



Town of Morehead City
NORTH CAROLINA

**Comprehensive Annual Financial
Report**

For the Fiscal Year Ended June 30, 2020

Prepared by the Finance Department
Jewel A. Lasater
Finance Director

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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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January 27, 2021



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

We are pleased to present the Comprehensive Annual Financial Report of the Town of Morehead City (City) for the fiscal year ending June 30, 2020. 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 City. Responsibility for both the reliability of the data and the completeness and fairness of the presentations, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, management of the City 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 City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City'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 City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2020 are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified ("clean") opinion on the City's financial statements for the fiscal year ended June 30, 2020. 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 City may be required to have a "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and certain state agencies. If applicable, Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, findings and recommendations, and auditors' reports on the internal control structure and compliance, are included in the Compliance Section of this report.

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

Description of Morehead City

Morehead City is located on the coast of North Carolina approximately 150 miles Southeast of Raleigh. With a population of approximately 9,517 it is the largest incorporated city 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 City combines the best of the relaxed, friendly atmosphere of a small Southern city 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 City is the county's 135-inpatient bed hospital, a branch of the state community college system, and the Crystal Coast Civic Center. The City is 45 minutes away from the closest commercial airport and 15 minutes from the county airport, which services private planes.

Morehead City operates under the Council-Manager form of government. The City Council is comprised of the mayor and five council members who are responsible for the legislative affairs of the City. 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 City services, and the preparation and management of the budget.

The annual budget serves as the foundation for the City's financial planning and control. The City's formal annual budget process begins in January. The City Manager, Department Directors, and City 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 City 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 City'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 non-emergency appropriation of Contingency in the annually adopted budget requires Council approval. The City Manager may authorize appropriation of contingency in emergency situations. Any contingency appropriations must be reported to Council at the next scheduled monthly Council meeting.

The City 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 City provides water and sanitary sewer and a comprehensive solid waste program.

The estimated 2020 population for the City increased by 0.1% to 9,517 compared to the 2019 estimate of 9,481. The City encompasses approximately seven square miles and employs 179 full-time equivalent staff. Economic indicators including building permits, number of utility customers, and sales tax revenue point to a stable growing 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 City operates. Morehead City is a port city 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 several historical sites that serve as destinations for individuals and groups. The county's economy, while seasonal, is stabilized by 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 City. Carteret County had a 5.2% annual average unemployment rate in fiscal year ending June 30, 2020 compared to 5.6% statewide and 6.0% nationally (not seasonally adjusted).

All indications are that the City and the county will experience stable continued growth, however the impacts of the global pandemic to date are not fully recognized and future outbreaks may have a compounded effect. Unemployment rates across the United States, in North Carolina and locally increased in 2020 representing the impacts from the global pandemic. However, unemployment rates across all three areas continues to decline in the month's subsequent to the fiscal year-end. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the City limits for 2019-2020 fiscal year was \$85.7 million. This growth expands our tax base and property taxes, one of our largest revenue sources.

The City 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 City'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. 2019-2020 major initiatives undertaken in the governmental funds to meet this goal included the construction of a new City Hall that reflects the historical Charles Wallace Building. The City finalized rehabilitation of Shevans Park and included a splash pad to increase the park's activities available to its' citizens. Kathryn Davis Park bathrooms, landscaping and parking projects were also completed. The City continued implementation Phase II 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 city completed several significant paving, resurfacing & drainage projects and began multiple other projects during 2020.

The City 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 City provided in kind support for several 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 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 purchased various types of public safety vehicles including but not limited to two Ambulance Remounts for Fire & EMS and two new Dodge Durangos for Police. The City purchased a Street Sweeper to clean the streets. Other improvements included electrical enhancements to the Waterfront area and street beautification projects across our community. The City completed various dredging projects in conjunction with local community groups. The City also purchased various equipment including watch guard camera upgrades and equipment to enhance remote work & education.

In the Water & Sewer Fund rehabilitation was completed for Lift Station #17 during 2019-2020 and renovations to Lift Station#16 was initiated. The City began and completed most of the implementation of a new Automatic Meter Reading infrastructure to replace the aging system with enhanced capabilities. A new backhoe and Jet Vac truck were purchased. Multiple Water & Sewer improvement projects were completed throughout the eastern end of City. Major equipment replacements were done at the Wastewater Treatment Plant to its headworks as part of a multiyear improvement project. Rehabilitation to Lift Station #20 began to support increased building in the surrounding area.

For the Future

The City Council adopted the fiscal year 2020-2021 budget in June 2020. Property taxes provide approximately 42% of the revenues for the General Fund. A County revaluation was performed for the 2020 Tax Year that falls in Fiscal Year Ending 06/30/2021. The revaluation increased the projected Ad Valorem revenue projections before considering possible collection decreases due to the global pandemic and its impacts. Revenue from sales tax, permits and fees, and sales and services were all projected to either decrease or remain stable. This is to take a conservative approach in balancing the 2020-2021 budget for possible impacts on the economy due to the COVID 19 pandemic. However, due to the geographical nature of our City revenue from sales tax has increased during most of the spring and summer months of 2020. In response to the possible economic impact on our customers there are no rate increases to become effective at midyear for water and sewer charges. These increases will be reinstated in the future and are necessary to pay operating costs associated with these services and to provide adequate funds to repay Water and Sewer Fund debt and infrastructure improvements. In addition, there are no rate increases to solid waste charges.

On the spending side, funds were budgeted to complete multiple repaving & resurfacing projects. Purchase of ten patrol vehicles for Police were also budgeted. The Fire & EMS department budgeted for new Station #2 bay doors and SCBA unit replacements. Construction of the new City Hall building is expected to be near completing in 2020-2021. Plans and discussions are being developed for Fire Station #3 on the west end of City that was heavily damaged during Hurricane Florence. The City continues to work with consultants in developing a plan to deal with the increasing issue of storm water. Exterior & interior renovations are budgeted for the Recreation Center and Train Depot building. The Water & Sewer fund budgeted for clarifier renovations. Funds were budgeted for research and testing to meet new NPDES rules as it relates to wastewater.

Independent Audit

The North Carolina General Statutes requires the City to provide for an annual audit of the accounts and financial transactions of the City by a firm of independent certified public accountants. The City 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 Morehead City for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the thirtieth 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 City Council to develop the highest standards of financial reporting. Their foresight in encouraging these standards is recognized. I wish to thank all government departments for their assistance in providing the data necessary to prepare this report. I would also like to express my deepest gratitude to the Finance Department staff for their efficient and dedicated services and to RSM US LLP for their support in the preparation of this report.

Respectfully submitted,

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

Jewel A. Lasater, Finance Director

2019-2020 Morehead City Mayor & Council

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

Diane C. Warrender

William F. Taylor

Keri V. McCann
Mayor Pro Tem

George W. Ballou

David A. Horton

2019-2020 Morehead City Administrative, Financial & Director Staff

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

Jerry Riggs
Parks and Recreation Director

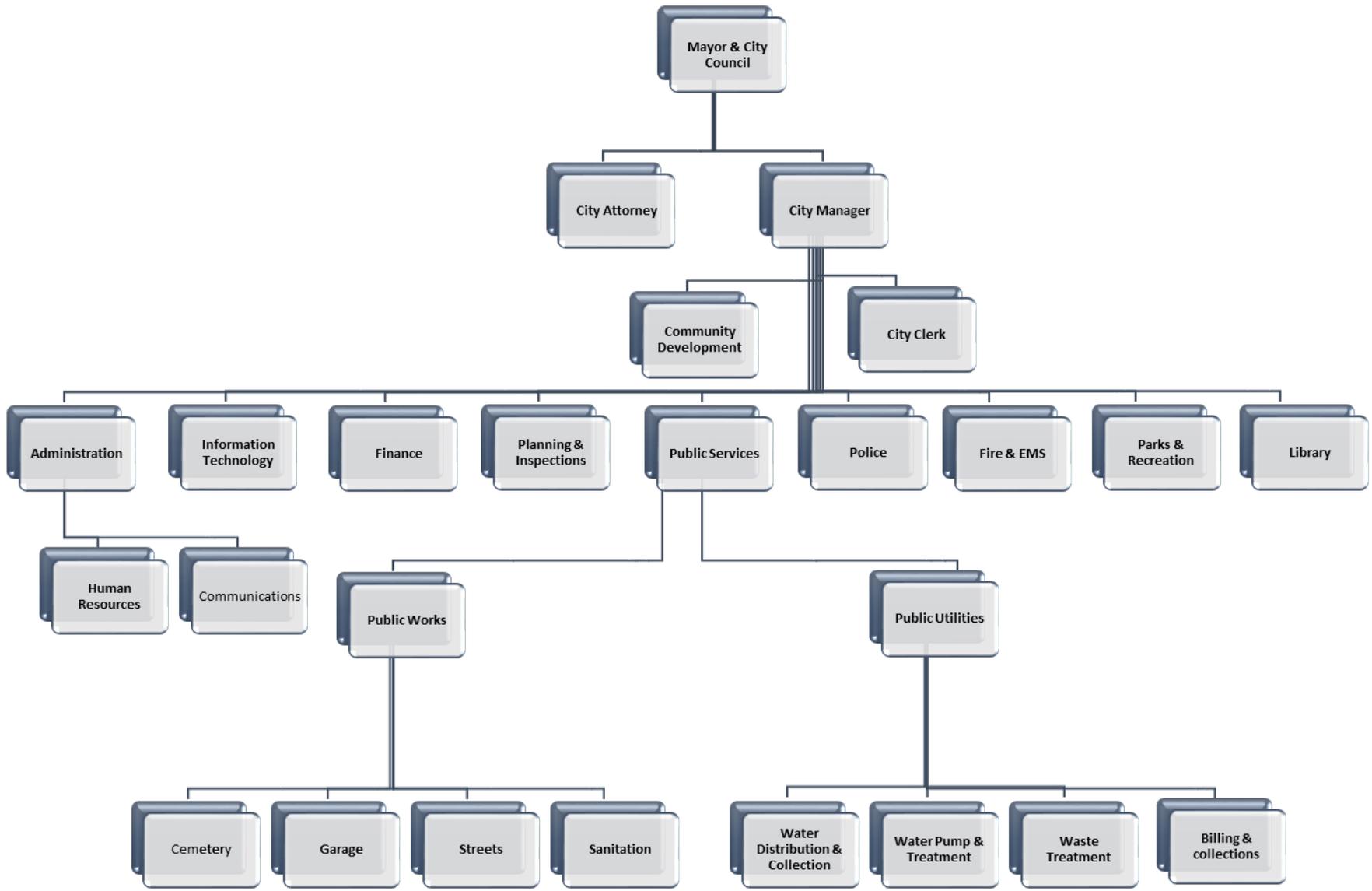
Susan Nixon
Human Resources Director

Sandi Watkins
Planning & Inspection
Director

Alize Proisy
Communications
Director

Shirl F. Meadows
Tax Collector

City-Wide Organization Chart





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, 2019

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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Independent Auditor's Report

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, and each major fund of Town of Morehead City, North Carolina (the City), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the City'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, and each major fund of the Town of Morehead City, North Carolina as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 68 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements, budgetary schedules, other financial information and schedule of expenditures of federal and state awards, as required by Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), 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 financial information, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for that portion pertaining to the year ended June 30, 2019, marked "unaudited," 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, except for that portion marked "unaudited," which we express no opinion, the combining and individual fund statements, budgetary schedules, other financial information, and the Schedule of Expenditures of Federal State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2021 on our consideration of the 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 City'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
January 27, 2021

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Town of Morehead City, North Carolina

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2020

This section of the Town of Morehead City's (City) annual financial report presents a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2020. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

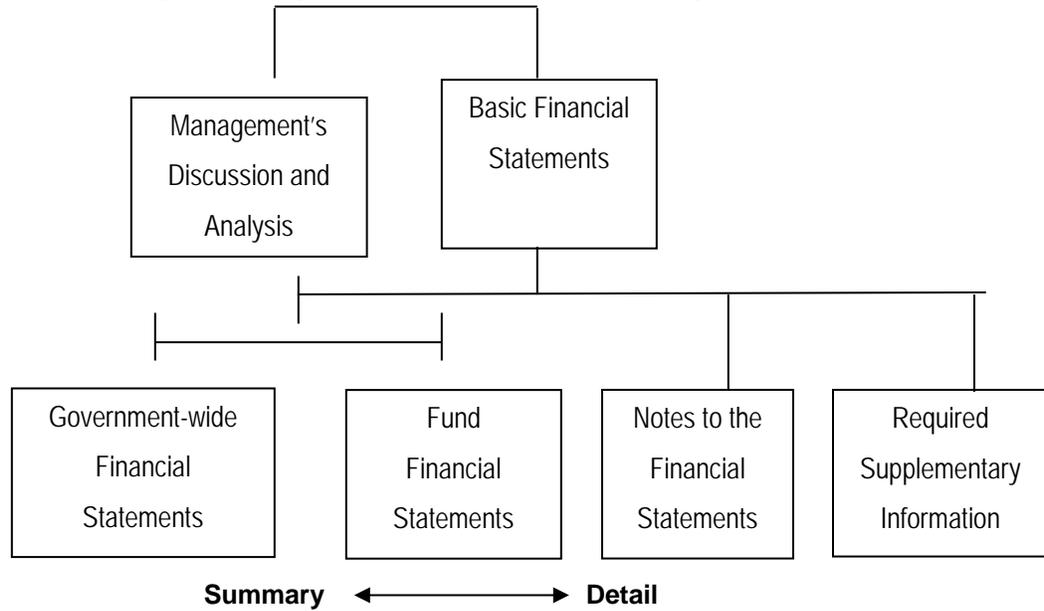
Financial Highlights

- The overall financial position of the City improved in 2020 as evidenced by an increase in total net position of \$3.8 million. This increase was mainly from governmental (\$4.2 million) activities. The increase for the governmental activities was due to increased property tax revenue, FEMA PA funds received for expenditures in prior years and decreased expenditures. The small decrease (\$0.40 million) for business-type activities was primarily the result of increased expenses in the business-type departments and increase of transfers out.
- The assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$90.8 million (net position). Of this amount, \$7.4 million (unrestricted net position) can be used to meet the City's ongoing obligations to its citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14.9 million, an increase of \$3.2 million in comparison with the prior year. Approximately 74.9% or \$11.2 million is nonspendable, restricted, committed, or assigned.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$3.7 million or approximately 28.7% of General Fund expenditures and transfers out for the fiscal year and is available for spending at the government's discretion.
- Governmental net capital assets increased \$4.3 million primarily due to additions to infrastructure for street improvements as well as construction in progress of a new City Hall. Business-type net capital assets decreased \$2.5 million primarily as a result of additions to intangibles for easements and additions to construction in progress for a new AMR system.
- The City's total debt increased by \$1.6 million during the current fiscal year. Debt in the governmental activities increased \$2.8 million due mostly to the addition of a loan for the new City Hall. Debt in the business-type activities decreased \$1.2 million due to principal repayments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City'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 City's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City'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 Fund to demonstrate budgetary compliance.
- *Proprietary funds statements* offer short- and long-term financial information about the activities the City operates like businesses, such as the water and sewer system.

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 the 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 City'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 City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City'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 City's financial condition.

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

- Governmental activities - Most of the City'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 City charges fees to customers to cover the costs of certain services provided. The City's water and sewer system and solid waste system are included here.

The government-wide financial statements are on pages 23 – 25 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the City'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 City's budget ordinance. The City 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 City'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 City'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 Fund as required by the General Statutes. The budget is a legally adopted document that incorporates input from citizens of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund to demonstrate how well the City complied with the budget ordinance and whether or not the City 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 City Council; 2) the final budget as amended by the City Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. Because the City'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 City 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 26 – 34 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 35 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 68 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 City as a Whole

Net Position: For the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$90.1 million at the close of the most recent fiscal year. A summary of the City's net position at June 30, 2020 and 2019 is presented below:

	Town of Morehead City's Net Position					
	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 17,370,786	\$ 13,110,272	\$ 9,893,959	\$ 14,165,417	\$ 27,264,745	\$ 27,275,689
Other non current assets	-	-	57,970	57,970	57,970	57,970
Capital assets	46,051,849	41,766,096	54,388,848	51,696,155	100,440,697	93,462,251
Total assets	63,422,635	54,876,368	64,340,777	65,919,542	127,763,412	120,795,910
Deferred outflows of resources	2,707,794	2,410,025	478,791	404,729	3,186,585	2,814,754
Total assets and deferred outflows of resources	66,130,429	57,286,393	64,819,568	66,324,271	130,949,997	123,610,664
Long-term liabilities outstanding	18,675,203	14,762,524	15,468,177	16,463,862	34,143,380	31,226,386
Other liabilities	2,905,844	2,078,527	2,783,568	2,864,951	5,689,412	4,943,478
Total liabilities	21,581,047	16,841,051	18,251,745	19,328,813	39,832,792	36,169,864
Deferred inflows of resources	278,823	389,575	46,112	65,217	324,935	454,792
Total liabilities and deferred inflows of resources	21,859,870	17,230,626	18,297,857	19,394,030	40,157,727	36,624,656
Net position:						
Net investment in capital assets	34,501,559	33,012,289	38,892,348	34,987,905	73,393,907	68,000,194
Restricted	10,045,571	5,358,178	-	-	10,045,571	5,358,178
Unrestricted	(276,571)	1,685,300	7,629,363	11,942,336	7,352,792	13,627,636
Total net position	\$ 44,270,559	\$ 40,055,767	\$ 46,521,711	\$ 46,930,241	\$ 90,792,270	\$ 86,986,008

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The City's net position increased by \$3.8 million for the fiscal year ended June 30, 2020. However, the largest portion (80.8%) reflects the City'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 City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 City's net position (11.1%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$7.4 million (8.1%) is unrestricted.

Governmental Activities

Net position of the governmental activities increased \$4.2 million, or 10.52%, to \$44.3 million. \$44.5 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.). \$0.3 million deficit is unrestricted. Unrestricted net position deficits are created from long-term liabilities that resources are appropriated each year as the payments come due rather than accumulating the net assets in advance.

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

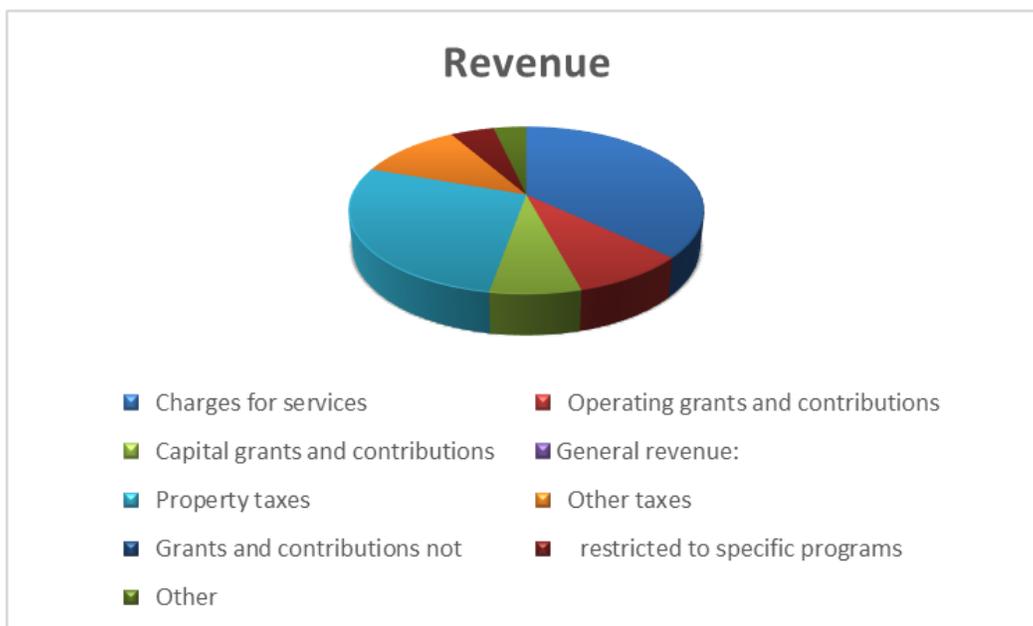
- Continued diligence in the collection of property taxes by maintaining a high tax collection percentage of 98.67%. The statewide average in fiscal year 2019 was 99.21%. The small decrease in the tax collection rate is assumed to be related to the global pandemic.
- Increased sales tax revenues of approximately \$180,000 and increased Ad valorem tax revenue of approximately \$1.2 million due to economic growth in the City and an increase in the property tax rate.

Business-type Activities

The net position of the business-type activities decreased by \$0.04 million, or 0.87%, to \$46.5 million. This net position will be used to finance the operations and expansion of the water, sewer, and solid waste operations.

Changes in Net Position: The following table presents the City's changes in net position for the fiscal years ended June 30, 2020 and 2019:

	Town of Morehead City's Changes in Net Position					
	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenue:						
Program revenue:						
Charges for services	\$ 2,333,952	\$ 2,492,430	\$ 8,755,306	\$ 8,243,526	\$11,089,258	\$10,735,956
Operating grants and contributions	1,588,157	1,089,827	1,070,254	7,025	2,658,411	1,096,852
Capital grants and contributions	838,920	-	1,251,764	232,899	2,090,684	232,899
General revenue:						
Property taxes	8,290,873	7,139,424	-	-	8,290,873	7,139,424
Other taxes	3,380,606	3,222,436	-	-	3,380,606	3,222,436
Grants and contributions not restricted to specific programs	1,422,392	1,444,489	-	-	1,422,392	1,444,489
Other	569,111	609,023	500,733	539,228	1,069,844	1,148,251
Total revenue	18,424,011	15,997,629	11,578,057	9,022,678	30,002,068	25,020,307
Expenses:						
General government	3,518,140	3,286,806	-	-	3,518,140	3,286,806
Public safety	10,208,297	10,257,915	-	-	10,208,297	10,257,915
Highways and streets	968,323	688,813	-	-	968,323	688,813
Disaster planning & recover	861,693	-	-	-	861,693	-
Culture and recreation	1,554,753	900,708	-	-	1,554,753	900,708
Library	174,304	184,756	-	-	174,304	184,756
Interest on long-term debt	350,909	298,219	-	-	350,909	298,219
Water and sewer	-	-	7,524,679	6,445,950	7,524,679	6,445,950
Solid waste	-	-	1,034,708	1,913,039	1,034,708	1,913,039
Total expenses	17,636,419	15,617,217	8,559,387	8,358,989	26,195,806	23,976,206
Increase in net position before transfers	787,592	380,412	3,018,670	663,689	3,806,262	1,044,101
Transfers	3,427,200	698,600	(3,427,200)	(698,600)	-	-
Increase (decrease) in net position	4,214,792	1,079,012	(408,530)	(34,911)	3,806,262	1,044,101
Net position, July 1	40,055,767	38,976,755	46,930,241	46,965,152	86,986,008	85,941,907
Restatement	-	-	-	-	-	-
Net position, July 1 as restated	40,055,767	38,976,755	46,930,241	46,965,152	86,986,008	85,941,907
Net position, June 30	\$44,270,559	\$40,055,767	\$46,521,711	\$46,930,241	\$90,792,270	\$86,986,008





Total government-wide revenue of \$30.0 million was primarily derived from charges for services (37.0%), property taxes (27.6%) and other taxes (11.3%). The total expenses of all programs were \$24.3 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 40.3% and water and sewer for 29.7%.

Governmental Activities

Governmental activities increased the City's net position by \$4.2 million and accounted for 110.7% of the total growth in the net position of the Town of Morehead City. Key elements related to governmental activities are as follows:

- Property taxes increased approximately \$1.2 million over the preceding year due to the City's economic growth and a \$0.03 increase in the property tax rate.
- Charges for services decreased \$0.16 million, due mainly to a decrease in Ambulance services during the global pandemic. There were less motorists on the roads therefore, less accidents that result in Ambulance services.
- Other taxes increased approximately \$.16 million primarily due to increased sales tax distributions from the State.
- Expenses increased approximately \$2.0 million (12.9%) compared to the prior period.
 - General Government increased \$0.2 million. Highway and streets increased \$0.3 million. The largest portion of this increase \$0.7 million is related to culture and recreation expenditures

Business-type Activities

Business-type activities decreased the Town of Morehead City's net position by \$0.40 million and accounted for a 10.7% decrease that offset the increase of Governmental activities 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 \$512,000 or a 6.2% increase over the previous year. The largest portion of this increase is due to water, sewer and solid waste rates increased midway through the year.
- The Water and Sewer Fund expenses increased approximately \$1.1 million or 16.7% from the preceding year. The largest portion of this increase of expenditures is related to water distribution and sewer collection operating expenditures.
- Solid Waste fund expenses decreased approximately \$0.88 million or 45.9% from the preceding year. This is mostly due to FEMA PA program funds received that offset disaster planning & recovery expenditures.

Financial Analysis of the City's Funds

The City 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 \$3.3 million, while total fund balance was \$8.1 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 18.26% of total General Fund expenditures and transfers out of \$18.2 million, while total fund balance represents 44.5% of that same amount. The City 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, 2020, the governmental funds of the Town of Morehead City reported a combined fund balance of \$14.9 million, up from \$13.1 million the previous year. The General Fund balance decreased \$1.2 million. This decrease is mainly related to an increase of expenditures of approximately \$5.0 million in the Morehead Municipal Campus Fund and the Government Capital Project Fund. Morehead City Municipal Campus Capital expenditures increased approximately \$1.3 million. Governmental Capital Project expenditures increased approximately \$3.5 million of which \$2.0 million was funded by the general fund. Revenues increased \$2.4 million, expenditures increased \$2.0 million and net transfers out increased \$2.7 million. The fund balance in the Capital Project Funds increased \$4.8 million. The largest portion of this other financing resources received to date over construction in progress in the Morehead City Municipal Campus Capital Project Fund. The Morehead City Municipal Campus Capital Project Fund and the Governmental Capital Project Fund were deemed to be major funds for the year ending June 30, 2020.

General Fund Budgetary Highlights. Beginning this fiscal year Fire & EMS was incorporated into the general fund. During the fiscal year, the City 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 was under the final budget by approximately \$39,300 in the General Fund. The most significant favorable variances were in state shared taxes included in unrestricted intergovernmental revenue and FEMA reimbursements in restricted intergovernmental revenue. Expenditures were tightly controlled, and the City was able to comply with its budgetary requirements in all categories except for the parks department which exceeded the budget by \$2,359.

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 \$6.9 million in the Water and Sewer fund and \$0.7 million in the Solid Waste fund. Unrestricted net position in the Water and Sewer Fund decreased approximately \$5.4 million. The largest portion of this decrease is attributable to several capital expenditures including but not limited to a replaced AMR system, water & sewer portion of the new City Hall, new equipment, and utility system replacements. Unrestricted net position in the Solid Waste Fund increased approximately \$1.1 million. The largest portion of this increase is due to FEMA PA funds received for prior year disaster recovery expenditures. 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, 2020, the City had \$93.5 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 \$0.5 million, or .6%, over last year and is result of the addition of capital assets over depreciation. The summary of capital assets at June 30, 2020 and 2019 is presented below:

Town of Morehead City's Capital Assets (Net of depreciation)						
	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2018
Land	\$ 12,802,000	\$ 12,802,000	\$ 937,411	\$ 937,411	\$ 13,739,411	\$ 13,739,411
Intangible assets	562,831	562,831	1,332,822	405,580	1,895,653	968,411
Infrastructure	6,659,950	5,422,003	-	-	6,659,950	5,422,003
Buildings and other improvements	19,153,468	19,207,345	5,630,578	5,467,403	24,784,046	24,674,748
Equipment and vehicles	3,138,423	3,108,171	1,243,347	809,748	4,381,770	3,917,919
Operating plant	-	-	43,619,062	44,076,013	43,619,062	44,076,013
Construction in progress	3,735,177	663,746	1,625,629	-	5,360,806	663,746
Total	\$ 46,051,849	\$ 41,766,096	\$ 54,388,849	\$ 51,696,155	\$ 100,440,698	\$ 93,462,251

This year's major capital asset changes included:

- Increase in Intangible assets - \$0.9 million
- Increase in infrastructure, buildings, and other improvements - \$1.3 million
- Increase in equipment and vehicles - \$0.3 million
- Decrease in operating plant – \$0.46million
- Increase in construction in progress - \$4.6 million

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

Long-term Debt. At June 30, 2020, the City had \$36.4 million of debt outstanding. Details by type of debt are presented in the following table:

	Town of Morehead City's Outstanding Debt							Current Portion of Balance 2020
	Governmental		Business-type		Totals			
	Activities	Activities	Activities	Activities	2020	2019		
	2020	2019	2020	2019	2020	2019		
Direct placement installment contracts	\$ 11,550,291	\$ 8,753,807	\$ -	\$ -	\$ 11,550,291	\$ 8,753,807	\$ 417,990	
Direct placement revenue bond	-	-	4,619,000	4,701,000	4,619,000	4,701,000	84,000	
Direct placement notes payable	-	-	10,877,500	12,007,250	10,877,500	12,007,250	1,129,750	
Accrued compensated absences	621,284	521,981	97,969	71,166	719,253	593,147	598,937	
Net pension liability (LGERS)	3,427,355	2,983,607	575,628	514,172	4,002,983	3,497,779	-	
Total pension liability (LEO)	1,223,768	1,087,472	-	-	1,223,768	1,087,472	-	
Total OPEB liability	2,786,160	2,089,780	595,102	446,361	3,381,262	2,536,141	-	
Total	\$ 19,608,858	\$ 15,436,647	\$ 16,765,199	\$ 17,739,949	\$ 36,374,057	\$ 33,176,596	\$ 2,230,677	

The Town of Morehead City's total long-term debt increased by \$3.2 million (9.6%) during the past fiscal year.

- Principal payments of \$0.3 million and \$1.2 million were made on outstanding debt in the governmental activities and business-type activities, respectively. All scheduled debt service payments were made timely.
- Addition of \$3.1 million installment purchase contract to finance a portion of the new City Hall building.

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 \$166,690,188.

More detailed information about the City'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 City's budget outlook:

- During fiscal year ended June 30, 2020 1,558 permits were issued with a value of \$85.7 million compared to 1,693 permits with a value of \$60.0 million for fiscal year ended June 30, 2020. The biggest contributor of this increase is the value of construction rather than the number of permits issued.
- Annual unemployment average for Carteret County was 5.2% compared to 4.7% in the prior year and 5.6% for the state. These increases are related to the global pandemic. However, unemployment rates across the county and state continued to decline in the month's subsequent to the fiscal year-end.
- The global pandemic has impacted some of the City's services and collection rates. However, due to the geographical nature of our City revenue from sales tax is stable and increased in the Spring & Summer months of 2020.

- In response to the economic impact of the pandemic on our citizens and customers no rate increases are to become effective at midyear for water & sewer charges.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities

The General Fund initial budget for 2020-2021 remained at \$15.6 million. The City Council adopted a tax rate of \$.38 per \$100 of valuation, which was the same rate as the prior year. Projected increases in property tax revenue is expected due to a County revaluation of property. The City Council opted to appropriate \$0.9 million of unassigned and assigned 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.

Business-type Activities

The initial 2020-2021 budget for the Water and Sewer Fund decreased \$0.7 million from \$8.5 million to \$7.8 million. A 0% rate increase was budgeted to assist customers with the economic impact of the global pandemic. This was a one-year suspension of rate increases 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 City.

The initial 2020-2021 budget for the Solid Waste Fund increased \$.01 million from \$1.0 million to \$1.1 million.

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City'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, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 13,704,701	\$ 7,574,551	\$ 21,279,252
Taxes receivable (net)	157,953	-	157,953
Customer receivables (net)	863,301	1,808,673	2,671,974
Due from governmental agencies	1,117,472	130,078	1,247,550
Local option sales tax receivable	937,205	-	937,205
Inventories	5,088	253,538	258,626
Prepaid expense	10,576	-	10,576
Restricted cash and investments	574,490	127,119	701,609
Total current assets	17,370,786	9,893,959	27,264,745
Non-current assets:			
Notes receivable	-	57,970	57,970
Capital assets:			
Land and construction in process	17,100,008	3,895,862	20,995,870
Other capital assets, net of depreciation	28,951,841	50,492,986	79,444,827
Total capital assets	46,051,849	54,388,848	100,440,697
Total assets	63,422,635	64,340,777	127,763,412
Deferred Outflows of Resources			
Pension deferrals	2,052,604	338,849	2,391,453
OPEB deferrals	655,190	139,942	795,132
Total deferred outflows of resources	2,707,794	478,791	3,186,585
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	1,809,946	827,823	2,637,769
Accrued interest payable	162,243	44,038	206,281
Customer deposits	-	614,685	614,685
Current portion of long-term liabilities	933,655	1,297,022	2,230,677
Total current liabilities	2,905,844	2,783,568	5,689,412
Long-term liabilities:			
Net pension liability (LGERS)	3,427,355	575,628	4,002,983
Total pension liability (LEOSSA)	1,223,768	-	1,223,768
Total OPEB liability	2,786,160	595,102	3,381,262
Due in more than one year	11,237,920	14,297,447	25,535,367
Total long-term liabilities	18,675,203	15,468,177	34,143,380
Total liabilities	21,581,047	18,251,745	39,832,792
Deferred Inflows of Resources			
Prepaid taxes and fees	36,600	-	36,600
Pension deferrals	143,653	25,058	168,711
OPEB deferrals	98,570	21,054	119,624
Total deferred inflows of resources	278,823	46,112	324,935
Net Position			
Net investment in capital assets	34,501,559	38,892,348	73,393,907
Restricted:			
Stabilization by State Statute	2,881,562	-	2,881,562
General government	6,771,178	-	6,771,178
Public safety	372,585	-	372,585
Recreation	3,279	-	3,279
Library	16,967	-	16,967
Unrestricted	(276,571)	7,629,363	7,352,792
Total net position	\$ 44,270,559	\$ 46,521,711	\$ 90,792,270

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 3,518,140	\$ 137,053	\$ 76,291	\$ 838,920
Public safety	10,208,297	2,090,607	1,458,791	-
Highways and streets	968,323	-	-	-
Disaster planning and recovery	861,693	-	-	-
Cultural and recreation	1,554,753	104,287	-	-
Library	174,304	2,005	53,075	-
Interest on long-term debt	350,909	-	-	-
Total governmental activities	17,636,419	2,333,952	1,588,157	838,920
Business-type activities:				
Water and sewer	7,524,679	7,634,495	102,425	1,251,764
Solid waste	1,034,708	1,120,811	967,829	-
Total business-type activities	8,559,387	8,755,306	1,070,254	1,251,764
Total primary government	\$ 26,195,806	\$ 11,089,258	\$ 2,658,411	\$ 2,090,684

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

Transfers

Total general revenue

Change in net position

Net position, beginning

Net position, ending

See Notes to Financial Statements.

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

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (2,465,876)	\$ -	\$ (2,465,876)
(6,658,899)	-	(6,658,899)
(968,323)	-	(968,323)
(861,693)	-	(861,693)
(1,450,466)	-	(1,450,466)
(119,224)	-	(119,224)
(350,909)	-	(350,909)
<u>(12,875,390)</u>	<u>-</u>	<u>(12,875,390)</u>
-	1,464,005	1,464,005
-	1,053,932	1,053,932
-	2,517,937	2,517,937
<u>(12,875,390)</u>	<u>2,517,937</u>	<u>(10,357,453)</u>
8,290,873	-	8,290,873
3,341,214	-	3,341,214
39,392	-	39,392
1,422,392	-	1,422,392
139,690	140,847	280,537
10,195	19,555	29,750
419,226	340,331	759,557
3,427,200	(3,427,200)	-
<u>17,090,182</u>	<u>(2,926,467)</u>	<u>14,163,715</u>
4,214,792	(408,530)	3,806,262
40,055,767	46,930,241	86,986,008
<u>\$ 44,270,559</u>	<u>\$ 46,521,711</u>	<u>\$ 90,792,270</u>

Town of Morehead City, North Carolina

Balance Sheet-Governmental Funds
June 30, 2020

	General Fund	Morehead Municipal Campus Capital Project Fund	Governmental Capital Project Fund	Totals
Assets:				
Cash and investments	\$ 6,105,426	\$ 6,429,919	\$ 1,169,356	\$ 13,704,701
Restricted cash and investments	400,629	-	173,861	574,490
Receivables (net)	2,881,562	-	194,369	3,075,931
Inventories	5,088	-	-	5,088
Prepaid items	10,576	-	-	10,576
Total assets	\$ 9,403,281	\$ 6,429,919	\$ 1,537,586	\$ 17,370,786
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 342,361	\$ 938,302	\$ 265,822	\$ 1,546,485
Accrued salaries	263,461	-	-	263,461
Total liabilities	605,822	938,302	265,822	1,809,946
Deferred Inflows of Resources				
Prepaid taxes and fees	514,641	-	-	514,641
Property taxes receivable	157,953	-	-	157,953
Total deferred inflows of resources	672,594	-	-	672,594
Fund Balances:				
Non Spendable:				
Inventories	5,088	-	-	5,088
Prepaid items	10,576	-	-	10,576
Restricted:				
Stabilization by State Statute	2,881,562	-	-	2,881,562
General government	7,797	5,491,617	1,271,764	6,771,178
Streets	-	-	-	-
Public safety	372,585	-	-	372,585
Recreation	3,279	-	-	3,279
Library	16,967	-	-	16,967
Committed:				
Sidewalk construction	139,560	-	-	139,560
Recreation facilities development	39,049	-	-	39,049
Assigned:				
Subsequent year's expenditures	915,277	-	-	915,277
Unassigned	3,733,125	-	-	3,733,125
Total fund balances	8,124,865	5,491,617	1,271,764	14,888,246
Total liabilities, deferred inflows of resources and fund balances	\$ 9,403,281	\$ 6,429,919	\$ 1,537,586	\$ 17,370,786

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, 2020**

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

Total fund balances for governmental funds	\$ 14,888,246
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	46,051,849
Deferred inflows of resources recorded in the funds for taxes and special assessments receivable expenditures and therefore are considered unavailable:	635,994
Deferred outflows of resources related to pensions are not reported in the funds	2,052,604
Deferred outflows of resources related to OPEB are not reported in the funds	655,190
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(12,171,575)
Net pension liability (LGERS)	(3,427,355)
Total pension liability (LEOSSA)	(1,223,768)
Net OPEB liability	(2,786,160)
Accrued interest payable on long-term liabilities not recorded in the fund statements	(162,243)
Deferred inflows of resources related to OPEB are not reported in the funds	(98,570)
Deferred inflows of resources related to pensions are not reported in the funds	(143,653)
Net position of governmental activities	<u>\$ 44,270,559</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, 2020

	General Fund	Morehead Municipal Campus Capital Project Fund	Governmental Capital Project Fund	Totals
Revenue				
Ad valorem taxes	\$ 7,777,233	\$ -	\$ -	\$ 7,777,233
Other taxes and licenses	39,392	-	-	39,392
Contributed capital	-	-	200,000	200,000
Unrestricted intergovernmental	4,763,606	-	-	4,763,606
Restricted intergovernmental	1,159,759	-	638,920	1,798,679
Permits and fees	428,398	-	-	428,398
Sales and services	2,333,952	-	-	2,333,952
Investment earnings	100,407	36,570	2,713	139,690
Miscellaneous	419,226	-	-	419,226
Total revenue	17,021,973	36,570	841,633	17,900,176
Expenditures				
Current:				
General government	2,013,198	2,577,296	3,603,797	8,194,291
Public safety	9,488,949	-	-	9,488,949
Highways and streets	763,553	-	-	763,553
Library	155,382	-	-	155,382
Recreation	574,959	-	-	574,959
Parks	544,756	-	-	544,756
Disaster planning and recovery	861,693	-	-	861,693
Debt service:				
Principal	303,516	-	-	303,516
Interest	400,426	-	-	400,426
Total expenditures	15,106,432	2,577,296	3,603,797	21,287,525
Revenue over (under) expenditures	1,915,541	(2,540,726)	(2,762,164)	(3,387,349)
Other financing sources (uses)				
Issuance of debt	-	3,100,000	-	3,100,000
Sales of capital assets	8,101	-	2,094	10,195
Transfers in	9,500	4,516,000	2,044,113	6,569,613
Transfers out	(3,132,913)	-	(9,500)	(3,142,413)
Total other financing sources (uses)	(3,115,312)	7,616,000	2,036,707	6,537,395
Net changes in fund balances	(1,199,771)	5,075,274	(725,457)	3,150,046
Fund balances:				
Fund balances, beginning	9,324,636	416,343	1,997,221	11,738,200
Fund balances, ending	\$ 8,124,865	\$ 5,491,617	\$ 1,271,764	\$ 14,888,246

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, 2020

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

Net change in fund balances - total governmental funds	\$ 3,150,046
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	5,945,033
Depreciation expense	(1,482,063)
Cost of capital asset disposed of during the year, not recognized on modified accrual basis	(177,217)
Net Changes in:	
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	(243,649)
Pension and OPEB deferred outflows included on the Statement of Activities	541,418
OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities	
Pension and OPEB plan deferred inflows of resources	90,278
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	513,640
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	(4,273,914)
Retirement of long-term liabilities	1,378,127
Accrued interest	49,517
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:	
Net pension expense (LGERS)	(443,748)
Net pension expense (LEOSSA)	(136,296)
Net OPEB expense	(696,380)
	<hr/>
Total change in net position of governmental activities	<u><u>\$ 4,214,792</u></u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

**General Fund-Annually Budgeted Major Funds
Statement of Revenue, Expenditures and Changes in Fund Balance-Budget and Actual
For the Fiscal Year Ended June 30, 2020**

	General Fund			Variance with Final Budget
	Budget, Original	Budget, Final	Actual	
Revenue				
Ad valorem taxes	\$ 7,644,075	\$ 7,644,075	\$ 7,777,233	\$ 133,158
Other taxes	30,000	30,000	39,392	9,392
Unrestricted intergovernmental	4,375,000	4,375,000	4,763,606	388,606
Restricted intergovernmental	490,254	2,018,283	1,154,307	(863,976)
Permits and fees	310,000	310,000	428,398	118,398
Sales and services	2,171,314	2,181,314	2,333,952	152,638
Investment earnings	97,000	97,000	100,407	3,407
Miscellaneous	19,000	405,615	424,678	19,063
Total revenue	15,136,643	17,061,287	17,021,973	(39,314)
Expenditures				
Current:				
General government	1,474,096	2,729,256	2,013,198	716,058
Public safety	9,974,709	9,598,646	9,488,949	109,697
Highways and streets	1,088,944	935,810	763,553	172,257
Recreation and parks	1,222,746	1,173,754	1,119,715	54,039
Library	210,753	211,988	155,382	56,606
Disaster planning and recovery	-	1,282,300	861,693	420,607
Debt service	528,045	703,965	703,942	23
Total expenditures	14,499,293	16,635,719	15,106,432	1,529,287
Revenue over (under) expenditures	637,350	425,568	1,915,541	1,489,973
Other financing sources (uses)				
Sale of capital assets	2,000	3,900	8,101	4,201
Transfers in	9,500	9,500	9,500	-
Transfers out	(929,910)	(3,132,913)	(3,132,913)	-
Contingency	(203,000)	(96,380)	-	96,380
Fund balance appropriated	484,060	2,790,325	-	(2,790,325)
Total other financing sources (uses)	(637,350)	(425,568)	(3,115,312)	(2,689,744)
Revenue and other financing uses over expenditures and other financing uses	\$ -	\$ -	(1,199,771)	\$ (1,199,771)
Fund balance, beginning			9,324,636	
Fund balance, ending			\$ 8,124,865	

Note: As of June 30, 2019, the Fire/EMS District Fund closed into the General Fund.

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Net Position
Proprietary Funds
June 30, 2020

	Water and Sewer Fund	Solid Waste Fund	Totals
Assets			
Current assets			
Cash and investments	\$ 7,244,381	\$ 330,170	\$ 7,574,551
Restricted cash and investments	127,119	-	127,119
Receivables	1,472,334	466,417	1,938,751
Inventories	253,538	-	253,538
Total current assets	9,097,372	796,587	9,893,959
Noncurrent assets			
Notes receivable	57,970	-	57,970
Capital assets, net	54,235,694	153,154	54,388,848
Total noncurrent assets	54,293,664	153,154	54,446,818
Total assets	63,391,036	949,741	64,340,777
Deferred Outflows of Resources			
Contributions to pension plan	330,894	7,955	338,849
OPEB deferrals	135,172	4,770	139,942
Total deferred outflows of resources	466,066	12,725	478,791
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	714,174	68,989	783,163
Current maturities of long-term debt	1,213,750	-	1,213,750
Customer deposits	614,685	-	614,685
Accrued salaries	43,851	809	44,660
Accrued compensated absences-current portion	80,237	3,035	83,272
Accrued interest payable	44,038	-	44,038
Total current liabilities	2,710,735	72,833	2,783,568
Noncurrent liabilities			
Accrued compensated absences-long-term portion	14,161	536	14,697
Installment notes	14,282,750	-	14,282,750
Net pension liability	562,417	13,211	575,628
Total OPEB liability	574,815	20,287	595,102
Total noncurrent liabilities	15,434,143	34,034	15,468,177
Total liabilities	18,144,878	106,867	18,251,745
Deferred Inflows of Resources			
Pension deferrals	24,492	566	25,058
OPEB deferrals	20,336	718	21,054
Total deferred inflows of resources	44,828	1,284	46,112
Net Position			
Net investment in capital assets	38,739,194	153,154	38,892,348
Unrestricted	6,928,202	701,161	7,629,363
Total net position	\$ 45,667,396	\$ 854,315	\$ 46,521,711

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, 2020**

	Water and Sewer Fund	Solid Waste Fund	Totals
Operating revenue			
Charges for sales and services	\$ 7,634,495	\$ 1,120,811	\$ 8,755,306
Miscellaneous	339,769	562	340,331
Total operating revenue	<u>7,974,264</u>	<u>1,121,373</u>	<u>9,095,637</u>
Operating expenses			
Cost of sales and services	5,392,255	999,365	6,391,620
Depreciation	1,777,886	35,343	1,813,229
Total operating expenses	<u>7,170,141</u>	<u>1,034,708</u>	<u>8,204,849</u>
Operating income	<u>804,123</u>	<u>86,665</u>	<u>890,788</u>
Nonoperating revenue (expense)			
Interest revenue	133,401	7,446	140,847
Restricted intergovernmental	-	7,183	7,183
Sale of surplus property	19,555	-	19,555
Disaster planning and recovery	102,425	960,646	1,063,071
Interest expense and fiscal charges	(354,538)	-	(354,538)
Total nonoperating revenue (expense)	<u>(99,157)</u>	<u>975,275</u>	<u>876,118</u>
Income before contributions and transfers	<u>704,966</u>	<u>1,061,940</u>	<u>1,766,906</u>
Contributed capital	373,000	-	373,000
Contributed assets	878,764	-	878,764
Transfers out:			
Morehead Municipal Campus Capital Projects Fund	(3,427,200)	-	(3,427,200)
Total contributed capital and transfers out	<u>(2,175,436)</u>	<u>-</u>	<u>(2,175,436)</u>
Change in net position	<u>(1,470,470)</u>	<u>1,061,940</u>	<u>(408,530)</u>
Net position (deficit), beginning of year, July 1	<u>47,137,866</u>	<u>(207,625)</u>	<u>46,930,241</u>
Net position, ending June 30	<u>\$ 45,667,396</u>	<u>\$ 854,315</u>	<u>\$ 46,521,711</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, 2020

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 8,335,538	\$ 839,359	\$ 9,174,897
Cash paid to suppliers for goods and services	(3,182,562)	(1,404,527)	(4,587,089)
Cash paid to employees	(1,782,346)	(44,644)	(1,826,990)
Net cash provided by (used in) operating activities	3,370,630	(609,812)	2,760,818
Cash Flows from Noncapital Financing Activities:			
Disaster planning and recovery	7,641	925,353	932,994
Transfers out	(3,427,200)	-	(3,427,200)
Restricted intergovernmental	-	7,183	7,183
Net cash provided by (used in) noncapital financing activities	(3,419,559)	932,536	(2,487,023)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(3,636,233)	-	(3,636,233)
Contributions-capital project funds	373,000	-	373,000
Sale of surplus property	19,555	-	19,555
Principal paid on long-term debt	(1,211,750)	-	(1,211,750)
Interest paid on long-term debt	(351,313)	-	(351,313)
Net cash used in capital and related financing activities	(4,806,741)	-	(4,806,741)
Cash Flows from Investing Activities:			
Interest on investments	133,401	7,446	140,847
Net increase (decrease) in cash and cash equivalents	(4,722,269)	330,170	(4,392,099)
Cash and cash equivalents, beginning	12,093,769	-	12,093,769
Cash and cash equivalents, ending	\$ 7,371,500	\$ 330,170	\$ 7,701,670

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)
Proprietary Funds

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	\$ 804,123	\$ 86,665	\$ 890,788
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,777,886	35,343	1,813,229
Change in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in receivables	346,863	(282,014)	64,849
(Increase) in Inventory	(55,412)	-	(55,412)
(Increase) in deferred outflows of resources	(71,012)	(3,050)	(74,062)
Increase in net pension liability	60,139	6,387	66,526
Increase in OPEB liability	143,671	-	143,671
(Decrease) in deferred inflows of resources	(10,238)	(408)	(10,646)
Increase (Decrease) in accounts payable and accrued liabilities	323,916	(452,824)	(128,908)
Increase in customer deposits	14,411	-	14,411
Increase in accrued salaries	9,569	-	9,569
Increase in accrued compensated absences	26,714	89	26,803
Net cash provided by (used in) operating activities	\$ 3,370,630	\$ (609,812)	\$ 2,760,818

Noncash investing, capital and financing activities:

The Water & Sewer Utility Fund received easements that were valued at \$878,764 during fiscal year ended 6/30/20.

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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Note 1. Summary of Significant Accounting Policies

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

The accounting policies of the City 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 (GAAP) 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 City 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 except that interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. 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 City and for each function of the City's governmental activities except that interfund services provided and used are not eliminated in the process of consolidation. 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 City'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.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the City. 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.

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 City has two major capital project funds: Morehead Municipal Campus Capital Project Fund and the Government Capital Projects Fund.

The City 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 City. 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 City's customers. There is one Capital Project Fund and one 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 City. The primary revenue consists of user charges for services. The primary expenses are for collection and disposal of solid waste for the City'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-prorietary type funds of the City 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 City 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.

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 City enterprise funds are charges to customers for sales and services. The City 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 City considers all revenues available if they are collected within 60 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 City 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 City 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 City'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 City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General 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 City as of June 30, 2020. 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
Water and Sewer Fund	*Water and Sewer System Development Capital Reserve Fund
Solid Waste Fund	Government Capital Projects Fund
	**Solid Waste Capital Project Fund
	*Water and Sewer New Capital Project Fund

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

** Fund considered a part of the City's Solid Waste 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 City are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City 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 City 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 City's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2020, the Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as cash equivalents.

Cash and Cash Equivalents

The City 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. The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased 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 City 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

USDA debt reserves	\$	352,334
Restricted donations		34,905
Inspection fees		10,372
Drug enforcement assets		<u>3,018</u>
		<u>400,629</u>

Governmental Capital Projects Fund

Water rescue equipment		173,775
Powell Bill		<u>86</u>
		<u>173,861</u>

Total governmental activities 574,490

Business-Type Activities:

Water and Sewer Fund

USDA debt reserves		<u>127,119</u>
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Total restricted cash \$ 701,609

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City 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, 2019. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City'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.

Inventories and Prepaid Items

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

The inventories of the City'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.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items (Continued)

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of 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 City has two items that meets this criterion, pension and OPEB deferrals for the 2020 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 City 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 using the straight-line method over the life of the debt.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

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

Compensated Absences

The vacation policy of the City provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the City'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 City records the liquidation of the liability in the fund in which the underlying salary is paid, primarily the General Fund. The City 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 City'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 City does not have any obligation for the accumulated sick leave until it's 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.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

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

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

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

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

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town 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.

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

The City has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that available unassigned fund balance is in the range of \$2,500,000 to \$2,750,000.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

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 City in a future budget.

Defined Benefit Cost-Sharing Plans

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

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

Note 2. Deposits and Investments

1. Deposits

All the deposits of the City 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 City's agent in the City'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 City, these deposits are considered to be held by the City's agent in the City'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 City, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City 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 City 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 City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the City's deposits had a carrying amount of \$7,754,821 and bank balance of \$7,868,579. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$7,618,579 was covered by collateral held under the Pooling Method. At June 30, 2020, the City's petty cash fund totaled \$6,750.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

2. Investments

At June 30, 2020, the City's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2020	Maturity
NC Capital Management Trust – Government Portfolio*	Fair Value Level 1	538,768	-
NC Capital Management Trust – Term Portfolio**	Fair Value Level 1	13,680,522	-
Total		\$ 14,219,290	

* The NC Capital Management Trust Government Portfolio is an SEC registered (2a-7) money market investment pool with a weighted average maturity of less than 90 days, and are presented as an investment with a maturity of less than 6 months.

** As of June 30, 2020, The NC Capital Management Trust Term Portfolio has a duration of .11 years. Because the NCCMT Term Portfolio has a weighted average maturity of less than 90 days, and are presented as an investment with a maturity of less than 6 months.

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

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

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

Credit risk. The City has no formal policy regarding credit risk, but has internal management procedures that limits the City'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 City's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2020. The City'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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 3. Receivables – Allowances for Doubtful Accounts

Receivables at June 30, 2020, consist of the following:

	Major General	Major Water & Sewer Fund	Major Solid Waste Fund	Governmental Capital Project Fund	Total
Receivables					
Local option sales tax	\$ 937,205	\$ -	\$ -	\$ -	\$ 937,205
Property tax	185,226	-	-	-	185,226
Allowance for uncollectibles	(27,273)	-	-	-	(27,273)
	157,953	-	-	-	157,953
Accounts receivable:					
Services	668,932	1,377,549	431,124	194,369	2,671,974
Allowance for uncollectibles	-	-	-	-	-
	668,932	1,377,549	431,124	194,369	2,671,974
Due from governmental agencies	1,117,472	94,785	35,293	-	1,247,550
Net total receivables	\$ 2,881,562	\$ 1,472,334	\$ 466,417	\$ 194,369	\$ 5,014,682

Note 4. Capital Assets

Primary Government

Capital asset activity for the City for the year ended June 30, 2020, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,802,000	\$ -	\$ -	\$ 12,802,000
Intangible assets	562,831	-	-	562,831
Construction in progress	663,746	3,151,416	(79,985)	3,735,177
Total capital assets not being depreciated	14,028,577	3,151,416	(79,985)	17,100,008
Capital assets being depreciated:				
Buildings and other improvements	26,740,959	847,567	(107,121)	27,481,405
Infrastructure	6,879,317	1,383,123	-	8,262,440
Equipment and vehicles	7,399,200	642,912	(350,349)	7,691,763
Total capital assets being depreciated	41,019,476	2,873,602	(457,470)	43,435,608
Less accumulated depreciation for:				
Buildings and other improvements	(7,533,614)	(794,323)	-	(8,327,937)
Infrastructure	(1,457,314)	(145,176)	-	(1,602,490)
Equipment and vehicles	(4,291,029)	(542,564)	280,253	(4,553,340)
Total accumulated depreciation	(13,281,957)	(1,482,063)	280,253	(14,483,767)
Total capital assets being depreciated, net	27,737,519			28,951,841
Governmental activity capital assets, net	\$ 41,766,096			\$ 46,051,849

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	\$ 937,411	\$ -	\$ -	\$ 937,411
Intangible assets	405,580	927,242	-	1,332,822
Construction in progress	-	1,625,629	-	1,625,629
Total capital assets not being depreciated	1,342,991	2,552,871	-	3,895,862
Capital assets being depreciated:				
Buildings and other improvements	6,414,871	310,317	-	6,725,188
Equipment and vehicles	2,517,986	654,957	(124,786)	3,048,157
Operating plant	66,697,075	995,333	-	67,692,408
Total capital assets being depreciated	75,629,932	1,960,607	(124,786)	77,465,753
Less accumulated depreciation for:				
Buildings and other improvements	(947,468)	(147,142)	-	(1,094,610)
Equipment and vehicles	(1,896,736)	(178,460)	117,231	(1,957,965)
Operating plant	(22,621,062)	(1,452,284)	-	(24,073,346)
Total accumulated depreciation	(25,465,266)	(1,777,886)	117,231	(27,125,921)
Total capital assets being depreciated, net	50,164,666			50,339,832
Water and Sewer Fund capital assets, net	51,507,657			54,235,694
Solid Waste Fund:				
Capital assets being depreciated:				
Equipment and vehicles	415,345	-	-	415,345
Less accumulated depreciation for:				
Equipment and vehicles	(226,847)	(35,343)	-	(262,190)
Total capital assets being depreciated, net	188,498			153,155
Solid Waste Fund capital assets, net	188,498			153,155
Business-type activity capital assets, net	\$ 51,696,155			\$ 54,388,849

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

Governmental activities:	
General government	\$ 166,127
Public safety	657,206
Highway and streets	204,770
Cultural and recreation	435,038
Library	18,922
	<u>\$ 1,482,063</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations

Construction Commitments

The City has active construction projects as of June 30, 2020.

Project	Spent to Date	Remaining Commitment
New City Hall Construction	\$ 1,367,402	\$ 5,107,140
LS #20 Rehabilitation	285,585	424,610
Bridges Street 14th-20th Paving Improvements	134,798	114,591
AMR Infrastructure	1,499,685	50,000
Phase III Munis Revenue, AR, EAM and WO Implementation	212,341	320,540
	<u>\$ 3,499,811</u>	<u>\$ 6,016,881</u>

a. Local Governmental Employees' Retirement System

Plan Description. The City is a participating employer in the statewide 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Eligible 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, 2020, was 8.50% of compensation for law enforcement officers and 7.81% 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 \$859,995 for the year ended June 30, 2020. Contributions made after the measurement date of the net pension liability but before the end of the City's reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than the current fiscal period.

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, 2020, the City reported a liability of \$4,002,983 for its proportionate share of the LGERS net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City'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, 2019, the City's proportion was 0.14658%, which was a decrease of 0.00086% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$1,728,752. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to LGERS pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 685,412	\$ -
Changes of assumptions	652,420	-
Net difference between projected and actual earnings on pension plan investments	97,639	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	168,711
Town contributions subsequent to the measurement date	859,995	-
Total	<u>\$ 2,295,466</u>	<u>\$ 168,711</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

\$859,995 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2021	\$ 659,663
2022	170,402
2023	346,557
2024	90,138
2025	-
Thereafter	-
	<u>\$ 1,266,760</u>

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50% to 8.10%, including inflation and productivity factor
Investment rate of return	7.00%, 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, 2018 valuation were based on the results of an actuarial experience study prepared as of 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, 2020 are summarized in the following table:

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 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 7.00%. 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 City’s proportionate share of the net pension liability to changes in the discount rate. The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the City’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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town’s proportionate share of the net pension liability (asset)	\$ 9,155,560	\$ 4,002,983	\$ (279,848)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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 City'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, 2018, the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Active plan members	38
Total	43

2. Summary of Significant Accounting Policies.

Basis of Accounting. The City 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, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.50% to 7.35%, including inflation and productivity factor
Discount rate	3.26%

The discount rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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 City 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 City'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 City paid \$69,241 as benefits came due for the reporting period.

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

At June 30, 2020, the City reported a total pension liability of \$1,223,768. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the City recognized pension expense of \$99,956.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,077	\$ -
Changes of assumptions	23,771	-
Town benefit payments and plan administrative expense made subsequent to the measurement date	35,139	-
Total	\$ 95,987	\$ -

\$35,139 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	
2021	\$ 6,307
2022	6,566
2023	11,965
2024	18,968
2025	17,042
Thereafter	-
	\$ 60,848

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Sensitivity of the City's total pension liability to changes in the discount rate. The following presents the City's total pension liability calculated using the discount rate of 3.26 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 1,329,842	\$ 1,223,768	\$ 1,126,674

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

	<u>2019</u>
Beginning balance	\$ 1,087,472
Service cost	54,924
Interest on the total pension liability	38,246
Differences between expected and actual experience in the measurement of the total pension liability	78,707
Changes of assumptions or other inputs	37,933
Benefit payments	(73,514)
Ending balance of the total pension liability	<u>\$ 1,223,768</u>

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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	\$ 1,728,752	\$ 99,956	\$ 1,828,708
Pension liability	4,002,983	1,223,768	5,226,751
Proportionate share of the net pension liability	0.14658%	n/a	
Deferred outflows of resources:			
Differences between expected and actual experience	685,412	37,077	722,489
Changes of assumptions	652,420	23,771	676,191
Net difference between projected and actual earnings on plan investments	97,639	-	97,639
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	859,995	35,139	895,134
Deferred inflows of resources:			
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	168,711	-	168,711

c. Supplemental Retirement Income Plan for Law Enforcement

Plan Description. The City 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 City. 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 City 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 City made contributions of \$118,049 and law enforcement officers made contributions of \$108,394 for the reporting year. No amounts were forfeited.

Note 5. Pension Plan and Postemployment Obligations (Continued)

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 City 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, 2019, the State contributed \$18,302,000 to the plan. The Town of Morehead City's proportionate share of the State's contribution is \$17,721.

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

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

At June 30, 2020, the City reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the City through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the City and supported by the State was \$35,132. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the City is not projected to make any future contributions to the plan, its proportionate share at June 30, 2020 and 2019 was 0%.

For the year ended June 30, 2020, the City recognized pension expense of \$18,496 and revenue of \$18,496 for support provided by the State. At June 30, 2020, the City reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	Not applicable
Investment rate of return	7.00%, 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 7.00%. 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 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 City at the time of retirement are eligible to participate in the City's OPEB plan until age 65 or until eligible for Medicare, whichever occurs first.

Plan Description: The City provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employer defined benefit plan to cover retirees of the City who meet requirements established by the City 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 City 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 City'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 City's group health care plan by paying the full premiums for coverage.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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

The City 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 City'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, 2019, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	20
Active plan members	179
Total	<u>199</u>

Total OPEB Liability

The City's total OPEB liability of \$3,381,262 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2019 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%
Salary increases, including inflation and productivity factor	3.50% to 7.75%
Municipal bond index rate:	
Measurement date	3.50%
Healthcare cost trend rates:	
Pre-Medicare Medical and Prescription Drug	7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026

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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 2,536,141
Charges for the year:	
Service cost at the end of the year*	138,711
Interest on TOL and cash flows	95,394
Differences between expected and actual experience	719,793
Changes of assumptions or other inputs	60,568
Net benefit payments and implicit subsidy credit**	(169,345)
Net changes	<u>845,121</u>
Balance at June 30, 2019	<u>\$ 3,381,262</u>

*The service cost includes interest for the year.

**The net benefit payments shown above include \$45,500 due to the implicit subsidy.

Since the Prior Measurement Date (June 30, 2017), the Discount Rate has changed from 3.89% to 3.50% 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, 2019 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 City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current discount rate:

	Discount Rate Sensitivity		
	1%	Current	1%
	Decrease (2.5%)	Discount Rate (3.5%)	Increase (4.5%)
Total OPEB liability	\$ 3,729,081	\$ 3,381,262	\$ 3,071,228

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the City, as well as what the City'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%	Current	1%
	Decrease	Current	Increase
Total OPEB liability	\$ 2,998,773	\$ 3,381,262	\$ 3,838,629

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Pension Plan and Postemployment Obligations (Continued)

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$249,534. At June 30, 2020, the City 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	\$ 652,918	\$ -
Changes of assumptions or other inputs	-	119,624
Benefit payments and plan administrative expense made subsequent to the measurement date	142,214	-
Total	<u>\$ 795,132</u>	<u>\$ 119,624</u>

\$142,214 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, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	
2020	\$ 60,929
2021	60,929
2022	60,929
2023	60,929
2024	60,929
Thereafter	228,649
	<u>\$ 533,294</u>

Note 6. Other Employment Benefits

The City 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 City, the City does not determine the number of eligible participants.

The City 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 City considers these contributions to be immaterial.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 7. Deferred Outflows and Inflows of Resources

The City has several deferred outflows and inflows of resources. Deferred outflows and inflows of resources at June 30, 2020 are comprised of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Government-wide:		
Prepaid taxes and fees	\$ -	\$ 36,600
Pension deferrals	2,391,453	168,711
OPEB deferrals	795,132	119,624
	<u>\$ 3,186,585</u>	<u>\$ 324,935</u>
General fund:		
Prepaid taxes and fees	\$ -	\$ 514,641
Property taxes receivable	-	157,953
	<u>\$ -</u>	<u>\$ 672,594</u>

Note 8. Risk Management

The City 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 City 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 (\$5 million) and law enforcement liability (\$5 million), vehicle liability (\$5 million), public employee scheduled and blanket bonds (\$250,000), general liability (\$5 million), municipal equipment (\$3,134,857), vehicles (\$3,373,633), property (\$75,460,491) 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 \$1,000,000 for property damage, and single occurrence losses of \$1,000,000 for workers' compensation. The City provides employee health insurance through Blue Cross Blue Shield up to an unlimited lifetime benefit. The City 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 City carries flood insurance through the National Flood Insurance Plan (NFIP). Because certain properties owned by the City 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 City is eligible to purchase coverage of up to \$500,000 per structure through the NFIP. The City also is eligible to and has purchased commercial flood insurance for another \$38,300 of coverage for contents.

In accordance with G. S. 159-29, the City's employees that have access to \$100 or more at any given time of the City'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.

Note 9. Claims, Judgments and Contingent Liabilities

At June 30, 2020, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

Town of Morehead City, North Carolina

Notes to Financial Statements

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, 2020, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
*Accrued compensated absences	\$ 521,981	\$ 1,173,914	\$ 1,074,611	621,284	\$ 515,665
Net pension liability (LGMERS)	2,983,607	443,748	-	3,427,355	-
Total pension liability (LEO)	1,087,472	136,296	-	1,223,768	-
Total OPEB liability	2,089,780	696,380	-	2,786,160	-
Direct placement installment purchase contracts	8,753,807	3,100,000	303,516	11,550,291	417,990
Total	<u>\$ 15,436,647</u>	<u>\$ 5,550,338</u>	<u>\$ 1,378,127</u>	<u>\$ 19,608,858</u>	<u>\$ 933,655</u>

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

The City has a \$4,808,000 direct placement 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, 2020, \$250,177 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,259,038.

The City has a \$2,075,000 direct placement 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, 2020, \$102,157 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,884,533.

The City has a \$2,605,000 direct placement 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, 2020, the obligation due under this agreement totaled \$2,306,720.

The City has a \$3,100,000 installment financing contract from First Bank over a 15-year term to finance the new Town Hall project. The note bears an annual interest rate of 2.45%. As of June 30, 2020, the obligation due under this agreement totaled \$3,100,000.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 10. Long-Term Obligations (Continued)

Changes in Long-Term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2020, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Direct placement revenue bond	\$ 4,701,000	\$ -	\$ 82,000	\$ 4,619,000	\$ 84,000
Direct placement notes payable	12,007,250	-	1,129,750	10,877,500	1,129,750
*Accrued compensated absences	71,166	196,149	169,346	97,969	83,272
Net pension liability (LERS)	514,172	61,456	-	575,628	-
Total OPEB liability	446,361	148,741	-	595,102	-
Total	<u>\$ 17,739,949</u>	<u>\$ 406,346</u>	<u>\$ 1,381,096</u>	<u>\$ 16,765,199</u>	<u>\$ 1,297,022</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 City has a \$1,700,000 direct placement 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 City and bears an annual interest rate of 2.6%. As of June 30, 2020, the remaining obligation due under this agreement totaled \$255,000.

The City has a \$1,000,000 direct placement 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 City and bears an annual interest rate of 2.36%. As of June 30, 2020, the remaining obligation due under this agreement totaled \$250,000.

The City has a \$15,000,000 direct placement 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 City and bears an annual interest rate of 2.265%. As of June 30, 2020, the remaining obligation due under this agreement totaled \$6,750,000.

The City has a \$645,000 direct placement 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 City and is interest free. As of June 30, 2020, the obligation due is \$322,500.

The City has a \$1,500,000 direct placement 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 City and is interest free. As of June 30, 2020, the obligation due is \$825,000.

The City issued \$4,932,000 in direct placement 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, 2020, \$127,119 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,619,000.

The City has a \$2,750,000 direct placement 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 City and bears an annual interest rate of 1.66%. As of June 30, 2020, the obligation due under this agreement totaled \$2,475,000.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 10. Long-Term Obligations (Continued)

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):

	<u>Principal</u>	<u>Interest</u>
Governmental activities:		
2020-2021	\$ 417,990	\$ 393,715
2021-2022	425,455	381,116
2022-2023	433,188	368,249
2023-2024	441,200	355,104
2024-2025	449,502	341,669
2026-2030	2,382,908	1,495,943
2031-3035	2,640,385	1,110,124
2036-2040	1,370,778	741,670
2041-2045	1,259,682	500,952
2046-2050	1,534,085	226,549
2050-2055	195,118	11,982
	<u>\$ 11,550,291</u>	<u>\$ 5,927,073</u>
	<u>Principal</u>	<u>Interest</u>
Business-type activities, Water and Sewer Fund:		
2020-2021	\$ 1,213,750	\$ 333,525
2021-2022	1,215,750	308,555
2022-2023	1,217,750	283,530
2023-2024	1,135,750	258,450
2024-2025	1,137,750	235,497
2026-2030	4,730,750	842,607
2031-3035	1,343,500	542,025
2036-2040	1,077,500	402,847
2041-2045	761,000	292,600
2046-2050	872,000	181,995
2050-2055	791,000	55,247
	<u>\$ 15,496,500</u>	<u>\$ 3,736,878</u>
Total governmental activities and business-type activities, Water and Sewer Fund	<u>\$ 27,046,791</u>	<u>\$ 9,663,951</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 10. Long-Term Obligations (Continued)

Interest paid on the above obligations for the year ended June 30, 2020 totaled \$682,355. State statutes provide for a legal debt limit of 8 percent of the City's assessed value of taxable property. The City's legal debt margin as of June 30, 2020 amounts to \$164,581,799.

The City 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 City 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, 2020, is as follows:

Operating revenues.	\$ 7,974,264
Operating expenses	<u>5,392,255</u>
Operating income	2,582,009
Non-operating income	1,507,145
Non-operating expense*	<u>(354,538)</u>
Net revenues available for debt service	<u><u>\$ 4,443,692</u></u>
110% of FY 19/20 maximum debt service requirement	\$ 211,022
Debt service coverage ratio	<u>2105.80%</u>
100% of FY 19/20 subordinated indebtedness debt service requirement	\$ 1,129,750
Debt service coverage ratio	<u><u>393.33%</u></u>

* Operating expenses do not include depreciation or interest

Note 11. Jointly Governed Organizations

The City, in conjunction with seven counties and 28 other municipalities, established the Neuse River Council of Governments d/b/a Eastern Carolina Council (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 City paid membership fees of \$3,311 to the Council during the fiscal year ended June 30, 2020.

Note 12. Federal and State Assisted Programs

The City 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 13. Interfund Transfers

Interfund transfers for the year ended June 30, 2020 are as follows:

	From	To	Purpose
General Fund	\$ 3,132,913	\$ 9,500	Portion of operations and construction
Water and Sewer Fund	6,105,990	-	Portion of operations
Water and Sewer CPF	-	2,879,750	Portion of construction
Water and Sewer System Development Capital Reserve Fund	200,960	-	Portion of construction
Governmental CPF	9,500	2,044,114	Portion of construction
Morehead Municipal Campus CPF	-	4,515,999	Portion of construction
Total	<u>\$ 9,449,363</u>	<u>\$ 9,449,363</u>	

Note 14. Recently Implemented GASB Statements

The City implemented the following GASB Statements during the year ended June 30, 2020:

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. This statement is effective immediately (May 2020), and did not have a material impact on the City's financial position, overall cash flow or balances or results of operations.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements in this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans are effective immediately (June 2020), and did not have a material impact on the City's financial position, overall cash flow or balances or results of operations. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 15. Pending GASB Statements

The City has not currently determined what, if any, effect of implementation of the following statements may have on the financial statements of the City.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. This Statement is effective for reporting periods beginning after December 15, 2021.

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, 2019.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is generally on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, GASB issued 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. This Statement is effective for fiscal years beginning after June 15, 2021.

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, 2020.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement is effective for reporting periods beginning after June 15, 2021.

Note 15. Pending GASB Statements (Continued)

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates. The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020, and did not have a material impact on the City's financial position, overall cash flow or balances or results of operations. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to the public-private and public-public partnership arrangements (PPPs). This Statement is effective for reporting periods beginning after June 15, 2022.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement is effective for reporting periods beginning after June 15, 2022.

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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 (Asset) 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 – Law Enforcement Officers' Special Separation Allowance**
 - **Schedule of Total Pension Liability as a Percentage of Covered Payroll – Law Enforcement Officers' Special Separation Allowance**
 - **Schedule of Changes in the Total OPEB Liability and Related Ratios**
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Town of Morehead City, North Carolina

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

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<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%	0.147%	0.147%	0.143%	0.134%	0.124%	0.112%
Town's proportionate share of the net pension liability (asset)	\$ 4,002,983	\$ 3,497,779	\$ 2,246,975	\$ 3,044,490	\$ 599,634	\$ (733,408)	\$ 1,352,441
Town's covered payroll	\$ 9,389,348	\$ 8,630,104	\$ 8,027,679	\$ 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 payroll	42.63%	40.53%	27.99%	41.38%	9.00%	(12.47%)	24.36%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

*The amounts presented for each fiscal year were determined as of the prior fiscal years ended June 30.
This schedule will present 10 years' worth of information when available.

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

Town of Morehead City, North Carolina

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

Local Governmental Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 859,995	\$ 687,282	\$ 619,467	\$ 599,257	\$ 495,967	\$ 476,266	\$ 418,846
Contributions in relation to the contractually required contribution <input type="checkbox"/>	<u>859,995</u>	<u>687,282</u>	<u>619,467</u>	<u>599,257</u>	<u>495,967</u>	<u>476,266</u>	<u>418,846</u>
Contribution deficiency (excess)	<u>\$ -</u>						
Town's covered payroll	\$ 9,389,348	\$ 8,630,104	\$ 8,027,679	\$ 8,100,246	\$ 7,357,194	\$ 6,662,614	\$ 5,883,587
Contributions as a percentage of covered-employee payroll	9.16%	7.96%	7.72%	7.40%	6.74%	7.15%	7.12%

*This schedule will present 10 years' worth of information as of the fiscal years ended June 30, when available.

Town of Morehead, North Carolina

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

Firefighters' and Rescue Squad Workers' Pension

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of the net pension liability (%)	0.0000%	0.0000%	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	35,132	48,582	38,860	27,171	21,916	18,821
Total	<u>\$ 35,132</u>	<u>\$ 48,582</u>	<u>\$ 38,860</u>	<u>\$ 27,171</u>	<u>\$ 21,916</u>	<u>\$ 18,821</u>
Town's covered payroll	\$ 2,667,018	\$ 2,453,301	\$ 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 payroll	1.32%	1.98%	1.71%	1.25%	1.26%	1.51%
Plan fiduciary net position as a percentage of the total pension liability**	89.69%	89.35%	84.94%	91.40%	93.42%	93.42%

*The amounts presented are for the prior fiscal years ended June 30. This schedule will present 10 years' worth of information when available.

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

Town of Morehead City, North Carolina

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information - Unaudited
Last Four Fiscal Years***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,087,472	\$ 1,081,661	\$ 1,138,005	\$ 1,166,289
Service cost	54,924	57,394	47,476	88,620
Interest on the total pension liability	38,246	32,935	42,052	-
Differences between expected and actual experience in the measurement of the total pension liability	78,707	37,918	(110,307)	-
Changes of assumptions or other inputs	37,933	(43,612)	61,609	(21,351)
Benefit payments	<u>(73,514)</u>	<u>(78,824)</u>	<u>(97,174)</u>	<u>(95,553)</u>
Ending balance of the total pension liability	<u><u>\$ 1,223,768</u></u>	<u><u>\$ 1,087,472</u></u>	<u><u>\$ 1,081,661</u></u>	<u><u>\$ 1,138,005</u></u>

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

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

Town of Morehead City, North Carolina

**Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information - Unaudited
Last Four Fiscal Years***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 1,223,768	\$ 1,087,472	\$ 1,081,661	\$ 1,138,005
Covered payroll	2,267,534	2,099,919	1,963,851	2,052,052
Total pension liability as a percentage of covered payroll	53.97%	51.79%	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.

* The amounts presented for each fiscal year were determined as of the prior year ended December 31. 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 Three Fiscal Years***

Total OPEB Liability	2020	2019	2018
Service cost	\$ 138,711	\$ 143,529	\$ 155,365
Interest	95,394	87,379	75,281
Differences between expected and actual experience	719,793	11,385	5,250
Change of assumptions	60,568	(91,345)	(152,657)
Benefit payments	(169,345)	(137,363)	(122,545)
Net change in total OPEB Liability	845,121	13,585	(39,306)
Total OPEB liability - beginning	2,536,141	2,522,556	2,561,862
Total OPEB liability - ending	\$ 3,381,262	\$ 2,536,141	\$ 2,522,556
Covered payroll	\$ 9,145,270	\$ 7,462,546	\$ 7,462,546
Total OPEB liability as a percentage of covered payroll	36.97%	33.98%	33.80%

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

Fiscal Year	Rate
2019	3.50%
2018	3.89%
2017	3.01%

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

MAJOR GOVERNMENTAL FUNDS

- **General Fund**
 - **Morehead Municipal Campus Capital Project Fund**
 - **Governmental 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, 2020
(With Comparative Actual Amounts for Year Ended June 30, 2019)**

(Page 1 of 5)	2020			Unaudited 2019
	Final Budget	Actual	Variance, With Final Budget	Actual
Revenue:				
Ad valorem taxes:				
Current year	\$ 7,580,075	\$ 7,715,098	\$ 135,023	\$ 7,061,431
Prior years	40,000	37,704	(2,296)	31,005
Interest and penalties	24,000	24,431	431	29,766
Total ad valorem taxes	7,644,075	7,777,233	133,158	7,122,202
Other taxes:				
Motor vehicle lease tax	30,000	39,392	9,392	45,791
Total other taxes	30,000	39,392	9,392	45,791
Unrestricted intergovernmental:				
Local option sales tax	2,950,000	3,341,214	391,214	3,176,645
Electric sales tax	850,000	844,576	(5,424)	867,359
Beer and wine tax	40,000	40,778	778	40,529
Carteret County ABC revenue	250,000	260,173	10,173	246,154
Video programming sales tax	112,000	109,508	(2,492)	112,861
Telecommunications tax	93,000	77,396	(15,604)	95,199
Piped natural gas tax	15,500	14,438	(1,062)	16,784
Payment in lieu of taxes	64,500	75,523	11,023	65,603
Total unrestricted intergovernmental	4,375,000	4,763,606	388,606	4,621,134
Restricted intergovernmental:				
Powell Bill	-	-	-	264,020
School resource officer	215,700	186,618	(29,082)	114,922
Bullet proof vest grant	2,024	3,998	1,974	2,565
Controlled substance tax	10,000	4,063	(5,937)	21,115
Restitution funds	-	959	959	769
Dredging grant	36,440	36,140	(300)	38,628
CAMA	4,000	4,315	315	2,220
FEMA reimbursements	1,490,589	689,684	(800,905)	-
FEMA grant (SAFER)	147,905	102,972	(44,933)	186,975
US Department of Health and Human Services	-	37,483	37,483	-
Webb Library funding	53,075	53,075	-	53,075
Housing Authority grant	35,000	35,000	-	35,000
CAMA S. 10th St. grant	-	-	-	12,441
Miscellaneous grants	23,550	5,452	(18,098)	4,897
Total restricted governmental	2,018,283	1,159,759	(858,524)	736,627

(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, 2020
(With Comparative Actual Amounts for Year Ended June 30, 2019)**

(Page 2 of 5)	2020			Unaudited 2019
	Final Budget	Actual	Variance, With Final Budget	Actual
Permits and fees:				
Building permits and inspection fees	\$ 275,000	\$ 398,014	\$ 123,014	\$ 281,397
Planning/zoning fees and charges	25,000	27,454	2,454	40,098
Sidewalk extension fees	10,000	2,680	(7,320)	31,580
Franchise fees	-	250	250	125
Total permits and fees	310,000	428,398	118,398	353,200
Sales and services:				
Fire and rescue charges	1,893,330	2,062,590	169,260	2,132,288
Court cost and fees	3,500	2,537	(963)	2,252
Cemetery fees	1,000	1,745	745	1,445
Sale of cemetery lots	2,500	9,515	7,015	9,630
Library fees and charges	2,250	2,005	(245)	2,711
Leases	108,614	123,256	14,642	119,850
E 911 cost sharing	30,420	28,017	(2,403)	49,935
Recreation fees and charges	139,700	104,287	(35,413)	174,319
Total sales and services	2,181,314	2,333,952	152,638	2,492,430
Investment earnings	97,000	100,407	3,407	184,216
Miscellaneous revenue:				
Insurance reimbursements/refunds	338,562	351,027	12,465	90,686
Police sponsorship	3,925	3,500	(425)	-
Miscellaneous	63,128	64,699	1,571	39,419
Total miscellaneous revenue	405,615	419,226	13,611	130,105
Total revenue	17,061,287	17,021,973	(39,314)	15,685,705

(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, 2020
(With Comparative Actual Amounts for Year Ended June 30, 2019)**

(Page 3 of 5)

	2020			Unaudited 2019
	Final Budget	Actual	Variance, With Final Budget	Actual
Expenditures				
General government:				
Mayor - town council				
Salaries and benefits	\$ 34,329	\$ 35,167	\$ (838)	\$ 29,481
Other	33,421	10,368	23,053	9,159
	<u>67,750</u>	<u>45,535</u>	<u>22,215</u>	<u>38,640</u>
Administration:				
Salaries, wages and benefits	323,569	317,815	5,754	189,694
Other	56,808	20,548	36,260	22,074
	<u>380,377</u>	<u>338,363</u>	<u>42,014</u>	<u>211,768</u>
Finance:				
Salaries, wages and benefits	256,360	260,346	(3,986)	191,642
Other	48,885	24,448	24,437	34,993
	<u>305,245</u>	<u>284,794</u>	<u>20,451</u>	<u>226,635</u>
Central services:				
Employee benefits	209,000	208,790	210	70,646
Professional services	180,895	166,067	14,828	82,249
Capital outlay	-	-	-	19,193
Other	166,983	158,670	8,313	167,855
	<u>556,878</u>	<u>533,527</u>	<u>23,351</u>	<u>339,943</u>
Community projects	<u>441,810</u>	<u>175,665</u>	<u>266,145</u>	<u>88,671</u>
Information technology:				
Salaries, wages and benefits	92,548	93,173	(625)	1
Other	92,698	84,266	8,432	-
	<u>185,246</u>	<u>177,439</u>	<u>7,807</u>	<u>1</u>
Cemetery, buildings and grounds:				
Salaries, wages and benefits	293,819	272,547	21,272	292,815
Capital outlay	-	-	-	29,841
Other	110,250	79,392	30,858	86,991
	<u>404,069</u>	<u>351,939</u>	<u>52,130</u>	<u>409,647</u>
Garage:				
Salaries, wages and benefits	90,275	89,433	842	24,262
Capital outlay	-	-	-	4,902
Other	27,031	16,503	10,528	3,983
	<u>117,306</u>	<u>105,936</u>	<u>11,370</u>	<u>33,147</u>
Total general government	<u>2,458,681</u>	<u>2,013,198</u>	<u>445,483</u>	<u>1,348,452</u>

(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, 2020
(With Comparative Actual Amounts for Year Ended June 30, 2019)**

	2020			Unaudited 2019
	Final Budget	Actual	Variance, With Final Budget	Actual
(Page 4 of 5)				
Public safety:				
Police:				
Salaries, wages and benefits	\$ 3,542,328	\$ 3,431,335	\$ 110,993	\$ 3,301,657
Capital outlay	-	22,668	(22,668)	101,771
Other	556,476	455,578	100,898	525,430
	<u>4,098,804</u>	<u>3,909,581</u>	<u>189,223</u>	<u>3,928,858</u>
Fire & EMS				
Salaries, wages and benefits	4,444,368	4,208,178	236,190	4,009,953
Capital outlay	-	-	-	382,222
Other	577,624	719,810	(142,186)	1,210,605
	<u>5,021,992</u>	<u>4,927,988</u>	<u>94,004</u>	<u>5,602,780</u>
Inspections:				
Salaries, wages and benefits	610,024	583,451	26,573	491,575
Other	138,401	67,929	70,472	77,209
	<u>748,425</u>	<u>651,380</u>	<u>97,045</u>	<u>568,784</u>
Total public safety	<u>9,869,221</u>	<u>9,488,949</u>	<u>380,272</u>	<u>10,100,422</u>
Highways and streets:				
Transportation:				
Salaries, wages and benefits	420,175	416,776	3,399	410,732
Other	363,835	293,004	70,831	273,201
	<u>784,010</u>	<u>709,780</u>	<u>74,230</u>	<u>683,933</u>
Powell Bill funds	151,800	53,773	98,027	449,123
Total highways and streets	<u>935,810</u>	<u>763,553</u>	<u>172,257</u>	<u>1,133,056</u>
Recreation:				
Salaries, wages and benefits	446,895	403,979	42,916	428,488
Capital outlay	-	-	-	66,190
Other	184,462	170,980	13,482	192,453
Total recreation	<u>631,357</u>	<u>574,959</u>	<u>56,398</u>	<u>687,131</u>
Parks:				
Salaries, wages and benefits	262,355	244,705	17,650	221,229
Capital outlay	-	-	-	78,190
Other	280,042	300,051	(20,009)	263,658
Total parks	<u>542,397</u>	<u>544,756</u>	<u>(2,359)</u>	<u>563,077</u>

(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, 2020
(With Comparative Actual Amounts for Year Ended June 30, 2019)**

(Page 5 of 5)	2020			Unaudited 2019
	Final Budget	Actual	Variance, With Final Budget	Actual
Library:				
Salaries, wages and benefits	\$ 124,276	\$ 80,801	\$ 43,475	\$ 98,880
Other	87,712	74,581	13,131	61,404
Total library	211,988	155,382	56,606	160,284
Disaster planning and recovery:				
Other	1,282,300	861,693	420,607	786,138
Total disaster planning and recovery	1,282,300	861,693	420,607	786,138
Debt service:				
Principal retirement	303,525	303,516	9	1,186,191
Interest fees	400,440	400,426	14	298,219
Total debt service	703,965	703,942	23	1,484,410
Total expenditures	16,635,719	15,106,432	1,529,287	16,262,970
Revenue over expenditures	425,568	1,915,541	1,489,973	(577,265)
Other financing sources (uses):				
Fund balance appropriated	2,790,325	-	(2,790,325)	-
Sale of capital assets	3,900	8,101	4,201	8,271
Transfers in:				
Government CPF	9,500	9,500	-	-
Transfers out:				
Katherine Davis Park CPF	-	-	-	(350,000)
Governmental CPF	(2,044,113)	(2,044,113)	-	(1,232,018)
Morehead City Municipal Campus CPF	(1,088,800)	(1,088,800)	-	(525,000)
Contingency	(96,380)	-	96,380	-
Total other financing sources (uses)	(425,568)	(3,115,312)	(2,689,744)	(2,098,747)
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	(1,199,771)	\$ (1,199,771)	(2,676,012)
Fund balance, beginning		9,324,636		12,000,648
Fund balance, ending		\$ 8,124,865		\$ 9,324,636

MOREHEAD MUNICIPAL CAMPUS 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

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, 2020

	Project Authorization	Actual			Project To Date
		Prior Years	*Closed Projects	Current Year	
Revenue:					
Investment earnings	\$ 10,363	\$ 18,970	\$ -	\$ 36,570	\$ 55,540
Total revenue	10,363	18,970	-	36,570	55,540
Expenditures:					
General government	-	274,755	274,697	25,559	25,617
Capital outlay:					
General government	8,918,704	981,359	69,910	2,551,737	3,463,186
	8,918,704	1,256,114	344,607	2,577,296	3,488,803
Total expenditures	8,918,704	1,256,114	344,607	2,577,296	3,488,803
Revenue under expenditures	(8,908,341)	(1,237,144)	(344,607)	(2,540,726)	(3,433,263)
Other financing sources:					
Issuance of debt	3,100,000	-	-	3,100,000	3,100,000
Transfer from Water and Sewer Fund	3,837,200	410,000	-	3,427,200	3,837,200
Transfer from General Fund	1,971,141	1,243,487	344,607	1,088,800	1,987,680
Total other financing sources	8,908,341	1,653,487	344,607	7,616,000	8,924,880
Revenue and other financing sources over expenditures	\$ -	\$ 416,343	\$ -	5,075,274	\$ 5,491,617
Fund balance, beginning				416,343	
Fund balance, ending				\$ 5,491,617	

*Note that certain projects within the fund were closed out during the year ended June 30, 2020

Governmental Capital Project Fund

This fund is used to account for the financial resources segregated for the acquisition and/or construction of general capital assets and facilities. Resources may include grants, debt issuance, transfers from other funds or contributed capital as long as the accounting system can segregate the revenues and expenditures for each project. .

Town of Morehead City, North Carolina

**Governmental Capital Projects Fund
Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and for the Year Ended June 30, 2020**

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue:				
Insurance claims and reimbursements	\$ 249,935	\$ 249,935	\$ -	\$ 249,935
Donated and contributed capital	220,000	-	200,000	200,000
Federal and state grants	1,840,000	-	638,920	638,920
Sale of capital assets	-	-	2,094	2,094
Interest revenue	-	1,702	2,713	4,415
Total revenue	2,309,935	251,637	843,727	1,095,364
Expenditures:				
Capital outlay	6,220,434	125,149	3,603,797	3,728,946
Total expenditures	6,220,434	125,149	3,603,797	3,728,946
Revenue over (under) expenditures	(3,910,499)	126,488	(2,760,070)	(2,633,582)
Other financing sources (uses):				
Transfer to General Fund	(9,500)	-	(9,500)	(9,500)
Transfer from General Fund	3,276,131	1,232,018	2,044,113	3,276,131
Transfer from Water and Sewer Fund	288,600	288,600	-	288,600
Transfer from Jib Waterfront Access Capital Projects Fund	55,775	55,775	-	55,775
Transfer from Katherine Davis Park Capital Projects Fund	299,493	294,340	-	294,340
Total other financing sources (uses)	3,910,499	1,870,733	2,034,613	3,905,346
Revenue and other financing sources over (under) expenditures	\$ -	\$ 1,997,221	(725,457)	\$ 1,271,764
Fund balance, beginning			1,997,221	
Fund balance, ending				\$ 1,271,764

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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, 2020
(With Comparative Actual Amounts for Year Ended June 30, 2019)
(Page 1 of 3)

	2020			Unaudited 2019
	Budget	Actual	Variance With Final Budget	Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 3,530,000	\$ 3,574,977	\$ 44,977	\$ 3,459,851
Water charges	3,850,000	3,986,848	136,848	3,790,789
Extension fees	8,000	27,928	19,928	-
Tap fees	27,500	44,742	17,242	34,149
Total charges for sales and services	7,415,500	7,634,495	218,995	7,284,789
Miscellaneous	347,260	339,769	(7,491)	319,306
Total operating revenue	7,762,760	7,974,264	211,504	7,604,095
Operating expenditures:				
Cost of sales and services -				
Water, wells and pumping stations:				
Salaries, wages and employee benefits	148,675	150,556	(1,881)	138,809
Other	394,169	322,659	71,510	353,404
Repairs and maintenance	194,200	127,786	66,414	149,371
Total cost of sales and services - water, wells and pumping stations	737,044	601,001	136,043	641,584
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits	984,055	992,451	(8,396)	855,270
Other	2,466,339	2,251,534	214,805	1,314,843
Repairs and maintenance	193,550	135,778	57,772	63,485
Capital outlay	-	-	-	55,787
Total cost of sales and services - water distribution and sewer collection	3,643,944	3,379,763	264,181	2,289,385
Cost of sales and services -				
Lift stations and sewer mains:				
Other	112,400	107,041	5,359	107,075
Repairs and maintenance	114,300	116,985	(2,685)	60,336
Total cost of sales and services - lift stations and sewer mains	226,700	224,026	2,674	167,411

(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, 2020
 (With Comparative Actual Amounts for Year Ended June 30, 2019)
 (Page 2 of 3)

	2020			Unaudited 2019
	Budget	Actual	Variance With Final Budget	Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits	\$ 560,070	\$ 562,201	\$ (2,131)	\$ 514,119
Other	301,554	251,565	49,989	330,353
Repairs and maintenance	155,500	158,248	(2,748)	141,316
Capital outlay	82,115	82,115	-	-
Total cost of sales and services - wastewater treatment plant	1,099,239	1,054,129	45,110	985,788
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits	240,319	235,981	4,338	205,769
Other	131,735	89,707	42,028	82,053
Capital outlay	-	-	-	16,759
Total cost of sales and services - water billing and collection	372,054	325,688	46,366	304,581
Total operating expenditures	6,078,981	5,584,607	494,374	4,388,749
Operating revenue over operating expenditures	1,683,779	2,389,657	705,878	3,215,346
Nonoperating revenue (expenditures):				
Interest revenue	94,000	123,362	29,362	187,647
Disaster planning and recovery	205,365	102,425	(102,940)	(487,294)
Interest and fiscal charges	(358,445)	(354,538)	3,907	(408,145)
Sale of surplus property	500	19,555	19,055	861
Bond and installment agreement principal payments	(1,211,750)	(1,211,750)	-	(1,562,188)
Total nonoperating revenues (expenditures)	(1,270,330)	(1,320,946)	(50,616)	(2,269,119)
Revenue (under) over expenditures	413,449	1,068,711	655,262	946,227

(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, 2020
(With Comparative Actual Amounts For The Year Ended June 30, 2019)
(Page 3 of 3)

	2020			Unaudited 2019
	Budget	Actual	Variance With Final Budget	Actual
Other financing sources (uses):				
Capital contributions	\$ -	\$ -	\$ -	\$ 51,059
Transfers in:				
Water and Sewer Capital Reserve Fund	-	-	-	35,584
Water Treatment Capital Project Fund	-	-	-	520,000
Transfers out:				
Water and Sewer Capital Project Funds	(2,678,790)	(2,678,790)	-	(751,500)
Morehead Municipal Campus Capital Projects Fund	(3,427,200)	(3,427,200)	-	(410,000)
Governmental Capital Projects Fund	-	-	-	(288,600)
Contingency	(98,163)	-	98,163	-
Fund balance appropriated	5,792,829	-	(5,792,829)	-
Reserved for future appropriation	(2,125)	-	2,125	-
Total other financing sources (uses)	(413,449)	(6,105,990)	(5,692,541)	(843,457)
Revenue and other sources over expenditures and other financing uses	\$ -	\$ (5,037,279)	\$ (5,037,279)	\$ 102,770

Reconciliation of modified accrual basis to
full accrual basis:

Revenue and other financing sources over expenditures and other financing uses	\$ (5,037,279)	\$ 102,770
Depreciation	(1,777,886)	(1,661,430)
Note and installment agreement principal payment	1,211,750	1,562,188
Capitalized expenditures included in capital outlay and other expenditures	3,636,233	1,225,071
Donated capitalized expenditures included in capital Donated capitalized assets	878,764	(603,881)
Capital outlay from capital project funds	(3,554,120)	
Net transfers to Water and Sewer Capital Project Funds	2,678,790	195,916
Miscellaneous revenues	1,280	
Development fees	264,385	-
Repairs and maintenance expense from capital project funds	(32,866)	(121,522)
Contributions - capital project funds	373,000	181,840
Interest earned from capital project funds	10,039	22,985
Increase (decrease) in deferred outflows of resources - pensions	(40,688)	132,257
(Increase) decrease in net pension liability	(60,139)	(129,293)
(Increase) decrease in deferred inflows of resources - pensions	(3,488)	(2,964)
Increase (decrease) in deferred outflows of resources - OPEB	111,700	6,211
Decrease (Increase) in deferred inflows of resources - OPEB	13,726	(10,965)
(Increase) decrease in OPEB liability	(143,671)	4,754
Net income, full accrual basis	\$ (1,470,470)	\$ 903,937

Town of Morehead City, North Carolina

Solid Waste Fund

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

Year Ended June 30, 2020

(With Comparative Actual Amounts for Year Ended June 30, 2019)

	2020		Variance, With Final Budget	Unaudited 2019
	Budget	Actual		Actual
Revenue:				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 1,014,600	\$ 1,120,811	\$ 106,211	\$ 958,737
Miscellaneous	-	562	562	712
Total operating revenue	1,014,600	1,121,373	106,773	959,449
Operating expenditures:				
Contracted Services	743,010	748,693	(5,683)	672,652
Salaries, wages and employee benefits	62,488	47,662	14,826	46,532
Operating	305,971	200,080	105,891	226,930
Total operating expenditures	1,111,469	996,435	115,034	946,114
Operating revenue over (under) operating expenditures	(96,869)	124,938	221,807	13,335
Nonoperating revenue:				
Disaster recovery	91,840	65,456	(26,384)	-
Interest revenue	4,000	7,446	3,446	7,717
Restricted intergovernmental	6,200	7,183	983	7,025
Total nonoperating revenue	102,040	80,085	(21,955)	14,742
Revenue over (under) expenditures	5,171	205,023	199,852	28,077
Other financing sources (uses):				
Contingency	(5,171)	-	5,171	-
Total other financing uses	(5,171)	-	5,171	-
Revenue and other financing sources over expenditures	\$ -	\$ 205,023	\$ 205,023	\$ 28,077
Reconciliation of modified accrual basis with full accrual basis:				
Revenue and other financing sources over (under) expenditures		\$ 205,023		\$ 28,077
Disaster planning and recovery income from CPFs		895,190		-
Debris removal expenses from capital project fund		-		(930,460)
Depreciation		(35,343)		(35,343)
Increase in deferred outflows of resources - OPEB		3,942		219
Decrease (increase) in deferred inflows of resources - OPEB		484		(387)
Increase in OPEB liability		(5,070)		(82)
(Decrease) increase in deferred outflows of resources - pensions		(892)		3,228
Increase in net pension liability		(1,317)		(4,028)
(Increase) decrease in deferred inflows of resources - pensions		(76)		(72)
Net income, full accrual basis		\$ 1,061,941		\$ (938,848)

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, 2020**

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue:				
Development fees	\$ 1,008,460	\$ 110,528	\$ 264,385	\$ 374,913
Interest	-	4,315	7,878	12,193
Total revenue	1,008,460	114,843	272,263	387,106
Other financing sources (uses):				
Transfer from water and sewer CRF	423,117	423,117	-	423,117
Transfer to water and sewer capital project fund	(200,960)	-	(200,960)	(200,960)
Reserved for WWTP rehabilitation	(1,230,617)	-	-	-
Total other financing sources (uses)	(1,008,460)	423,117	(200,960)	222,157
Revenue over expenditures	\$ -	\$ 537,960	\$ 71,303	\$ 609,263

Town of Morehead City, North Carolina

Water and Sewer New Capital Projects Fund
 Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2020

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue:				
Interest	\$ -	\$ 2,092	\$ 2,161	\$ 4,253
Miscellaneous	-	-	1,280	1,280
Donated and contributed capital	373,000	-	373,000	373,000
Total revenue	373,000	2,092	376,441	378,533
Capital outlay	4,251,802	-	3,554,120	3,554,120
Repair and maintenance	36,084	-	32,866	32,866
Total expenditures	4,287,886	-	3,586,986	3,586,986
Revenue over (under) expenditures	(3,914,886)	2,092	(3,210,545)	(3,208,453)
Other financing sources:				
Transfers in:				
Water and sewer fund	2,678,790	-	2,678,790	2,678,790
Water and sewer system development fund	200,960	-	200,960	200,960
Water and sewer capital projects fund	387,088	387,088	-	387,088
Water and sewer capital reserve fund	523,728	523,728	-	523,728
Water and sewer rebatable capital reserve fund	70,579	70,579	-	70,579
Water/sewer extensions improvement capital project fund	48,930	48,930	-	48,930
West End Force main capital projects fund	4,811	4,811	-	4,811
Total other financing sources	3,914,886	1,035,136	2,879,750	3,914,886
Revenue and other financing sources over other financing sources	\$ -	\$ 1,037,228	\$ (330,795)	\$ 706,433

Town of Morehead City, North Carolina

Solid Waste Capital Projects Fund

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

From Inception and for the Year Ended June 30, 2020

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue:				
FEMA reimbursement	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 895,190</u>	<u>\$ 895,190</u>
Total revenue	<u>1,000,000</u>	<u>-</u>	<u>895,190</u>	<u>895,190</u>
Expenditures:				
Debris removal	<u>1,000,000</u>	<u>930,460</u>	<u>-</u>	<u>930,460</u>
Total expenditures	<u>1,000,000</u>	<u>930,460</u>	<u>-</u>	<u>930,460</u>
Revenue over (under) expenditures	<u>\$ -</u>	<u>\$ (930,460)</u>	<u>\$ 895,190</u>	<u>\$ (35,270)</u>

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 (Unaudited)

June 30, 2020

Year Ended June 30	Uncollected Balance June 30, 2019	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 7,915,309	\$ 7,809,703	\$ 105,606
2018-2019	48,548	(1,011)	18,673	28,864
2017-2018	27,497	(464)	10,058	16,975
2016-2017	15,368	(578)	5,184	9,606
2015-2016	8,443	(154)	2,810	5,479
2014-2015	2,857	(756)	451	1,650
2013-2014	5,160	(55)	244	4,861
2012-2013	7,209	(35)	221	6,953
2011-2012	4,335	(26)	62	4,247
2010-2011	588	-	-	588
2009-2010	541	-	144	397
2008-2009	4,400	-	4,400	-
	<u>\$ 124,946</u>	<u>\$ 7,912,230</u>	<u>\$ 7,851,950</u>	185,226
Less: allowance for uncollectible accounts:				
General Fund				<u>27,273</u>
Ad valorem taxes receivable - net				<u>\$ 157,953</u>
<u>Reconciliation to revenues:</u>				
Taxes - Ad valorem, General Fund				\$ 7,777,206
Reconciling items:				
Amounts adjusted for tax discount				94,632
Less penalties and interest collected, net				<u>(19,888)</u>
Subtotal				<u>74,744</u>
Total collections and credits				<u>\$ 7,851,950</u>

Town of Morehead City, North Carolina

**Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2020**

	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	\$ 2,057,272,498	0.380	\$ 7,817,635	\$ 7,443,352	\$ 374,283
Late listing penalties	-	-	1,195	1,195	-
Total	2,057,272,498		7,818,830	7,444,547	374,283
Discoveries:					
Current year taxes	35,296,083	0.380	134,125	134,125	-
Prior year taxes	1,028,493	0.350	3,575	3,575	-
Total	36,324,576		137,700	137,700	-
Abatements					
Current year taxes	9,969,730	0.380	37,932	37,932	-
Other adjustments	-	-	467	467	-
Total	9,969,730		38,399	38,399	-
Total property valuation	<u>\$ 2,083,627,344</u>				
Net levy			7,918,131	7,543,848	374,283
Uncollected taxes at June 30, 2020			105,606	105,606	-
Current year's taxes collected			<u>\$ 7,812,525</u>	<u>\$ 7,438,242</u>	<u>\$ 374,283</u>
Current levy collection percentage			<u>98.67%</u>	<u>98.60%</u>	<u>100.00%</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	90
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	100
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.	104
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.	110
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.	113

Town of Morehead City, North Carolina

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

	Fiscal Year		
	2011	2012	2013
Governmental activities:			
Net investment in capital assets	\$ 28,415,541	\$ 28,409,590	\$ 29,832,269
Restricted	2,604,295	3,029,403	2,236,110
Unrestricted	2,902,265	3,318,508	3,043,941
Total governmental activities net position	\$ 33,922,101	\$ 34,757,501	\$ 35,112,320
Business-type activities:			
Net investment in capital assets	\$ 27,669,652	\$ 28,868,465	\$ 28,439,320
Unrestricted	6,339,091	5,908,427	7,291,817
Total business-type activities net position	\$ 34,008,743	\$ 34,776,892	\$ 35,731,137
Primary government:			
Net investment in capital assets	\$ 56,085,193	\$ 57,278,055	\$ 58,271,589
Restricted	2,604,295	3,029,403	2,236,110
Unrestricted	9,241,356	9,226,935	10,335,758
Total primary government net position	\$ 67,930,844	\$ 69,534,393	\$ 70,843,457

Fiscal Year						
2014	2015	2016	2017	2018	2019	2020
\$ 29,797,242	\$ 30,996,748	\$ 30,553,783	\$ 30,588,767	\$ 30,839,716	\$ 33,012,289	\$ 34,501,559
2,328,152	2,251,305	2,512,603	2,734,866	3,232,564	5,358,178	10,045,571
3,226,255	4,023,536	5,093,407	5,277,817	4,904,475	1,685,300	(276,571)
\$ 35,351,649	\$ 37,271,589	\$ 38,159,793	\$ 38,601,450	\$ 38,976,755	\$ 40,055,767	\$ 44,270,559
\$ 31,102,147	\$ 33,535,086	\$ 33,488,345	\$ 33,869,014	\$ 33,989,708	\$ 34,987,905	\$ 38,892,348
7,933,557	9,644,766	11,099,637	12,475,309	12,975,444	11,942,336	7,629,363
\$ 39,035,704	\$ 43,179,852	\$ 44,587,982	\$ 46,344,323	\$ 46,965,152	\$ 46,930,241	\$ 46,521,711
\$ 60,899,389	\$ 64,531,834	\$ 64,042,128	\$ 64,457,781	\$ 64,829,424	\$ 68,000,194	\$ 73,393,907
2,328,152	2,251,305	2,512,603	2,734,866	3,232,564	5,358,178	10,045,571
11,159,812	13,668,302	16,193,044	17,753,126	17,879,919	13,627,636	7,352,792
\$ 74,387,353	\$ 80,451,441	\$ 82,747,775	\$ 84,945,773	\$ 85,941,907	\$ 86,986,008	\$ 90,792,270

Town of Morehead City, North Carolina

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

	Fiscal Year		
	2011	2012	2013
Expenses:			
Governmental activities:			
General government	\$ 1,439,277	\$ 1,608,076	\$ 1,805,015
Public safety	5,924,665	5,941,696	7,074,479
Highways and streets	960,596	932,790	231,503
Disaster planning and recovery	-	-	-
Cultural and recreation	1,266,613	1,066,750	763,721
Library	141,726	135,880	140,368
Interest on long-term debt	208,152	340,508	297,958
Total governmental activities expenses	9,941,029	10,025,700	10,313,044
Business-type activities:			
Water and sewer	4,667,772	4,933,504	4,907,070
Solid waste	895,433	966,224	872,407
Total business-type activities expenses	5,563,205	5,899,728	5,779,477
Total primary government expenses	15,504,234	15,925,428	16,092,521
Program revenue:			
Governmental activities:			
Charges for services			
General government	144,243	91,956	87,547
Public safety	816,709	115,574	621,344
Cultural and recreation	103,932	103,211	114,772
Library	7,818	7,947	6,858
Operating grants and contributions			
General government	-	47,863	39,525
Public safety	180,140	304,801	263,607
Highways and streets	249,100	252,306	-
Economic and physical development	-	-	-
Cultural and recreation	-	-	-
Library	53,075	53,075	53,075
Capital grants and contributions			
General government	-	-	-
Public safety	537,023	179,812	200,000
Highways and streets	-	498,563	339,608
Economic and physical development	-	-	-
Cultural and recreation	2,003,391	100,000	195,251
Total governmental activities program revenue	4,095,431	1,755,108	1,921,587
Business-type activities:			
Charges for services:			
Water and sewer	4,707,662	4,758,541	5,160,283
Solid waste	846,708	927,927	920,217
Operating grants and contributions	5,985	127,767	255,525
Capital grants and contributions	2,374,606	522,823	77,691
Total business-type activities program revenue	7,934,961	6,337,058	6,413,716
Total primary government program revenue	12,030,392	8,092,166	8,335,303

(Continued)

Fiscal Year						
2014	2015	2016	2017	2018	2019	2020
\$ 1,787,898	\$ 1,797,065	\$ 1,667,275	\$ 2,249,699	\$ 1,530,546	\$ 3,292,821	\$ 3,518,140
7,315,678	7,663,099	8,629,216	9,176,852	9,269,368	10,257,915	10,208,297
1,019,054	939,536	999,423	1,224,621	1,073,074	688,813	968,323
-	-	-	-	-	-	861,693
1,159,643	1,139,113	1,425,224	954,597	1,388,170	900,708	1,554,753
158,508	170,326	205,802	162,679	227,680	184,756	174,304
314,150	319,016	311,099	389,976	370,413	298,219	350,909
11,754,931	12,028,155	13,238,039	14,158,424	13,859,251	15,623,232	17,636,419
5,028,282	5,382,993	5,786,961	5,924,219	6,665,800	6,445,950	7,524,679
899,208	906,383	887,987	904,126	954,371	1,913,039	1,034,708
5,927,490	6,289,376	6,674,948	6,828,345	7,620,171	8,358,989	8,559,387
17,682,421	18,317,531	19,912,987	20,986,769	21,479,422	23,982,221	26,195,806
66,419	116,299	109,376	183,486	145,116	133,177	137,053
1,187,605	2,019,975	2,134,520	2,447,323	1,901,309	2,182,223	2,090,607
138,247	160,427	149,198	204,194	175,230	174,319	104,287
5,070	3,760	2,370	3,054	2,684	2,711	2,005
39,286	35,000	86,000	199,664	60,553	129,989	76,291
537,708	167,796	106,174	120,450	766,054	642,743	1,458,791
-	-	-	-	237,917	264,020	-
-	-	-	94,340	-	-	-
-	-	-	-	-	-	-
53,075	53,075	53,075	53,075	53,075	53,075	53,075
150,000	200,000	-	-	-	-	-
-	1,324,477	-	-	260,000	-	838,920
271,051	274,388	272,445	269,286	29,522	-	-
-	-	-	-	-	-	-
-	144,953	206,596	4,195	-	-	-
2,448,461	4,500,150	3,119,754	3,579,067	3,631,460	3,582,257	4,761,029
5,486,373	6,040,613	6,490,182	6,880,212	6,976,210	7,284,789	7,634,495
927,360	945,157	944,477	952,979	954,945	958,737	1,120,811
14,853	81,053	6,096	6,328	6,235	7,025	1,070,254
2,447,316	3,171,344	300,785	434,544	104,876	232,899	1,251,764
8,875,902	10,238,167	7,741,540	8,274,063	8,042,266	8,483,450	11,077,324
11,324,363	14,738,317	10,861,294	11,853,130	11,673,726	12,065,707	15,838,353

Town of Morehead City, North Carolina

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

	Fiscal Year		
	2011	2012	2013
Net (expense) revenue:			
Governmental activities	\$ (5,845,598)	\$ (8,270,592)	\$ (8,391,457)
Business-type activities	2,371,756	437,330	634,239
Total primary government net expense	(3,473,842)	(7,833,262)	(7,757,218)
General revenue and other changes in net position:			
Governmental activities:			
Taxes:			
Property taxes, levied for general purpose	5,775,012	5,953,304	5,411,825
Local option sales tax	1,511,872	1,842,063	2,006,679
Other taxes	254,620	263,509	93,464
Unrestricted intergovernmental	1,121,557	902,888	1,089,515
Investment earnings, unrestricted	56,951	21,560	11,551
Gain (Loss) on disposal of assets	-	-	-
Miscellaneous income, unrestricted	59,042	122,668	133,242
Transfers	-	-	-
Total governmental activities	8,779,054	9,105,992	8,746,276
Business-type activities:			
Investment earnings	44,917	36,205	27,689
Gain (Loss) on disposal of assets	-	-	-
Miscellaneous income	286,949	294,614	292,317
Transfers	-	-	-
Total business-type activities	331,866	330,819	320,006
Total primary government	9,110,920	9,436,811	9,066,282
Changes in net position:			
Governmental activities	2,933,456	835,400	354,819
Business-type activities	2,703,622	768,149	954,245
Total primary government	\$ 5,637,078	\$ 1,603,549	\$ 1,309,064

Fiscal Year						
2014	2015	2016	2017	2018	2019	2020
\$ (9,306,470)	\$ (7,528,005)	\$ (10,118,285)	\$ (10,579,357)	\$ (10,227,791)	\$ (12,040,975)	\$ (12,875,390)
2,948,412	3,948,791	1,066,592	1,445,718	422,095	124,461	2,517,937
(6,358,058)	(3,579,214)	(9,051,693)	(9,133,639)	(9,805,696)	(11,916,514)	(10,357,453)
6,110,807	6,322,041	6,785,757	6,911,703	7,004,591	7,139,424	8,290,873
1,963,754	2,307,936	2,484,746	2,840,811	2,972,776	3,176,645	3,341,214
93,306	74,189	29,145	35,257	29,959	45,791	39,392
1,118,241	1,353,173	1,402,712	1,402,462	1,397,389	1,444,489	1,422,392
8,939	3,629	19,089	54,295	114,618	200,836	139,690
-	-	(47,026)	38,842	(17,483)	6,015	10,195
250,752	177,698	203,182	189,630	106,666	408,187	419,226
-	(2,427)	-	37,500	-	698,600	3,427,200
9,545,799	10,236,239	10,877,605	11,510,500	11,608,516	13,119,987	17,090,182
23,066	18,660	28,221	62,457	125,561	218,349	140,847
-	-	-	1,614	21,185	861	19,555
333,089	319,532	313,317	284,052	324,148	320,018	340,331
-	2,427	-	(37,500)	-	(698,600)	(3,427,200)
356,155	340,619	341,538	310,623	470,894	(159,372)	(2,926,467)
9,901,954	10,576,858	11,219,143	11,821,123	12,079,410	12,960,615	14,163,715
239,329	2,708,234	759,320	931,143	1,380,725	1,079,012	4,214,792
3,304,567	4,289,410	1,408,130	1,756,341	892,989	(34,911)	(408,530)
\$ 3,543,896	\$ 6,997,644	\$ 2,167,450	\$ 2,687,484	\$ 2,273,714	\$ 1,044,101	\$ 3,806,262

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.

(Continued)

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	2019	2020
General Fund:					
Non Spendable	\$ 3,381	\$ 13,895	\$ 31,805	\$ 236,131	\$ 15,664
Restricted	2,076,481	2,344,026	2,266,667	2,944,614	3,282,190
Committed	282,427	649,395	188,349	219,929	178,609
Assigned	1,742,091	1,603,568	1,660,014	484,060	915,277
Unassigned	4,061,123	4,870,510	5,619,742	5,439,902	3,733,125
Total General Fund	\$ 8,165,503	\$ 9,481,394	\$ 9,766,577	\$ 9,324,636	\$ 8,124,865
All Other Governmental Funds:					
Non Spendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	436,122	390,840	965,897	2,413,564	6,763,381
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	\$ 2,413,564	\$ 6,763,381

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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		
	2011	2012	2013
Revenue:			
Taxes	\$ 5,794,269	\$ 5,921,562	\$ 5,405,814
Other taxes and licenses	254,620	263,509	93,464
Intergovernmental	5,594,738	3,595,747	4,149,263
Permits and fees	207,628	119,754	193,414
Sales and services	708,283	657,197	1,170,479
Investment earnings	56,951	21,560	11,551
Miscellaneous	165,862	154,852	133,242
Total revenue	12,782,351	10,734,181	11,157,227
Expenditures:			
General government	1,272,341	1,316,704	1,329,077
Public safety	5,550,763	5,603,595	5,814,771
Highway and streets	839,748	811,191	840,581
Culture and recreation	774,498	822,249	797,993
Disaster planning and recovery	-	-	-
Capital outlay	5,274,968	1,601,481	2,879,010
Debt service:			
Interest	196,232	297,089	300,644
Principal	5,223,696	276,913	281,816
Total expenditures	19,132,246	10,729,222	12,243,892
Excess of revenue (under) expenditures	(6,349,895)	4,959	(1,086,665)
Other financing sources (uses):			
Sales of capital assets	-	-	-
Transfers in	2,371,207	1,565,000	2,553,133
Transfers out	(2,371,207)	(1,565,000)	(2,553,133)
Debt issued	4,808,000	2,075,000	-
Total other financing sources	4,808,000	2,075,000	-
Net changes in fund balance	\$ (1,541,895)	\$ 2,079,959	\$ (1,086,665)
Debt service as a percentage of noncapital expenditures	38.10%	6.29%	6.22%

Fiscal Year						
2014	2015	2016	2017	2018	2019	2020
\$ 6,106,245	\$ 6,331,129	\$ 6,785,716	\$ 6,907,397	\$ 6,989,089	\$ 7,122,202	\$ 7,777,233
93,306	74,189	29,145	35,257	29,959	45,791	39,392
4,133,115	4,544,321	4,609,994	5,146,188	5,429,714	5,352,864	6,762,285
263,773	329,559	345,461	538,310	339,069	353,200	428,398
1,228,315	1,762,902	2,050,003	2,129,870	2,224,339	2,492,430	2,333,952
8,939	7,652	19,089	54,294	114,618	200,836	139,690
250,752	170,622	203,182	200,820	90,930	413,084	419,226
12,084,445	13,220,374	14,042,590	15,012,136	15,217,718	15,980,407	17,900,176
1,492,138	1,606,902	1,598,377	1,920,483	1,247,054	2,231,401	2,038,757
6,695,853	7,351,304	7,812,983	8,380,586	8,646,949	9,561,350	9,488,949
866,211	1,033,748	840,835	1,014,976	883,713	791,831	763,553
924,901	1,658,429	1,172,332	665,102	1,053,086	894,039	1,275,097
-	-	-	-	-	-	861,693
1,122,716	202,747	641,985	3,820,429	1,278,067	2,452,671	6,155,534
328,535	324,036	312,495	304,253	432,126	1,186,191	303,516
239,053	320,586	327,762	331,639	375,309	298,219	400,426
11,669,407	12,497,752	12,706,769	16,437,468	13,916,304	17,415,702	21,287,525
415,038	722,622	1,335,821	(1,425,332)	1,301,414	(1,435,295)	(3,387,349)
-	-	81,559	85,500	16,628	6,015	10,195
2,063,847	2,203,261	2,757,020	3,006,227	3,440,865	5,384,367	6,569,613
(2,063,847)	(2,203,261)	(2,757,020)	(2,968,727)	(3,440,865)	(4,685,767)	(3,142,413)
-	407,000	-	2,605,000	-	-	3,100,000
-	407,000	81,559	2,728,000	16,628	704,615	6,537,395
\$ 415,038	\$ 1,129,622	\$ 1,417,380	\$ 1,302,668	\$ 1,318,042	\$ (730,680)	\$ 3,150,046
5.38%	5.24%	5.31%	5.04%	6.39%	9.92%	4.65%

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	
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%
2019	1,753,582,991	270,320,852	30,733,697	2,054,637,540	0.0035	2,080,980,443	98.52%	98.73%
2020	1,785,809,355	265,637,454	32,180,535	2,083,627,344	0.0038	2,203,494,390	93.71%	94.56%

Source: Carteret County Tax Scrolls

Notes:

- 1 The North Carolina General Statutes require a revaluation of real property at least every eight years. Real property is valued at 100% of estimated value as of the date of the latest revaluation. The last revaluation was effective for the fiscal year ending June 30, 2012.
- 2 Personal property is valued at 100% of estimated value.
- 3 Public service property is generally valued at 100% of estimated value. It may be valued at less than 100% in years in which the County's sales to assessment ratio on real property is less than 80%.
- 4 The Town bills and collects property taxes for real, public service, nonregistered motor vehicles, and personal property. Carteret County billed & collected for property taxes for registered motor vehicles on behalf of the Town through October 2013. The County continues to collect delinquent taxes on registered motor vehicles for which it billed. The North Carolina Department of Motor Vehicles began billing/collecting property taxes for registered motor vehicles through the Tax & Tag program that was implemented during the fiscal year ending June 30, 2014. The values reported above include property taxes billed and collected by the Town, County and State.

* Excludes tax exempt property

Includes registered motor vehicles billed and collected by Carteret County

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>
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
2019	0.350	0.310
2020	0.380	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, 2020			Fiscal Year Ending June 30, 2011		
	Taxable Assessed Value	Rank	% of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total Town Taxable Assessed Value
ITAC 192 LLC	\$ 25,357,352	1	1.28	\$ 23,299,378	1	1.00
CARTERET PLACE INVESTORS LLC	25,082,185	2	1.26			
USPG PORTFOLIO FIVE LLC	19,274,257	3	0.97			
DUKE ENERGY PROGRESS INC	18,357,678	4	0.92			
STEVENS TOWING COMPANY	18,333,669	5	0.92			
WAL MART REAL EST BUSINESS TR	15,027,141	6	0.76	15,208,791	3	0.65
4 SISTERS-00 LLC ETAL	13,588,577	7	0.68			
VININGS AT MOREHEAD LLC	11,302,080	8	0.57			
SOUTHSTAR HOLDING MHC LLC ETAL	10,988,577	9	0.55	13,657,722	6	0.58
ZP NO 185 LLC	8,778,720	10	0.44	9,124,298		0.39
USPG PORTFOLIO TWO LLC				19,295,409	2	0.82
PROGRESS ENERGY CAROLINAS				14,067,386	4	0.60
MOREHEAD PLAZA LLC ETAL				13,828,270	5	0.59
OLD TOWNE YACHT CLUB INC				11,881,446	7	0.51
CAROLINA TELEPHONE				9,311,643	9	0.40
RADIO ISLAND MARINA CLUB INC				9,383,699	8	0.40
ZP NO 170 LLC				9,124,298	10	0.39
	166,090,236		8.35	148,182,340		6.33

Values reported above include amounts for property billed and collected by the Town. It excludes values for registered motor vehicles billed 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
2011	\$ 5,015,615	\$ 4,982,951	99.35	32,071	\$ 5,015,022	99.99
2012	5,240,988	5,181,661	98.87	57,770	5,239,431	99.97
2013	5,260,008	5,205,324	98.96	50,507	5,255,831	99.92
2014	5,865,417	5,810,430	99.06	52,701	5,863,131	99.96
2015	6,131,180	6,089,596	99.32	38,807	6,128,403	99.95
2016	6,558,115	6,508,576	99.24	42,779	6,551,355	99.90
2017	6,678,662	6,630,957	99.29	34,615	6,665,572	99.80
2018	6,762,936	6,708,097	99.19	35,813	6,743,910	99.72
2019	6,857,218	6,808,666	99.29	18,673	6,827,339	99.56
2020	7,543,849	7,438,242	98.60	-	7,438,242	98.60

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
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	-
2019	-	8,753,807	-	-
2020	-	11,550,291	-	-

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
\$ -	\$ 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	0.82%
4,701,000	-	12,007,250	25,462,057	9,481	2,686	0.71%
4,619,000	-	10,877,500	27,046,791	9,517	2,842	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
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	-
2019	-	2,080,980,443	0.00%	9,481	-
2020	-	2,203,494,390	0.00%	9,517	-

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, 2020
(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	\$ 23,390,000	13.46%	\$ 3,148,294
Subtotal, overlapping debt	<u>\$ 23,390,000</u>		<u>3,148,294</u>
Town direct debt	-	100.00%	11,550,291
Total direct and overlapping debt			<u><u>\$ 14,698,585</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)

	2011	2012	2013	2014	2015
Debt limit	\$ 187,144,678	\$ 151,675,002	\$ 153,023,693	\$ 155,861,337	\$ 154,488,046
Total net debt applicable to limit	-	-	-	-	-
Legal debt margin	<u>\$ 187,144,678</u>	<u>\$ 151,675,002</u>	<u>\$ 153,023,693</u>	<u>\$ 155,861,337</u>	<u>\$ 154,488,046</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 2019

Total assessed valuation \$ 2,083,627,344

Debt limit (8% of assessed value) 166,690,188

Legal debt margin \$ 166,690,188

2016	2017	2018	2018	2019	2020
\$ 156,307,610	\$ 159,180,007	\$ 155,861,337	\$ 161,367,841	\$ 155,861,337	\$ 166,690,188
-	-	-	-	-	-
<u>\$ 156,307,610</u>	<u>\$ 159,180,007</u>	<u>\$ 155,861,337</u>	<u>\$ 161,367,841</u>	<u>\$ 155,861,337</u>	<u>\$ 166,690,188</u>
0.00%	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)
2011	8,693	8,491	2,608	8.5%	\$ 39,174	\$ 2,639,299
2012	8,810	8,336	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	8,254	2,599	6.5%	43,903	3,021,043
2015	9,319	8,445	2,665	5.8%	44,199	3,044,352
2016	9,362	8,141	2,526	5.7%	46,654	3,212,372
2017	9,361	8,072	2,620	4.9%	47,871	3,297,436
2018	9,380	8,006	2,556	4.3%	49,360	3,431,692
2019	9,481	7,892	2,554	4.7%	N/A	N/A
2020	9,517	8,058	2,582	5.2%	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 Nine Years Ago
(Unaudited)**

Employer	2020		2011	
	Employees	Rank	Employees	Rank
Carteret County General Hospital	1000-1499	1	1000-1499	1
Carteret County Board of Education	250-499	2	250-499	3
Carteret Community College	250-499	3	250-499	4
Walmart	250-499	4	500-999	2
Bally Refrigerated Boxes, Inc	100-249	5	100-249	9
Town of Morehead City	100-249	6	100-249	8
Lowes Home Improvement	100-249	7	100-249	10
NC Dept of Environment & Natural Resources	100-249	8	100-249	
McDonald's	50-99		100-249	5
Lowes Food	50-99	9	100-249	7
Big Rock Sports	50-99		100-249	
Food Lion	50-99	10	100-249	6

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									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General Government:										
Administration	5	5	5	4	4	4	5	5	5	5
Information Technology	2	2	2	1	1	1	-	-	-	-
Finance	7	7	7	7	7	7	7	7	6	6
Building & Grounds	5	5	5	5	5	6	5	5	5	7
Garage	2	2	1	2	2	2	2	2	2	1
Public Safety:										
Police	48	45	45	47	46	46	48	47	45	45
Fire/EMS	54	51	54	52	49	44	38	35	34	34
Planning & Inspections	8	8	7	7	7	7	7	7	6	6
Transportation:										
Streets	10	9	10	9	9	9	9	9	9	9
Recreation & Culture:										
Recreation	4	8	8	8	7	8	7	7	6	8
Parks	5	4	5	4	3	3	3	3	3	1
Library	3	3	3	3	3	3	3	5	4	4
Water & Sewer:										
Billing & collections	4	4	4	4	4	4	4	4	4	4
Wells & water treatment	2	2	2	2	2	2	2	1	-	-
Water Distbr. & sewer collect.	15	15	15	16	14	15	14	14	15	15
Wastewater treatment	8	8	8	8	9	8	8	8	7	7
Solid Waste:										
Operations	1	1	1	1	1	1	1	1	1	1
TOTAL	183	179	182	180	173	170	163	160	152	153

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Town of Morehead City, North Carolina

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

Function/Program	2011	2012	2013	2014
Function/Program				
Public Safety				
Police calls dispatched ##	81,015	72,351	72,194	75,004
Number of building permits issued ##	943	1,050	1,256	985
Construction value of building permits issued ##	\$ 24,851,031	\$ 38,126,292	\$ 21,528,398	\$ 26,764,940
Fire/EMS area served in square miles ##	14.20	15.73	15.73	15.73
Fire calls answered ##	966	1,015	762	707
EMS calls answered ##	1,801	2,058	2,261	2,505
Highways and Streets				
Miles of streets maintained **	49.82	50.27	50.27	50.27
Water/Sewer				
Number of customers served **	5,323	5,375	5,419	5,454
Daily avg. gallons water consumption ##	1,209,000	1,208,000	1,163,000	1,165,000
Daily avg. gallons waste water treated ##	1,199,000	1,169,000	1,121,000	1,144,000
Sanitation				
Solid waste collected annually (tons) **	3,235	3,204	3,077	3,080
Recyclables collected annually (tons) **	397	398	366	365

Notes:

- 1 Items noted with ## are presented on a calendar year basis.
- 2 Items noted with ** are presented on a fiscal year basis.
- 3 N/A = information not available
- 4 Source of Information Various Town of Morehead City Departments

2015	2016	2017	2018	2019	2020
68,038	58,144	59,164	56,360	45,735	43,208
1,094	1,256	1,110	1,227	1,382	1,507
\$ 68,690,713	\$ 37,701,802	\$ 36,314,424	\$ 46,359,377	\$ 45,115,238	\$62,437,469
28.00	28.00	28.00	28.00	28.00	28.00
667	785	507	516	635	514
2,499	3,201	3,470	3,476	3,669	3712
50.35	50.35	50.35	50.35	50.64	50.64
5,339	5,534	5,623	5,797	5,857	6,357
1,160,000	1,191,000	990,000	1,030,000	1,024,000	1,218,000
1,340,000	1,438,000	1,396,000	1,430,000	1,549,000	1,448,000
3,010	3,056	3,047	3,045	3,227	3,240
435	469	515	492	598	563

Town of Morehead City, North Carolina

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

Function/Program	Calendar Year		
	2011	2012	2013
General Government			
Number of cemeteries	3	3	3
Public Safety			
Number of police stations/substations	4	4	2
Number of patrol units	52	50	46
Number of police boats	1	1	1
Number of Fire/EMS stations	4	4	3
Number of engines	5	5	5
Number of ambulances	3	4	5
Number of Fire/EMS boats	1	1	1
Highways and Streets			
Miles of streets	49.82	50.27	50.27
Culture and Recreation			
Number of parks	16	16	16
Number of public water accesses	22	22	22
Park acreage	76.00	76.00	77.50
Tennis and multipurpose courts	7	7	7
Playgrounds	4	5	6
Ballfields	11	11	10
Number of libraries	1	1	1
Water/Sewer			
Miles of water mains	83.25	83.25	83.25
Miles of sanitary sewers	79.50	79.50	79.50
Number of water treatment plants	0	1	1
Number of treatment plants	2	2	2
Sanitation			
Number of yard waste trucks	2	2	2

Calendar Year							
2014	2015	2016	2017	2018	2019	2020	
3	3	3	3	3	3	3	3
2	2	2	2	2	2	2	2
46	48	47	44	44	46	46	46
1	1	1	1	1	1	1	1
3	3	3	3	3	3	3	3
5	7	7	7	7	7	7	7
5	5	5	5	5	5	5	5
1	1	1	1	1	1	1	1
50.27	50.35	50.35	50.35	50.35	50.64	50.64	50.64
16	16	16	16	16	16	16	16
23	23	23	23	23	23	23	23
77.50	77.50	77.50	77.50	77.50	77.50	77.50	77.50
7	7	7	7	7	7	7	7
6	6	6	6	6	6	6	6
10	10	10	10	10	10	10	10
1	1	1	1	1	1	1	1
83.25	83.50	83.50	83.50	83.50	83.50	83.50	83.50
79.50	80.00	80.00	80.00	80.00	80.00	80.00	80.00
1	3	3	3	3	3	3	3
2	2	2	2	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 provisions of Title 2 U.S. Code of Federal Regulations part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act established audit requirements for State and Local governments that receive Federal assistance. The audit requirements were established to insure that the 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

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, 2020, and the related notes to the financial statements, which collectively comprise Town of Morehead City's basic financial statements, and have issued our report thereon dated January 27, 2021.

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) as a basis for designing 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 first paragraph of this section 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 have not been identified. Given these limitations, during the audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs as finding 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Morehead City's financial statements are free from 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 Response to Finding

Town of Morehead City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

RSM US LLP

Morehead City, North Carolina
January 27, 2021

**Report On Compliance For the Major Federal Program and Report On
Internal Control Over Compliance Required By
the Uniform Guidance**

Independent Auditor's Report

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, 2020. 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; and 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). Those standards and the Uniform Guidance 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, 2020.

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
January 27, 2021



**Report On Compliance For each Major State Program and On
Internal Control Over Compliance Required By
the State Single Audit Implementation Act**

RSM US LLP

Independent Auditor's Report

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

Report on Compliance for the Major State Program

We have audited Town of Morehead City, North Carolina's (the Town) compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Town of Morehead City's major State programs for the year ended June 30, 2020. Town of Morehead City's major State programs are 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 State statutes, regulations, and the terms and conditions of its State awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major State programs 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; and the applicable sections 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 State 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 each of the major State programs. However, our audit does not provide a legal determination on Town of Morehead City's compliance.

Opinion on the Major State 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 each major state program for the year ended June 30, 2020.

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 State programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major State programs 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 State 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 State 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 and the State Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Morehead City, North Carolina
January 27, 2021

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2020**

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

Noncompliance material to financial statements noted yes X no

Federal Awards

Internal control over major Federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major Federal program:

<u>CFDA No.</u>	<u>Names of Federal Program or Cluster</u>
97.036	Disaster Grants-Public Assistance Grant (FEMA)

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

Auditee qualified as low-risk auditee? Yes X no

(Continued)

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2020**

Section II. Financial Statement Findings

Significant Deficiencies

Finding 2020-001-Inventory Pricing Error and Inventory Tracking

Criteria: According to generally accepted accounting principles and the accrual basis of accounting, inventory pricing may be determined under any one of several assumptions as to the flow of cost factors (such as average cost, FIFO, and LIFO).

Condition and Context: The Town of Morehead City values its inventory at cost using the first-in, first out method. The Town did not appropriately track their inventory purchases and work orders and this resulted in an error for 2 out of 4 samples tested. In addition, the Town was unable to rollback inventory to the year-end count.

Effect: The factual misstatement was a \$539 understatement of inventory and the projected misstatement was a \$24,240 understatement.

Cause: The Town does not have a method for tracking inventory utilized on work orders and inventory was only being updated during the year-end count.

Recommendation: We recommend that the Town utilizes the inventory module within their accounting software to appropriately track additions and deletions of inventory items. We note that the Town began to implement this system in April, 2020 and a portion of the software that tracks inventory went into the live environment in October 2020. In addition, RSM recommends that the finance department performs a more detailed review of inventory at year end and to help ensure the count procedures are appropriately performed.

Management Response: See Corrective Action Plan.

Section III. Findings and Questioned Costs for Federal Awards

None reported

Section IV. Findings and Questioned Costs for State Awards

None reported.



December 11, 2020

Corrective Action Plan
For the Fiscal Year Ended June 30, 2020

Section II. Financial Statement Findings

Name of contact person: Jewel Lasater, Finance Director

Proposed completion date: January 4, 2021

Significant Deficiencies

Finding: 2020-001 Inventory Pricing Error and Inventory Tracking

Corrective Action: The Town of Morehead City began implementation of an Inventory and Work Order module of Munis in April 2020. The Work Order & Inventory system launched in the live environment in October 2020. The Work Order portion tracks inventory out, and the Inventory system tracks inventory in through manual entry until the inventory module is fully integrated with the already existing Purchase module. The integration of the inventory module to the purchasing module is being developed currently and is expected to be completed in January 2021. Once all system developed is completed quantity and cost of inventory purchases is managed and reviewed by several individuals through the requisition, purchasing and payment process. All inventory changes will be tied to some type of inventory transaction. The individual departments are ultimately responsible for year-end inventory counts; however, the Finance department plans to be more involved and assist with fiscal year-end inventory counts. Automation provided by new software modules and assistance from the Finance department will ensure a more accurate accounting of inventory in the future.

Sincerely,

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

Jewel A. Lasater
Finance Director

Town of Morehead City, North Carolina

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020**

Section II. Financial Statement Findings

There were no findings reported during the year ended June 30, 2019.

Section III. Findings and Questioned Costs for Federal Awards

There were no findings reported during the year ended June 30, 2019.

Section IV. Findings and Questioned Costs for State Awards

There were no findings reported during the year ended June 30, 2019.

TOWN OF MOREHEAD CITY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2020

Page 1 of 2	Grantor/Pass-Through Grantor/Program Title	Federal CFDA ¹ Number/ State Program	Federal/State Pass-Through Grantor's Number	Expenditures		
				Federal	State	Local
Federal Awards:						
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	unavailable	1,974	-	-
Pass through Carteret County Board of Education						
School Resource Officer						
		16.594	unavailable	154,518	-	41,551
Pass through NC Department of Public Safety						
Justice Assistance Grant (JAG)						
		16.738	unavailable	14,473	-	-
Total US Department of Justice				170,965	-	41,551
US Department of Homeland Security						
Pass through Dept of Public Safety						
Staffing for Adequate Fire and Emergency Response (SAFER)						
		97.083	unavailable	102,972	-	-
Pass through NC Department of Public Safety						
Division of Emergency Management						
Public Assistance Grant (FEMA):						
DR4393NC - Town-Wide Debris Removal						
		97.036	PW 69616	796,906	-	-
DR4393NC - Emergency Protective Measures						
		97.036	PW 69620	363,809	-	-
DR4393NC - Signs						
		97.036	PW 69669	12,097	4,032	-
City Parks						
		97.036	PW 69633	42,137	14,046	-
Rotary Park and Sports Facilities						
		97.036	PW 69638	32,467	10,822	-
City of Morehead - Debris Removal (Citywide)						
		97.036	PW 120049	38,475	12,825	-
DR-4393-NC - Fire Station 1 & 2						
		97.036	PW 79257	11,435	3,812	-
Outflow Pipes						
		97.036	PW 126788	8,550	2,850	-
APP CERT- Parks and Recreation						
		97.036	PW 126807	6,918	2,306	-
City of Morehead - Emergency Protective Measures						
		97.036	PW 120050	92,402	30,801	-
DR4393NC - Cat G - Piers and Docks						
		97.036	PW 69373	243,343	-	-
Total Public Assistance Grant (FEMA)				1,648,539	81,494	-
Total US Department of Homeland Security				1,751,511	81,494	-

(Continued)

TOWN OF MOREHEAD CITY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2020

Page 2 of 2	Grantor/Pass-Through Grantor/Program Title	Federal CFDA ¹ Number/ State Program	Federal/State Pass-Through Grantor's Number	Expenditures		
				Federal	State	Local
State Grants:						
	NC Department of Environmental Quality Division of Water Resources Shallow Draft Navigation Channel Dredging	DEQ-19	n/a	\$ -	\$ 133,169	\$ -
	NC Department of Commerce Hometown Strong Disaster Recovery Grant	COM-5	n/a	-	36,140	-
	NC Department of Public Instruction Pass through Carteret County Board of Education School Safety Grant	n/a	n/a	-	26,243	-
	NC Department of Public Safety NC Office of Recovery and Resiliency State Grant for Financially Distressed Local Governments	DR-4393	n/a	-	10,225	-
	NC Department of Transportation Nonstate System Street Aid Allocation	DOT-4	n/a	-	745,203	-
	NC State Office of Budget and Management Disaster Recovery Grant - Dredging	GOV-2	n/a	-	67,250	-
	Total federal expenditures			<u>\$ 1,957,476</u>		
	Total state expenditures				<u>\$ 1,099,724</u>	
	Total local expenditures					<u>\$ 41,551</u>

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

¹Catalog of Federal Domestic Assistance number

n/a-not applicable

Town of Morehead City, North Carolina

**Notes to the Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2020**

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, 2020. 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, 2020.

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.

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. Loans outstanding at June 30, 2020 consist of:

<u>Program Title</u>	<u>Amount Outstanding</u>
Safe Drinking Water Revolving Loan Fund	\$ 255,000
Clean Water Revolving Loan Fund	250,000
Clean Water State Revolving Loan Fund	6,750,000
Drinking Water State Revolving Loan Fund	322,500
Katherine Davis Park	2,306,720
Police Station E911 Building Loan	4,259,037
Fire/EMS Station #2	1,884,533
Water Treatment Facilities	4,619,000

Note 4. Indirect Cost

The Town of Morehead City has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.