536,000)	(251,808)	284,192	(503,048)
Water and Sewer Capital Reserve Funds	(99,240)	-	99,240	-
General Fund	-	-	-	(37,100)
Contingency	(135,574)	-	135,574	-
Fund balance appropriated	17,500	-	(17,500)	-
Reserved for future appropriation	(546,114)	-	546,114	-
Total other financing sources (uses)	(1,195,158)	(244,562)	950,596	51,171
Revenue and other sources over expenditures and other financing uses	\$ -	\$ 1,179,114	\$ 1,179,114	\$ 1,669,401
Reconciliation of modified accrual basis to full accrual basis:				
Revenue and other financing sources over expenditures and other financing uses		\$ 1,179,114		\$ 1,669,401
Depreciation		(1,698,619)		(1,730,158)
Note and installment agreement principal payment		1,119,741		1,269,226
Capitalized expenditures included in capital outlay and other expenditures		327,223		327,223
Net transfers to Water and Sewer Capital Project Funds		251,808		(20,128)
Contributed capital from notes receivable		-		(69,791)
Repairs and maintenance expense from capital project funds		(357,177)		(150,572)
Contributions-capital project funds		66,718		432,896
Interest expense in capital project funds		-		(941)
Interest earned from capital project funds		17,910		10,555
Increase (decrease) in deferred outflows of resources - pensions		(163,671)		316,132
(Increase) decrease in net pension liability		137,364		(381,153)
Decrease in deferred inflows of resources - pensions		2,012		28,530
Decrease in deferred outflows of resources - OPEB		(3,572)		-
Increase in deferred inflows of resources - OPEB		(23,097)		-
(Increase) decrease in OPEB liability		6,682		(2,313)
Net income, full accrual basis		\$ 862,436		\$ 1,698,907

Town of Morehead City, North Carolina

Solid Waste Fund

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

Year Ended June 30, 2018

With Comparative Actual Amounts for Year Ended June 30, 2017

	2018			2017
	Budget	Actual	Variance, with Final Budget	Actual
Revenue:				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 930,000	\$ 954,945	\$ 24,945	\$ 952,979
Miscellaneous	-	521	521	500
Total operating revenue	930,000	955,466	25,466	953,479
Operating expenditures:				
Contracted Services		649,796		641,043
Salaries, wages and employee benefits		54,932		53,025
Operating		210,462		177,044
Capital Outlay		127,831		-
Total operating expenditures	1,088,045	1,043,021	45,024	871,112
Operating revenue over (under) operating expenditures	(158,045)	(87,555)	70,490	82,367
Nonoperating revenue:				
Interest revenue	1,000	4,223	3,223	2,153
Restricted intergovernmental	6,000	6,235	235	6,328
Total nonoperating revenue	7,000	10,458	3,458	8,481
Revenue over (under) expenditures	(151,045)	(77,097)	73,948	90,848
Other financing sources (uses)				
Transfers out:				
General Fund	-	-	-	(400.00)
Contingency	(28,806)	-	28,806	-
Sale of surplus property	19,000	19,000	-	-
Fund balance appropriated	160,851	-	(160,851)	-
Total other financing uses	151,045	19,000	(132,045)	(400)
Revenue and other financing sources over expenditures	\$ -	\$ (58,097)	\$ (58,097)	\$ 90,448
Reconciliation of modified accrual basis with full accrual basis:				
Revenue and other financing sources over (under) expenditures		\$ (58,097)		\$ 90,448
Net other postemployment benefit obligation		-		(224)
Capital outlay		127,831		-
Depreciation		(37,928)		(31,948)
Increase in deferred outflows of resources - OPEB		609		-
Increase in deferred inflows of resources - OPEB		(815)		-
Increase in OPEB liability		(499)		-
Increase in deferred outflows of resources - pensions				7,300
Decrease in deferred outflows of resources - pensions		(3,687)		-
Increase in net pension liability		-		(8,801)
Decrease in net pension liability		3,094		-
Decrease in deferred inflows of resources - pensions		45		659
Net income, full accrual basis		\$ 30,553		\$ 57,434

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, 2018
 With Comparative Actual Amounts For The Year Ended June 30, 2017

	2018			2017
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Impact fees	\$ -	\$ -	\$ -	\$ 416,336
Interest	6,000	13,900	7,900	7,852
Total revenue	6,000	13,900	7,900	424,188
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(308,967)	(257,967)	51,000	-
Water and sewer fund	(36,120)	-	36,120	(208,393)
West end force main capital project fund	-	-	-	(185,000)
Transfers in:				
Water and sewer fund	99,240	-	(99,240)	-
Fund balance appropriated	294,087	-	(294,087)	-
Reserved for future appropriation	(54,240)	-	54,240	-
Total other financing sources (uses)	(6,000)	(257,967)	(251,967)	(393,393)
Revenue and other financing sources over other financing sources	\$ -	\$ (244,067)	\$ (244,067)	\$ 30,795

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, 2018
 With Comparative Actual Amounts For The Year Ended June 30, 2017

	2018			2017
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Interest	\$ -	\$ 1,962	\$ 1,962	\$ (863)
Total revenue	-	1,962	1,962	(863)
Expenditures				
Repair and extension	598,000	387,376	210,624	11,158
Engineering	28,000	26,843	1,157	-
Contracted services-mapping	50,000	49,996	4	50,000
Improvements	30,000	-	30,000	-
Sewer rehab pilot	10,000	-	10,000	-
Land purchase	13,000	-	13,000	-
Slip lining/I & I reduction	100,000	81,948	18,052	72,982
Lift station & force main repair	162,000	75,782	86,218	327,612
Well relining repair	40,000	-	40,000	37,897
Well control system	50,000	17,239	32,761	3,879
Equipment	1,000	-	1,000	-
Total expenditures	1,082,000	639,184	442,816	503,528
Revenue over (under) expenditures	(1,082,000)	(637,222)	444,778	(504,391)
Other financing sources				
Transfers in:				
Water and sewer fund	536,000	251,808	(284,192)	503,048
Water and sewer rebatable capital reserve fund	237,033	237,033	-	480
Water and sewer capital reserve fund	308,967	257,967	(51,000)	-
Total other financing sources and (uses)	1,082,000	746,808	(335,192)	503,528
Revenue and other financing sources over (under) expenditures	\$ -	\$ 109,586	\$ 109,586	\$ (863)

Town of Morehead City, North Carolina

Water and Sewer Rebatale Capital Reserve Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 Year Ended June 30, 2018
 With Comparative Actual Amounts For The Year Ended June 30, 2017

	2018			2017
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Contributed capital	\$ 8,000	\$ 15,159	\$ 7,159	\$ 16,560
Interest	1,000	743	(257)	1,274
Total revenue	9,000	15,902	6,902	17,834
Other financing sources (uses)				
Transfers Out:				
Transfer to Water & Sewer CPF	(237,033)	(237,033)	-	(480)
Fund balance appropriated	237,033	-	237,033	-
Reserved for future appropriation	(9,000)	-	9,000	-
Total other financing sources	(9,000)	(237,033)	246,033	(480.00)
Revenue over (under) other financing uses	\$ -	\$(221,131)	\$ 252,935	\$ 17,354

Town of Morehead City, North Carolina

Water and Sewer System Development Fees Capital Reserve Fund
 Statement of Revenue and Expenditures -Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2018

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Development fees	\$ 807,500	\$ -	\$ 40,159	\$ 40,159
Interest	-	-	149	149
Total revenue	807,500	-	40,308	40,308
Other financing uses				
Reserved for WWTP rehabilitation	(807,500)	-	-	-
Total other financing uses	(807,500)	-	-	-
Revenue over (under) expenditures	\$ -	\$ -	\$ 40,308	\$ 40,308

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, 2018

	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	839,195	827,795	11,400	839,195
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	77,577	828	78,405
Total revenue	2,751,173	2,731,983	12,228	2,744,211
Expenditures				
Water and sewer improvements	3,153,849	3,120,820	-	3,120,820
Total expenditures	3,153,849	3,120,820	-	3,120,820
Revenue under expenditures	(402,676)	(388,837)	12,228	(376,609)
Other financing sources (uses)				
Transfer to Water & Sewer	(182,128)	(182,128)	-	(182,128)
Transfers in:				
Water & Sewer Rebatable 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	(60,906)	-	-	-
Total other financing sources	402,676	463,581	-	463,581
Revenue and other financing sources over expenditures	\$ -	\$ 74,744	\$ 12,228	\$ 86,972

Town of Morehead City, North Carolina

West End Force Main Capital Project Fund

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

From Inception and for the Year Ended June 30, 2018

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ -	\$ (78)	\$ 328	\$ 250
Total revenue	-	(78)	328	250
Expenditures				
Legal services	50,000	55,958	-	55,958
Engineering	218,000	271,242	15,356	286,598
Inspections	182,000	54,712	109,322	164,034
Construction	2,435,000	1,000,682	1,335,441	2,336,123
Total expenditures	2,885,000	1,382,594	1,460,119	2,842,713
Revenue over (under) expenditures	(2,885,000)	(1,382,672)	(1,459,791)	(2,842,463)
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	1,425,936	2,657,713
Contingency	(50,000)	-	-	-
Total other financing sources	2,885,000	1,416,777	1,425,936	2,842,713
Revenue and other financing sources over expenditures	\$ -	\$ 34,105	\$ (33,855)	\$ 250

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, 2018**

Year Ended June 30	Uncollected Balance June 30, 2017	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 7,075,552	\$ 7,020,713	54,839
2016-2017	47,703	(1,903)	26,717	19,083
2015-2016	17,523	(545)	6,499	10,479
2014-2015	6,707	-	2,902	3,805
2013-2014	5,933	1	747	5,187
2012-2013	7,514	(2)	241	7,271
2011-2012	4,467	(32)	8	4,427
2010-2011	588	-	-	588
2009-2010	547	-	3	544
2008-2009	4,395	-	-	4,395
	<u>\$ 95,377</u>	<u>\$ 7,073,071</u>	<u>\$ 7,057,830</u>	<u>110,618</u>

Less: allowance for uncollectible accounts:

General Fund 21,851

Ad valorem taxes receivable - net \$ 88,767

Reconciliation to revenues:

Taxes - Ad valorem, General Fund \$ 6,989,089

Reconciling items:

Net collection adjustments 3,788

Amounts adjusted for tax discount 79,072

Less penalties and interest collected, net (14,119)

Subtotal 68,741

Total collections and credits \$ 7,057,830

Town of Morehead City, North Carolina

**Analysis of Current Tax Levy
For the Year Ended June 30, 2018**

	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	\$ 1,995,838,035	0.350	\$ 6,985,433	\$ 6,672,823	\$ 312,611
Late listing penalties	-	-	15,759	15,759	-
Total	1,995,838,035		7,001,192	6,688,582	312,611
Discoveries:					
Current year taxes	37,148,084	0.350	131,733	130,018	1,714
Prior year taxes	-	0.330	-	-	-
Prior year taxes	-	0.315	-	-	-
Prior year taxes	-	0.285	-	-	-
Total	37,148,084		131,733	130,018	1,714
Abatements					
Current year taxes	15,888,103	0.350	55,608	55,608	-
Other adjustments	-	-	56	56	-
Total	15,888,103		55,664	55,664	-
Total property valuation	<u><u>\$ 2,017,098,016</u></u>				
Net levy			7,077,261	6,762,936	314,325
Uncollected taxes at June 30, 2018			54,839	54,839	-
Current year's taxes collected			<u><u>\$ 7,022,422</u></u>	<u><u>\$ 6,708,097</u></u>	<u><u>\$ 314,325</u></u>
Current levy collection percentage			<u><u>99.23%</u></u>	<u><u>99.19%</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	94
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	105
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.	109
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.	115
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.	118

Town of Morehead City, North Carolina

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

	Fiscal Year			
	2009	2010	2011	2012
Governmental activities:				
Net investment in capital assets	\$ 20,038,930	\$ 27,397,697	\$ 28,415,541	\$ 28,409,590
Restricted	49,870	49,870	2,604,295	3,029,403
Unrestricted	5,319,695	3,541,078	2,902,265	3,318,508
Total governmental activities net position	\$ 25,408,495	\$ 30,988,645	\$ 33,922,101	\$ 34,757,501
Business-type activities:				
Net investment in capital assets	\$ 23,703,651	\$ 25,608,344	\$ 27,669,652	\$ 28,868,465
Unrestricted	6,663,538	5,696,777	6,339,091	5,908,427
Total business-type activities net position	\$ 30,367,189	\$ 31,305,121	\$ 34,008,743	\$ 34,776,892
Primary government:				
Net investment in capital assets	\$ 43,742,581	\$ 53,006,041	\$ 56,085,193	\$ 57,278,055
Restricted	49,870	49,870	2,604,295	3,029,403
Unrestricted	11,983,233	9,237,855	9,241,356	9,226,935
Total primary government net position	\$ 55,775,684	\$ 62,293,766	\$ 67,930,844	\$ 69,534,393

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 29,832,269	\$ 29,797,242	\$ 30,996,748	\$ 30,553,783	\$ 30,588,767	\$ 30,839,716
2,236,110	2,328,152	2,251,305	2,512,603	2,734,866	3,232,564
3,043,941	3,226,255	4,023,536	5,093,407	5,277,817	4,904,475
\$ 35,112,320	\$ 35,351,649	\$ 37,271,589	\$ 38,159,793	\$ 38,601,450	\$ 38,976,755
\$ 28,439,320	\$ 31,102,147	\$ 33,535,086	\$ 33,488,345	\$ 33,869,014	\$ 33,989,708
7,291,817	7,933,557	9,644,766	11,099,637	12,475,309	12,975,444
\$ 35,731,137	\$ 39,035,704	\$ 43,179,852	\$ 44,587,982	\$ 46,344,323	\$ 46,965,152
\$ 58,271,589	\$ 60,899,389	\$ 64,531,834	\$ 64,042,128	\$ 64,457,781	\$ 64,829,424
2,236,110	2,328,152	2,251,305	2,512,603	2,734,866	3,232,564
10,335,758	11,159,812	13,668,302	16,193,044	17,753,126	17,879,919
\$ 70,843,457	\$ 74,387,353	\$ 80,451,441	\$ 82,747,775	\$ 84,945,773	\$ 85,941,907

Town of Morehead City, North Carolina

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

	Fiscal Year			
	2009	2010	2011	2012
Expenses:				
Governmental activities:				
General government	\$ 1,435,315	\$ 1,374,988	\$ 1,439,277	\$ 1,608,076
Public safety	5,797,619	5,877,638	5,924,665	5,941,696
Highways and streets	922,125	861,275	960,596	932,790
Cultural and recreation	791,320	719,211	1,266,613	1,066,750
Library	138,631	138,268	141,726	135,880
Interest on long-term debt	72,241	70,524	208,152	340,508
Total governmental activities expenses	9,157,251	9,041,904	9,941,029	10,025,700
Business-type activities:				
Water and sewer	4,405,690	4,521,842	4,667,772	4,933,504
Solid waste	803,220	857,002	895,433	966,224
Total business-type activities expenses	5,208,910	5,378,844	5,563,205	5,899,728
Total primary government expenses	14,366,161	14,420,748	15,504,234	15,925,428
Program revenue:				
Governmental activities:				
Charges for services:				
General government	78,207	72,296	144,243	91,956
Public safety	772,663	904,846	816,709	115,574
Highways and streets	61,406	-	-	-
Cultural and recreation	80,794	124,142	103,932	103,211
Library	31,336	7,759	7,818	7,947
Operating grants and contributions:				
General government	33,871	2,381	-	47,863
Public safety	247,953	291,185	180,140	304,801
Highways and streets	275,479	250,052	249,100	252,306
Economic and physical development	-	-	-	-
Cultural and recreation	18,979	133,991	-	-
Library	55,000	53,075	53,075	53,075
Capital grants and contributions:				
General government	107,028	-	-	-
Public safety	53,253	935,555	537,023	179,812
Highways and streets	1,866,084	127,876	-	498,563
Economic and physical development	-	-	-	-
Cultural and recreation	1,347,082	3,049,718	2,003,391	100,000
Library	30,806	-	-	-
Total governmental activities program revenue	5,059,941	5,952,876	4,095,431	1,755,108
Business-type activities:				
Charges for services:				
Water and sewer	4,249,027	4,356,093	4,707,662	4,758,541
Solid waste	810,719	821,547	846,708	927,927
Operating grants and contributions:				
-	-	9,431	5,985	127,767
Capital grants and contributions:				
-	1,294,674	806,506	2,374,606	522,823
Total business-type activities program revenue	6,354,420	5,993,577	7,934,961	6,337,058
Total primary government program revenue	11,414,361	11,946,453	12,030,392	8,092,166

(Continued)

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 1,805,015	\$ 1,787,898	\$ 1,797,065	\$ 1,667,275	\$ 2,249,699	\$ 1,530,546
7,074,479	7,315,678	7,663,099	8,629,216	9,176,852	9,269,368
231,503	1,019,054	939,536	999,423	1,224,621	1,073,074
763,721	1,159,643	1,139,113	1,425,224	954,597	1,388,170
140,368	158,508	170,326	205,802	162,679	227,680
297,958	314,150	319,016	311,099	389,976	370,413
10,313,044	11,754,931	12,028,155	13,238,039	14,158,424	13,859,251
4,907,070	5,028,282	5,382,993	5,786,961	5,924,219	6,665,800
872,407	899,208	906,383	887,987	904,126	954,371
5,779,477	5,927,490	6,289,376	6,674,948	6,828,345	7,620,171
16,092,521	17,682,421	18,317,531	19,912,987	20,986,769	21,479,422
87,547	66,419	116,299	109,376	183,486	145,116
621,344	1,187,605	2,019,975	2,134,520	2,447,323	1,901,309
-	-	-	-	-	-
114,772	138,247	160,427	149,198	204,194	175,230
6,858	5,070	3,760	2,370	3,054	2,684
39,525	39,286	35,000	86,000	199,664	60,553
263,607	537,708	167,796	106,174	120,450	766,054
-	-	-	-	-	237,917
-	-	-	-	94,340	-
-	-	-	-	-	-
53,075	53,075	53,075	53,075	53,075	53,075
-	150,000	200,000	-	-	-
200,000	-	1,324,477	-	-	260,000
339,608	271,051	274,388	272,445	269,286	29,522
-	-	-	-	-	-
195,251	-	144,953	206,596	4,195	-
-	-	-	-	-	-
1,921,587	2,448,461	4,500,150	3,119,754	3,579,067	3,631,460
5,160,283	5,486,373	6,040,613	6,490,182	6,880,212	6,976,210
920,217	927,360	945,157	944,477	952,979	954,945
255,525	14,853	81,053	6,096	6,328	6,235
77,691	2,447,316	3,171,344	300,785	434,544	104,876
6,413,716	8,875,902	10,238,167	7,741,540	8,274,063	8,042,266
8,335,303	11,324,363	14,738,317	10,861,294	11,853,130	11,673,726

Town of Morehead City, North Carolina

Changes In Net Position (Continued)

Last Ten Fiscal Years

(accrual basis of accounting)

(Unaudited)

	2009	2010	2011	2012
Net (expense) revenue:				
Governmental activities	(4,097,310)	(3,089,028)	(5,845,598)	(8,270,592)
Business-type activities	1,145,510	614,733	2,371,756	437,330
Total primary government net expense	(2,951,800)	(2,474,295)	(3,473,842)	(7,833,262)
General revenue and other changes in net position:				
Governmental activities:				
Taxes:				
Property taxes, levied for general purpose	5,769,140	5,785,183	5,775,012	5,953,304
Local option sales tax	1,717,304	1,485,898	1,511,872	1,842,063
Other taxes	90,484	255,550	254,620	263,509
Unrestricted intergovernmental	1,100,858	1,054,303	1,121,557	902,888
Investment earnings, unrestricted	108,206	36,910	56,951	21,560
Gain (Loss) on disposal of assets	-	-	-	-
Miscellaneous income, unrestricted	76,648	51,334	59,042	122,668
Transfers	-	-	-	-
Total governmental activities	8,862,640	8,669,178	8,779,054	9,105,992
Business-type activities:				
Investment earnings	160,539	60,010	44,917	36,205
Gain (Loss) on disposal of assets	-	-	-	-
Miscellaneous income	-	263,189	286,949	294,614
Transfers	-	-	-	-
Total business-type activities	160,539	323,199	331,866	330,819
Total primary government	9,023,179	8,992,377	9,110,920	9,436,811
Changes in net position:				
Governmental activities	4,765,330	5,580,150	2,933,456	835,400
Business-type activities	1,306,049	937,932	2,703,622	768,149
Total primary government	\$ 6,071,379	\$ 6,518,082	\$ 5,637,078	\$ 1,603,549

2013	2014	2015	2016	2017	2018
(8,391,457)	(9,306,470)	(7,528,005)	(10,118,285)	(10,579,357)	(10,227,791)
634,239	2,948,412	3,948,791	1,066,592	1,445,718	422,095
(7,757,218)	(6,358,058)	(3,579,214)	(9,051,693)	(9,133,639)	(9,805,696)

5,411,825	6,110,807	6,322,041	6,785,757	6,911,703	7,004,591
2,006,679	1,963,754	2,307,936	2,484,746	2,840,811	2,972,776
93,464	93,306	74,189	29,145	35,257	29,959
1,089,515	1,118,241	1,353,173	1,402,712	1,402,462	1,397,389
11,551	8,939	3,629	19,089	54,295	114,618
-	-	-	(47,026)	38,842	(17,483)
133,242	250,752	177,698	203,182	189,630	106,666
-	-	(2,427)	-	37,500	-
8,746,276	9,545,799	10,236,239	10,877,605	11,510,500	11,608,516

27,689	23,066	18,660	28,221	62,457	125,561
-	-	-	-	1,614	21,185
292,317	333,089	319,532	313,317	284,052	324,148
-	-	2,427	-	(37,500)	-
320,006	356,155	340,619	341,538	310,623	470,894
9,066,282	9,901,954	10,576,858	11,219,143	11,821,123	12,079,410

354,819	239,329	2,708,234	759,320	931,143	1,380,725
954,245	3,304,567	4,289,410	1,408,130	1,756,341	892,989
\$ 1,309,064	\$ 3,543,896	\$ 6,997,644	\$ 2,167,450	\$ 2,687,484	\$ 2,273,714

Town of Morehead City, North Carolina

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

	Fiscal Year	
	2009	2010
General Fund:		
Reserved	\$ 1,058,644	\$ 1,356,068
Unreserved	3,297,549	3,760,096
Total General Fund	<u>\$ 4,356,193</u>	<u>\$ 5,116,164</u>
All Other Governmental Funds:		
Reserved	\$ 338,140	\$ 4,525,157
Unreserved, reported in:		
Special revenue funds	849,191	63,131
Capital projects funds	225,666	(2,253,538)
Total all other Government Funds	<u>\$ 1,412,997</u>	<u>\$ 2,334,750</u>

Town of Morehead City, North Carolina

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

	Fiscal Year		
	2016	2017	2018
General Fund:			
Non Spendable	\$ 3,381	\$ 13,895	\$ 31,805
Restricted	2,076,481	2,344,026	2,266,667
Committed	282,427	649,395	188,349
Assigned	1,742,091	1,603,568	1,660,014
Unassigned	4,061,123	4,870,510	5,619,742
Total General Fund	\$ 8,165,503	\$ 9,481,394	\$ 9,766,577
All Other Governmental Funds:			
Non Spendable	\$ -	\$ -	\$ -
Restricted	436,122	390,840	965,897
Committed	-	-	1,369,926
Assigned	952,246	1,357,434	366,480
Unassigned	(76,539)	(78,830)	-
Total all other Governmental Funds	\$ 1,311,829	\$ 1,669,444	\$ 2,702,303

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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			
	2009	2010	2011	2012
Revenue:				
Taxes	\$ 5,766,103	\$ 5,752,282	\$ 5,794,269	\$ 5,921,562
Other taxes and licenses	285,374	255,550	254,620	263,509
Intergovernmental	3,674,288	4,609,859	5,594,738	3,595,747
Permits and fees	250,492	130,440	207,628	119,754
Sales and services	680,616	683,340	708,283	657,197
Investment earnings	108,206	37,179	56,951	21,560
Miscellaneous	193,977	155,857	165,862	154,852
Total revenue	10,959,056	11,624,507	12,782,351	10,734,181
Expenditures:				
General government	1,302,666	1,118,017	1,272,341	1,316,704
Public safety	5,518,315	5,618,063	5,550,763	5,603,595
Highway and streets	771,565	715,181	839,748	811,191
Culture and recreation	757,067	645,897	774,498	822,249
Capital outlay	2,669,623	7,587,018	5,274,968	1,601,481
Debt service:				
Interest	79,404	61,200	196,232	297,089
Principal	536,410	247,407	5,223,696	276,913
Total expenditures	11,635,050	15,992,783	19,132,246	10,729,222
Excess of revenue (under) expenditures	(675,994)	(4,368,276)	(6,349,895)	4,959
Other financing sources (uses):				
Sales of capital assets	-	-	-	-
Transfers in	1,831,074	2,088,594	2,371,207	1,565,000
Transfers out	(1,831,074)	(2,088,594)	(2,371,207)	(1,565,000)
Debt issued	-	6,050,000	4,808,000	2,075,000
Total other financing sources	-	6,050,000	4,808,000	2,075,000
Net changes in fund balance	\$ (675,994)	\$ 1,681,724	\$ (1,541,895)	\$ 2,079,959
Debt service as a percentage of noncapital expenditures	5.59%	3.67%	38.10%	6.29%

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 5,405,814	\$ 6,106,245	\$ 6,331,129	\$ 6,785,716	\$ 6,907,397	\$ 6,989,089
93,464	93,306	74,189	29,145	35,257	29,959
4,149,263	4,133,115	4,544,321	4,609,994	5,146,188	5,429,714
193,414	263,773	329,559	345,461	538,310	339,069
1,170,479	1,228,315	1,762,902	2,050,003	2,129,870	2,224,339
11,551	8,939	7,652	19,089	54,294	114,618
133,242	250,752	170,622	203,182	200,820	90,930
11,157,227	12,084,445	13,220,374	14,042,590	15,012,136	15,217,718
1,329,077	1,492,138	1,606,902	1,598,377	1,920,483	1,247,054
5,814,771	6,695,853	7,351,304	7,812,983	8,380,586	8,646,949
840,581	866,211	1,033,748	840,835	1,014,976	883,713
797,993	924,901	1,658,429	1,172,332	665,102	1,053,086
2,879,010	1,122,716	202,747	641,985	3,820,429	1,278,067
300,644	328,535	324,036	312,495	304,253	432,126
281,816	239,053	320,586	327,762	331,639	375,309
12,243,892	11,669,407	12,497,752	12,706,769	16,437,468	13,916,304
(1,086,665)	415,038	722,622	1,335,821	(1,425,332)	1,301,414
-	-	-	81,559	85,500	16,628
2,553,133	2,063,847	2,203,261	2,757,020	3,006,227	3,440,865
(2,553,133)	(2,063,847)	(2,203,261)	(2,757,020)	(2,968,727)	(3,440,865)
-	-	407,000	-	2,605,000	-
-	-	407,000	81,559	2,728,000	16,628
\$ (1,086,665)	\$ 415,038	\$ 1,129,622	\$ 1,417,380	\$ 1,302,668	\$ 1,318,042
6.22%	5.38%	5.24%	5.31%	5.04%	6.39%

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	
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%
2018	1,729,924,854	256,421,080	30,752,082	2,017,098,016	0.0035	2,032,456,509	99.12%	99.24%

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.

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>
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
2018	0.350	0.310

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, 2018			Fiscal Year Ending June 30, 2009		
	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	1.32	19,131,789	3	0.82
USPG PORTFOLIO FIVE LLC	20,274,257	2	1.05			
STEVENS TOWING COMPANY	20,193,619	3	1.05			
DUKE ENERGY PROGRESS INC	15,999,239	4	0.83			
WAL MART REAL EST BUSINESS TR	15,027,141	5	0.78	15,208,791	4	0.65
4 SISTERS-00 LLC ETAL	13,588,577	6	0.70			
VININGS AT MOREHEAD LLC	11,302,080	7	0.59			
SOUTHSTAR HOLDING MHC LLC ETAL	10,988,577	9	0.57	13,657,722	6	
ZP NO 185 LLC	8,648,101	10	0.45			
DUKE CONSTRUCTION LIMITED PTSP				19,586,675	1	0.84
USPG PORTFOLIO TWO LLC				19,438,441	2	0.84
MOREHEAD PLAZA LLC ETAL				14,257,867	5	0.61
OLD TOWNE YACHT CLUB INC				13,078,510	7	0.56
PROGRESS ENERGY CAROLINAS				12,832,638	8	0.55
CAROLINA TELEPHONE				10,195,858	9	0.44
RADIO ISLAND MARINA CLUB INC				9,383,699	10	0.40
	<u>\$141,378,943</u>		<u>7.34</u>	<u>\$146,771,990</u>		<u>5.71</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
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	99.99%
2012	5,240,988	5,181,661	98.87%	57,232	5,238,893	99.97%
2013	5,260,008	5,205,324	98.96%	47,887	5,253,211	99.92%
2014	5,865,417	5,810,430	99.06%	49,395	5,859,825	99.96%
2015	6,131,180	6,089,596	99.32%	29,311	6,118,907	99.94%
2016	6,558,115	6,508,576	99.24%	31,751	6,540,327	99.83%
2017	6,678,662	6,630,957	99.29%	26,650	6,657,607	99.68%
2018	6,762,936	6,708,097	99.19%	-	6,708,097	99.19%

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
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	-
2018	-	9,662,974	277,302	-

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	Population	Total Debt	Total debt
Revenue	Installment	Notes	Primary	Estimate	Per	as Percentage of
Bonds	Contracts	Payable	Government		Capita	Personal Income
-	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	1.06%
-	840,289	19,843,403	29,027,531	9,313	3,117	0.96%
4,932,000	432,824	13,868,662	27,660,288	9,319	2,968	0.91%
4,932,000	151,484	12,825,921	26,008,445	9,362	2,778	0.81%
4,857,000	-	13,014,957	28,244,359	9,361	3,017	0.85%
4,780,000	-	13,398,152	28,118,428	9,380	2,998	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
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	-
2018	-	2,032,456,509	0.00%	9,380	-

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, 2018
(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	\$ 27,455,000	13.40%	\$ 3,678,970
Subtotal, overlapping debt	<u>\$ 27,455,000</u>		<u>3,678,970</u>
Town direct debt	-	100.00%	8,426,802
Total direct and overlapping debt			<u><u>\$ 12,105,772</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)**

	2009	2010	2011	2012	2013
Debt limit	\$ 186,156,521	\$ 186,792,225	\$ 187,144,678	\$ 151,675,002	\$ 153,023,693
Total net debt applicable to limit	-	-	-	-	-
Legal debt margin	<u>\$ 186,156,521</u>	<u>\$ 186,792,225</u>	<u>\$ 187,144,678</u>	<u>\$ 151,675,002</u>	<u>\$ 153,023,693</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	2,017,098,016				
Debt limit (8% of assessed value)	<u>161,367,841</u>				
Legal debt margin	<u>\$ 161,367,841</u>				

2014	2015	2016	2017	2018
\$ 155,861,337	\$ 154,488,046	\$ 156,307,610	\$ 159,180,007	\$ 161,367,841
-	-	-	-	-
<u>\$ 155,861,337</u>	<u>\$ 154,488,046</u>	<u>\$ 156,307,610</u>	<u>\$ 159,180,007</u>	<u>\$ 161,367,841</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)
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	5.7%	46,654	3,212,372
2017	9,361	8,486	2,620	4.9%	47,871	3,297,436
2018	9,380	8,119	2,556	4.3%	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	2018		2008	
	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 Resources	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									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government:										
Administration	5	5	5	5	5	5	5	5	5	4
Finance	7	7	7	7	7	7	6	6	6	6
Building & Grounds	5	5	5	6	5	5	5	7	7	7
Garage	1	2	2	2	2	2	2	1	1	1
Public Safety:										
Police	45	47	46	46	48	47	45	45	53	51
Fire/EMS	54	52	49	44	38	35	34	34	34	33
Planning & Inspections	7	7	7	7	7	7	6	6	7	7
Transportation:										
Streets	10	9	9	9	9	9	9	9	9	10
Recreation & Culture:										
Recreation	8	8	7	8	7	7	6	8	8	8
Parks	5	4	3	3	3	3	3	1	1	1
Library	3	3	3	3	3	5	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	2	1	-	-	-	-
Water Distbr. & sewer collect.	15	16	14	15	14	14	15	15	14	14
Wastewater treatment	8	8	9	8	8	8	7	7	7	6
Solid Waste:										
Operations	1	1	1	1	1	1	1	1	1	1
TOTAL	180	180	173	170	163	160	152	153	161	157

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Town of Morehead City, North Carolina

**Operating Indicators By Function/Program
Last Ten Fiscal Years
(Unaudited)**

Function/Program	Calendar Year			
	2009	2010	2011	2012
Function/Program				
Public Safety				
Police calls dispatched ##	98,291	84,586	81,015	72,351
Number of building permits issued ##	890	813	943	1,050
Construction value of building permits issued ##	\$ 27,011,019	\$ 25,341,471	\$ 24,851,031	\$ 38,126,292
Fire/EMS area served in square miles ##	14.20	14.20	14.20	15.73
Fire calls answered ##	807	727	966	1,015
EMS calls answered ##	1,665	1,893	1,801	2,058
Highways and Streets				
Miles of streets maintained **	49.38	49.56	49.82	50.27
Water/Sewer				
Number of customers served **	5,322	5,299	5,323	5,375
Daily avg. gallons water consumption ##	1,212,000	1,244,000	1,209,000	1,208,000
Daily avg. gallons waste water treated ##	1,156,000	1,329,000	1,199,000	1,169,000
Sanitation				
Solid waste collected annually (tons) **	3,293	3,246	3,235	3,204
Recyclables collected annually (tons) **	434	398	397	398

2013	2014	2015	2016	2017	2018
72,194	75,004	68,038	58,144	59,164	56,360
1,256	985	1,094	1,256	1,110	1,227
\$ 21,528,398	\$ 26,764,940	\$ 68,690,713	\$ 37,701,802	\$ 36,314,424	\$ 46,359,377
15.73	15.73	28.00	28.00	28.00	28.00
762	707	667	785	507	516
2,261	2,505	2,499	3,201	3,470	3,476
50.27	50.27	50.35	50.35	50.35	50.35
5,419	5,454	5,339	5,534	5,623	5,797
1,163,000	1,165,000	1,160,000	1,191,000	990,000	1,030,000
1,121,000	1,144,000	1,340,000	1,438,000	1,396,000	1,430,000
3,077	3,080	3,010	3,056	3,047	3,045
366	365	435	469	515	492

Town of Morehead City, North Carolina

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

Function/Program	Calendar Year			
	2009	2010	2011	2012
General Government				
Number of cemeteries	3	3	3	3
Public Safety				
Number of police stations/substations	3	4	4	4
Number of patrol units	44	52	52	50
Number of police boats	1	1	1	1
Number of Fire/EMS stations	4	4	4	4
Number of engines	5	5	5	5
Number of ambulances	3	3	3	4
Number of Fire/EMS boats	1	1	1	1
Highways and Streets				
Miles of streets	49.38	49.56	49.82	50.27
Culture and Recreation				
Number of parks	13	16	16	16
Number of public water accesses	19	22	22	22
Park acreage	74.00	76.00	76.00	76.00
Tennis and multipurpose courts	7	7	7	7
Playgrounds	4	4	4	5
Ballfields	10	11	11	11
Number of libraries	1	1	1	1
Water/Sewer				
Miles of water mains	82.04	83.25	83.25	83.25
Miles of sanitary sewers	79.14	79.50	79.50	79.50
Number of water treatment plants	0	0	0	1
Number of treatment plants	2	2	2	2
Sanitation				
Number of yard waste trucks	2	2	2	2

2013	2014	2015	2016	2017	2018
3	3	3	3	3	3
2	2	2	2	2	2
46	46	48	47	44	44
1	1	1	1	1	1
3	3	3	3	3	3
5	5	7	7	7	7
5	5	5	5	5	5
1	1	1	1	1	1
50.27	50.27	50.35	50.35	50.35	50.35
16	16	16	16	16	16
22	23	23	23	23	23
77.50	77.50	77.50	77.50	77.50	77.50
7	7	7	7	7	7
6	6	6	6	6	6
10	10	10	10	10	10
1	1	1	1	1	1
83.25	83.25	83.50	83.50	83.50	83.50
79.50	79.50	80.00	80.00	80.00	80.00
1	1	3	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 (the Town), as of and for the year ended June 30, 2018, 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 February 28, 2019. Our report includes an emphasis of matter paragraph because of the adoption of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for postemployment Benefits Other Than Pensions (OPEB)*.

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.

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. 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.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

The 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
February 28, 2019

**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 (the Town) 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, 2018. 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'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 the Town'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, North Carolina 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, 2018.

Report on Internal Control Over Compliance

Management of the 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
February 28, 2019

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018**

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? yes X 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:

CFDA No.	Names of Federal Program or Cluster
66.458	Clean Water State Revolving Fund

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

The major State program is the State match to the Clean Water State Revolving Fund.

Town of Morehead City, North Carolina

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2018

Section II. Financial Statement Findings

MATERIAL WEAKNESSES

Finding: 2018-001 – Unrecorded liability for Water and Sewer Fund Impact Fees Repayments

Criteria: According to Generally Accepted Accounting Principles and the accrual basis of accounting, expenses are recorded when incurred or legal liability has been determined.

Condition and Context: The Town of Morehead City did not record a liability in the Water and Sewer Fund for impact fees in the amount of \$512,578 owed per legal determination in May 2018.

Effect: Payables and expenses in Water and Sewer Fund were understated by \$512,578.

Cause: Oversight during the review of the year end accrued expenses journal entry.

Recommendation: We recommend the Town adhere to their established journal entry review process to ensure all accruals are accounted for at year end.

Views of Responsible Management: Management concurs. See management's Corrective Action Plan.

Finding: 2018-002 – Incorrect Recording of Depreciation Expense

Criteria: According to Generally Accepted Accounting Principles, capital assets should be properly recorded by an entry to decrease capital assets and decrease accumulated depreciation.

Condition and Context: Capital asset deletions in the Solid Waste Fund were not recorded appropriately.

Effect: Depreciation expense was understated and capital assets were overstated by \$85,420.

Cause: Management oversight during the review of capital asset deletion journal entries.

Recommendation: We recommend the Town establish capital asset journal entry review procedures with sufficient detail to ensure capital assets are properly removed from the capital assets subsidiary ledger and the general ledger.

Views of Responsible Management: Management concurs. See management's Corrective Action Plan.

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2018**

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

706 Arendell Street
Morehead City, North Carolina 28557-4234
TEL (252) 726-6848
FAX (252) 726-2267
www.moreheadcity.nc.gov



Ryan Eggleston
City Manager

**Corrective Action Plan
For the Fiscal Year Ended June 30, 2018**

Section II. Financial Statement Findings

Name of contact person: Jewel Lasater, Finance Director

Proposed completion date: March 1, 2019

MATERIAL WEAKNESSES

Finding: 2018-001

Corrective Action: The Town of Morehead City has booked an audit adjustment to correct the current year deficiency. Going forward, the Finance Director will review all subsequent events to determine the impact, if any, on the Town of Morehead's liabilities and the appropriate fiscal year for which adjustments are to be made.

Finding: 2018-002

Corrective Action: The Town of Morehead City has booked an audit adjustment to correct the current year deficiency. Going forward, procedures will be put in place to ensure accuracy of entries and will be completed by the Assistant Finance Director. The same procedures will be completed by the Finance Director upon a full review of depreciation.

A handwritten signature in cursive script that reads "Jewel A. Lasater".

Finance Director

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.

MOREHEAD CITY NORTH CAROLINA

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Ryan Eggleston
City Manager

Jewel Lasater Finance Director Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2018

Section 2. Financial Statement Findings

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

Status: Procedures have been put in place to reconcile debt proceeds within the capital projects funds with debt per the enterprise funds. All debt proceeds were properly recorded within the capital project funds and debt was properly recorded in the enterprise funds for FYE 6/30/18. Corrected.

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

Status: Procedures have been put in place to ensure accuracy of the accounts receivable balance for ambulance fees. Accounts receivable for ambulance fees were properly recorded for FYE 6/30/18.

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

Status: Year-end receivables were reviewed by the Assistant Finance Director for new debt and verified that corresponding debt has been recorded. The Finance Director reviewed for accuracy. Year-end receivables were properly recorded at FYE 6/30/18. Corrected.

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

Status: Repeat finding 2018-002

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, 2018

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 Housing and Urban Development Pass through East Carolina Regional Housing Authority Public Housing Drug Elimination Program	14.854	NC19P010022-95A	35,000	-	-
US Department of Justice Direct Programs: Bulletproof Vest Partnership Grant	16.607		2,565	-	2,565
Pass through Carteret County Board of Education School Resource Officer	16.594	N/A	110,260	-	-
Total US Department of Justice			<u>112,825</u>	-	<u>2,565</u>
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 1,140,749	285,187	34,183
US Department of Homeland Security Pass through Dept of Public Safety Staffing for Adequate Fire and Emergency Response (SAFER)	97.083		\$ 290,998	\$ -	\$ 27,132
State Assistance					
NC Department of Environmental Quality Division of Water Resources Water Resources Development Project - Dredging		7522	-	38,628	19,372
NC Department of Transportation Nonstate System Street Aid Allocation		N/A	-	189,685	-
Total federal expenditures			<u>\$ 1,579,572</u>		
Total state expenditures				<u>\$ 513,500</u>	
Total local expenditures					<u>\$ 83,252</u>

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, 2018

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, 2018. 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, 2018.

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, 2018 were \$425,000, \$353,438, \$350,000, \$8,250,000, \$387,000, \$975,000, and \$2,508,545, 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, 2018 were \$277,301, \$4,398,981, \$1,944,047, and \$4,780,000, respectively.