

**TOWN OF MOREHEAD CITY, NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Prepared by:**

**B. Ellen Sewell, Finance Director  
Finance Department**

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## **INTRODUCTORY SECTION**

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

Gerald A. Jones, Jr., *Mayor*

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COUNCIL

Harvey N. Walker, Jr., *Mayor Pro Tem*  
George W. Ballou  
Demus L. Thompson  
William F. Taylor  
Diane C. Warrender

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Morehead City, North Carolina 28557-4234  
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David S. Whitlow  
*City Manager*

January 20, 2014

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

We are pleased to present the Comprehensive Annual Financial Report of the Town of Morehead City (Town) for the fiscal year ending June 30, 2013. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report complies with these requirements.

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

McGladrey LLP, a firm of independent licensed certified public accountants has audited the Town's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2013 are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on the Town's financial statements for the fiscal year ended June 30, 2013. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to the independent audit of the financial statements, the Town is required to have a "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and certain state agencies. Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, findings and recommendations, and auditors' reports on the internal control structure and compliance, are included in the Compliance Section of this report.

This Comprehensive Annual Financial Report is presented in four sections which include the introductory, financial, statistical, and compliance sections. The introductory section includes this transmittal letter, the government's organizational chart, and a list of principal officials. The financial section includes the auditors' report on the financial statements and schedules, Management's Discussion and Analysis, the basic financial statements and related notes, the combining and individual fund financial statements and

schedules, and additional financial data. The statistical section contains selected financial and demographic information. The compliance section presents reports and schedules required by the federal and State grantor agencies. MD&A included in the financial section fulfills a GAAP requirement that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

### **Description of the Town of Morehead City**

Morehead City is located on the coast of North Carolina approximately 150 miles southeast of Raleigh. With a population of approximately 9,200 it is the largest incorporated town in Carteret County. Founded in 1858, this picturesque community is located on the Intercoastal Waterway and is separated from the Atlantic Ocean by a sound and a protective barrier island.

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

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

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

The estimated 2013 population for the Town of 9,163 represents a 4% increase from the 2012 estimated population of 8,810. The Town encompasses approximately seven square miles and employs 160 full-time equivalent staff. Like many other locations, the Town was negatively impacted by the recession, and during that time the rate of growth slowed. However, indications are that growth in the area has increased and will continue in the future.

### **Economic Conditions and Outlook**

The information in the financial statements may be best understood when considered in the context of the environment in which the Town operates. Morehead City is located in a rural coastal county. The major industries are tourism and fishing. The main attractions are the area's beaches and water related activities. The county also enjoys a number of historical sites that serve as destinations for individuals and groups. The county's economy, while seasonal, is stabilized by being in close proximity to two Marine Corp bases and air stations at Cherry Point and Camp Lejeune, which provide substantial employment for the county. These installations have experienced growth in force strength in recent years. Both Carteret County and Morehead City play host to a growing marine science community. The NC State University Marine Sciences and Technology Center, UNC-Chapel Hill Institute of Marine Sciences, and the

NC Division of Marine Fisheries are located in Morehead City. The Duke University Marine Laboratory and the NOAA National Marine Fisheries Service are located just outside of the city limits of the Town. The lack of dependence on manufacturing and high tech jobs has somewhat mitigated the impact of the negative economic situations that have faced other communities for the past several years. The community had a 7.7% unemployment rate in June 2013 compared to 9.3% statewide and 7.8% nationally (not seasonally adjusted).

All indications are that the Town and the county will continue to grow. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the Town limits and the extraterritorial jurisdiction in 2012 was \$21.5 million. This growth expands our tax base and property taxes, one of our largest revenue sources.

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

### **Major Initiatives**

The Town Council hired a new City Manager in September 2012 after the retirement of the former Manager. The new Manager, David S. Whitlow, came to the Town from Virginia, where he had lengthy service in a variety of local government management positions at both the municipal and county levels.

One of the goals of the current administration 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. 2012-2013

major initiatives undertaken in the governmental funds to meet this goal include completion of the renovation of a replacement Fire/EMS Station and acquisition of a new fire engine and ambulance. Renovation of a historical building located on the waterfront and owned by the Town was also completed during the year. The Town acquired additional property adjacent to the baseball park and made other improvements to that facility as well as improvements to public water access at two locations. The Town continued support for nonprofit and other organizations that sponsor major public events which showcase the area, provide entertainment for citizens and visitors, as well as provide economic benefit to the community. Major initiatives in the Water/Sewer proprietary fund include beginning of construction on the last two of three water treatment facilities and a new well and elevated water storage tank and other system improvements. More detail on each of these follows.

Renovations were completed for a building on property acquired in a previous fiscal year to replace an aging Fire/EMS Station with a facility that is better located to serve the current and future Town and service district populations. The geography of the Town has necessitated that all growth be to the north and west of the original Town boundaries. Thus, the Town has outgrown some facilities over time and replacement was imperative. The location for the new station is within the parameters identified in a fire insurance rating. The property, approximately 1 2/3 acres of land with a building, previously served as home to the local newspaper. The building has the necessary height for equipment bays, overhead doors, and other features that allows it to be renovated without expanding the existing footprint. Project funding is from a combination of the Fire/EMS Fund reserves and an USDA loan and grant from American Recovery and Reinvestment Act (ARRA) funds. Additionally, a new fire engine and ambulance were purchased to replace aging vehicles.

Restoration of a building owned by the Town and listed on the National Register of Historic Places was completed in September 2012. The building, which previously served as the Police Station until recent construction of a new facility, provides much needed office space for the Mayor/Council and Administration departments. The building also houses the meeting room where Town Council, Planning and Zoning Boards, and other community meetings are held. Located on the Morehead City waterfront, it serves as the "living room" for the Town. Funding for this project is from General Fund reserves.

The Town acquired property adjacent to the recently constructed baseball park. The park serves American Legion Baseball teams and is home to the Morehead Marlins, a collegiate summer baseball team. A second concession stand/restroom facility was constructed at this location during the year. Other quality of life improvements included extension of a popular town owned fishing pier with funding from a North Carolina Marine Resources grant. Also, design work was completed and construction began on downtown waterfront property acquired by the Town in a prior year. This location provides another public water access point and is proposed to be the home of the weigh station for the Big Rock Blue Marlin Fishing Tournament. The Tournament will donate a life size blue marlin sculpture for the fountain to be constructed at the site. The Tournament provided funding for other project amenities and the Town also received a Coastal Area Management Act grant to help fund improvements.

The Town provided in kind support for a number of groups including the North Carolina Seafood Festival (NCSF), the Big Rock Blue Marlin Tournament, and the Crystal Coast Grand Prix. 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. The Crystal Coast Grand Prix is a 3 day event that hosts a super power boat race that draws boats and race teams from all over the United States. All of these events and other smaller ones promote Morehead City and Carteret County as a tourist destination, provide stimulus for the local economy, as well as enhance the quality of life for citizens.

Construction began on the last two of three water treatment plants during the year. When these two facilities are complete the treatment system will provide ionic exchange, corrosion control, softening, and fluoridation to the entire system. Prior to undertaking this project, only fluoridation was done. The treatment plants are being constructed in sequence at locations throughout the distribution system. This design will provide redundancy. The Town received an interest free loan through the American Reinvestment and Redevelopment Act (ARRA) to finance the first water treatment plant. This funding had the added advantage of forgiveness of one half of the principal. The Town was awarded additional ARRA loan and grant funds administered through the USDA to finance the remaining two water treatment plants, an elevated 500,000 gallon water storage tank, and a new well.

### **For the Future**

The Town Council adopted the fiscal year 2013-2014 budget in June 2013. Property taxes provide over half of the revenues for the General Fund. The budget increased the property tax rate \$.03 per \$100 of valuation, from \$.285 to \$.315. Sales tax, permits and fees, and sales and services are all projected to increase. Restricted intergovernmental revenue is budgeted to decrease as several projects funded from grants have been completed. Rate increases were implemented for water and sewer. These increases were necessary to pay operating costs associated with these services and to provide adequate funds to pay for debt in the Water and Sewer Fund.

On the spending side, the emphasis was on funding recommendations from a salary study and pay plan contracted for by the Town Council. Pay rates had been frozen for several years during the recession and the salary scale had fallen below market for numerous positions. The Council endorsed a three year phased in approach to bring salary levels to market. Employees realized the first of these pay increases in July 2013. Benefit plans were continued largely unchanged. The budget also included staffing increases in the General, Fire/EMS, and Water/Sewer Funds. One new full-time position and three frozen seasonal positions were funded for Public Works. Three new full time positions were added in the Fire/EMS Fund. One new position was added in the Water/Sewer Fund in anticipation of the completion of the new water treatment facilities mentioned above. Revenue and operations of the Solid Waste Fund were essentially unchanged from the prior year.

## Independent Audit

The North Carolina General Statutes requires the Town to provide for an annual audit of the accounts and financial transactions of the Town by a firm of independent certified public accountants. The Town Council designated McGladrey & Pullen, LLP, Certified Public Accountants, to meet these requirements and their report follows and is an integral part of this report.

## Award and Acknowledgments

The Governmental Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Morehead City for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the twenty third 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 CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "B. Ellen Sewell".

B. Ellen Sewell, Finance Director

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**Town of Morehead City, North Carolina**

**List of Principal Officials  
June 30, 2013**

Town Council

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

Diane C. Warrender

William F. Taylor

Harvey N. Walker, Jr.  
Mayor Pro Tem

George W. Ballou

Demus L. Thompson

Administration

David S. Whitlow  
City Manager

Jeanne M. Giblin  
City Clerk

B. Ellen Sewell  
Finance Officer

David E. McCabe  
Public Works Director

Jamie E. Fulk  
Chief, Fire & EMS  
Department

E. Wrenn Johnson  
Chief, Police Department

Daniel K. Williams  
Public Utilities Director

S. Craig Lands  
Parks and Recreation

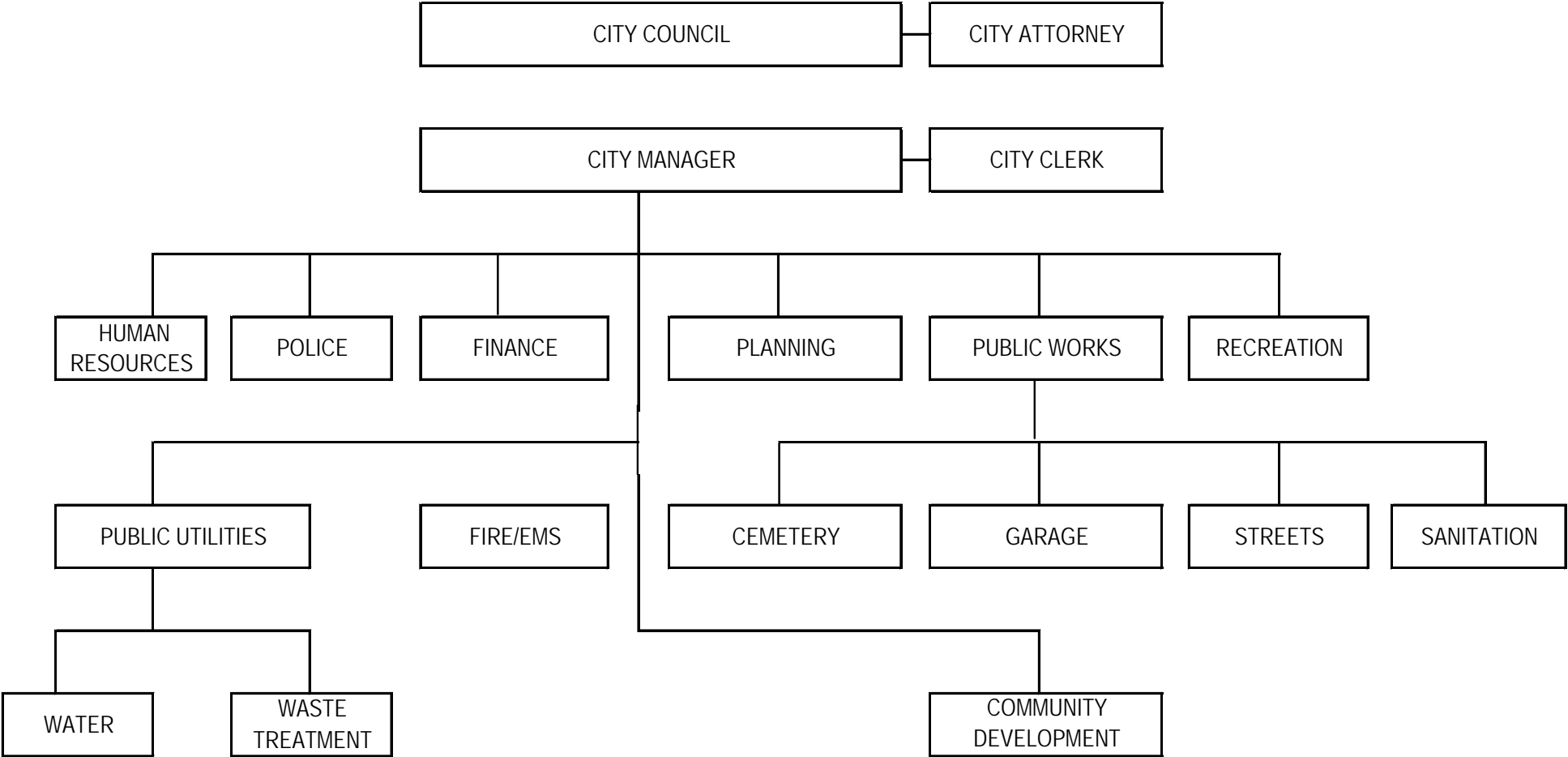
Linda V. Stabb  
Planning and Inspection  
Director

Shirl F. Meadows  
Tax Collector

Sandra W. Bell  
Library Director

Susan Nixon  
Human Resources Director

TOWN OF MOREHEAD CITY







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, 2012**

Executive Director/CEO

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## **FINANCIAL SECTION**

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- **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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McGladrey LLP  
Certified Public Accountants

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Morehead City, NC 28557  
O 252.726.0551 F 252.726.2740  
www.mcgladrey.com

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Morehead 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, each major fund and the aggregate remaining fund information of the Town of Morehead City, North Carolina as of June

30, 2013, and the respective changes in financial position and, where applicable cash flows thereof and the respective budgetary comparison for the general and fire/EMS district funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 16 to the financial statements, the financial statements for the year ending June 30, 2012 for the major Fire/EMS Fund have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions, and the Other Postemployment Benefits' Schedules of Funding Progress and the Employer Contributions on pages 14 through 21 and 65 through 68, 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 Town of Morehead City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and other schedules listed in the table of contents as Other Supplementary Information and the Schedule of Expenditures of Federal and State Awards (in the compliance section) as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other schedules listed as other supplementary information and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section and statistical tables of the Comprehensive Annual Financial Report are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 20, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Morehead City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "McGladrey LLP".

Morehead City, North Carolina  
January 20, 2014

## Town of Morehead City, North Carolina

### Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2013

This section of the Town of Morehead City's (Town) annual financial report presents a narrative overview and analysis of the Town's financial performance for the fiscal year ended June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

#### Financial Highlights

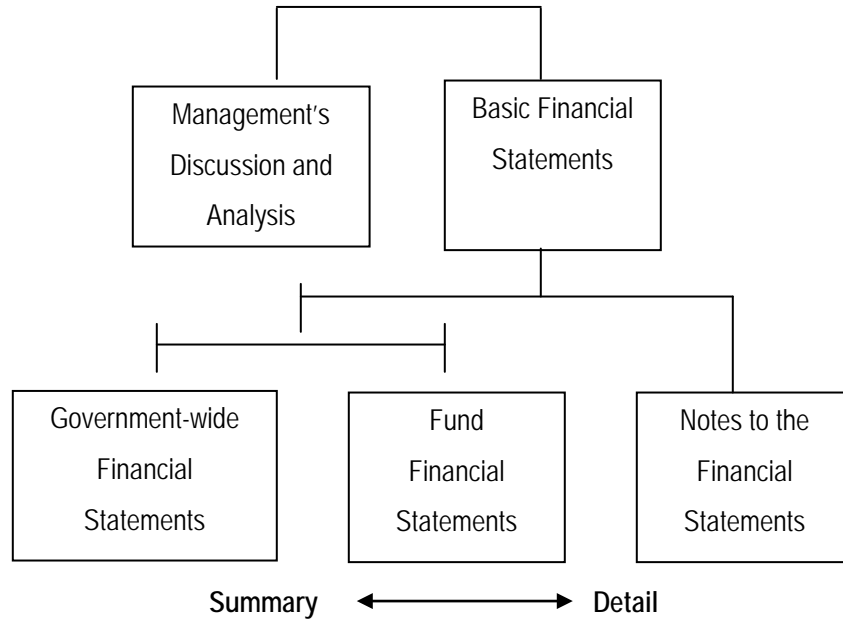
- The overall financial position of the Town improved in 2013 as evidenced by an increase in total net position of \$1.3 million. This increase was from both governmental (\$0.4 million) and business-type (\$0.9 million) activities.
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$70.8 million (net position). Of this amount, \$10.3 million (unrestricted net position) can be used to meet the Town's ongoing obligations to its citizens and creditors.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$6.4 million, a decrease of \$1.1 million in comparison with the prior year. Approximately 46.4% or \$3.0 million is nonspendable, restricted, committed, or assigned.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$3.4 million or approximately 34.7% 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 \$1.8 million primarily due to public safety related asset acquisitions. Business-type net capital assets decreased \$0.3 million as depreciation charges exceeded asset additions for the year.
- The Town's total debt increased by \$3.9 million during the current fiscal year. There were no new borrowings in the governmental funds and principal repayments totaled \$0.3 million in these funds. The Town borrowed \$5.6 million for system improvements in the Water and Sewer Fund. Business-type activities principal payments totaled \$1.4 million during the year. Principal of \$0.1 million was forgiven on American Recovery and Reinvestment Act (ARRA) funded loans in the Water and Sewer Fund.

#### Overview of the Financial Statements

This annual report consists primarily of three parts: management's discussion and analysis (this section), the basic financial statements, and a section that presents combining and individual fund statements as well as detailed budgetary comparison schedules. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. The following diagram shows how the required components of this annual report are arranged and relate to one another.



## Required Components of Annual Financial Report



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

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

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

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

### Government-wide Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies.

The *statement of net position* includes all of the government's assets and liabilities except fiduciary funds. The *statement of activities* accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the Town's net position (the difference between assets and liabilities)

and how it has changed. Over time, increases or decreases in the Town's net position are one indicator of whether the Town's financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Town's property tax base and the condition of the Town's roads, must be considered to assess the overall health of the Town.

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

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

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

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Town's most significant funds, not the Town as a whole. Funds are accounting groups that the Town uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State Statutes. Other funds are established to control and manage resources designated for specific purposes.

The Town has three kinds of funds:

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

The Town adopts an annual budget for the General Fund and Fire/EMS Fund, as required by State Statutes. A budgetary comparison statement is presented for the General Fund and Fire/EMS Fund using the Town's budgetary basis of accounting. This statement reflects the following: (a) the original budget, (b) the final budget as amended, (c) actual resources, and (d) the variance between the final budget and actual resources. Because the Town's budgetary basis of accounting does not differ from the modified accrual basis used in the fund's statements, reconciliation is not necessary at the end of the statement.

- Proprietary funds – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Town has one type of proprietary fund. Enterprise funds are the same as the business-type activities (shown in the Government-wide Statements), but provide more detail and additional information, such as cash flows.
- Fiduciary funds - The Town is the trustee, or fiduciary, for the Law Enforcement Officers' Special Separation Allowance Trust Fund and the Other Postemployment Benefits Trust Fund. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These funds are excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

The fund financial statements are on pages 26 – 37 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 39 of this report.

### Financial Analysis of the Town as a Whole

**Net Position:** For the Town, assets exceeded liabilities by \$70.8 million at the close of the most recent fiscal year. A summary of the Town's net position at June 30, 2013 and 2012 is presented below:

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 7,784,511	\$ 9,267,978	\$ 12,555,247	\$ 7,614,385	\$ 20,339,758	\$ 16,882,363
Capital assets	38,297,574	36,523,359	46,501,908	46,807,598	84,799,482	83,330,957
Total assets	<u>46,082,085</u>	<u>45,791,337</u>	<u>59,057,155</u>	<u>54,421,983</u>	<u>105,139,240</u>	<u>100,213,320</u>
Long-term liabilities outstanding	9,673,020	9,826,692	22,272,815	18,075,754	31,945,835	27,902,446
Other liabilities	1,223,540	1,122,027	1,044,744	1,560,878	2,268,284	2,682,905
Deferred inflows of resources	73,205	85,117	8,459	8,459	81,664	93,576
Total liabilities and deferred inflows of resources	<u>10,969,765</u>	<u>11,033,836</u>	<u>23,326,018</u>	<u>19,645,091</u>	<u>34,295,783</u>	<u>30,678,927</u>
Net position:						
Net investment in capital assets	29,832,269	28,409,590	28,439,320	28,868,465	58,271,589	57,278,055
Restricted	2,236,110	3,029,403	-	-	2,236,110	3,029,403
Unrestricted	3,043,941	3,318,508	7,291,817	5,908,427	10,335,758	9,226,935
Total net position	<u>\$ 35,112,320</u>	<u>\$ 34,757,501</u>	<u>\$ 35,731,137</u>	<u>\$ 34,776,892</u>	<u>\$ 70,843,457</u>	<u>\$ 69,534,393</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town's net position increased by \$1.3 million for the fiscal year ended June 30, 2013. However, the largest portion (82.3%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A portion of the Town's net position (3.2%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$10.3 million (14.5%) is unrestricted.

Net position of the governmental activities increased \$.4 million, or 1 percent, to \$35.1 million in spite of the write off of a \$.5 million receivable from the County for fire/EMS services provided in prior years by the Town to areas outside of municipal boundaries. The receivable was determined to no longer be collectible due to a change in the County's concept related to distribution of funds collected for this purpose. \$32.1 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.). \$3.0 million is unrestricted. The unrestricted net position is available primarily to support operations and to provide for payment of long-term debt.

The net position of the business-type activities increased by \$.9 million, or 2.7 percent, to \$35.7 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 Town's changes in net position for the fiscal years ended June 30, 2013 and 2012:

## Town of Morehead City's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>Revenue:</b>						
Program revenue:						
Charges for services	\$ 830,521	\$ 318,688	\$ 6,080,500	\$ 5,686,468	\$ 6,911,021	\$ 6,005,156
Operating grants and contributions	356,207	658,045	255,525	127,767	611,732	785,812
Capital grants and contributions	734,859	778,375	77,691	522,823	812,550	1,301,198
General revenue:						
Property taxes	5,411,825	5,953,304	-	-	5,411,825	5,953,304
Other taxes	2,100,143	2,105,572	-	-	2,100,143	2,105,572
Grants and contributions not restricted to specific programs	1,089,515	902,888	-	-	1,089,515	902,888
Other	144,793	144,228	320,006	330,819	464,799	475,047
Total revenue	<u>10,667,863</u>	<u>10,861,100</u>	<u>6,733,722</u>	<u>6,667,877</u>	<u>17,401,585</u>	<u>17,528,977</u>
<b>Expenses:</b>						
General government	1,805,015	1,608,076	-	-	1,805,015	1,608,076
Public safety	7,074,479	5,941,696	-	-	7,074,479	5,941,696
Highways and streets	231,503	932,790	-	-	231,503	932,790
Culture and recreation	763,721	1,066,750	-	-	763,721	1,066,750
Library	140,368	135,880	-	-	140,368	135,880
Interest on long-term debt	297,958	340,508	-	-	297,958	340,508
Water and sewer	-	-	4,907,070	4,933,504	4,907,070	4,933,504
Solid waste	-	-	872,407	966,224	872,407	966,224
Total expenses	<u>10,313,044</u>	<u>10,025,700</u>	<u>5,779,477</u>	<u>5,899,728</u>	<u>16,092,521</u>	<u>15,925,428</u>
Increase in net position	354,819	835,400	954,245	768,149	1,309,064	1,603,549
Net position, July 1	<u>34,757,501</u>	<u>33,922,101</u>	<u>34,776,892</u>	<u>34,008,743</u>	<u>69,534,393</u>	<u>67,930,844</u>
Net position, June 30	<u>\$ 35,112,320</u>	<u>\$ 34,757,501</u>	<u>\$ 35,731,137</u>	<u>\$ 34,776,892</u>	<u>\$ 70,843,457</u>	<u>\$ 69,534,393</u>

Total government-wide revenue of \$17.4 million was primarily derived from charges for services (39.7%), property taxes (31.1%) and other taxes (12.1%). The total expenses of all programs were \$16.1 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 44.0% and water and sewer for 30.5%.

### Governmental Activities

Governmental activities increased the Town's net position by \$0.4 million, and accounted for 27.1% of the total growth in the net position of the Town of Morehead City. Key elements related to governmental activities are as follows:

- Revenues decreased \$193,000 (1.8%) compared to the previous year.
- Operating grants and contributions decreased approximately \$300,000 as several initiatives paid for with these funds were completed.
- Charges for services increased approximately \$500,000 and property taxes decreased a corresponding amount. These changes are related and are the result of a change in the County's concept of payment by the County to the Town for fire/EMS services contracted in areas outside of municipal boundaries.
- Expenses increased approximately \$287,000 (2.8%) compared to the prior period, but were still less than revenue.

### Business-type Activities

Business-type activities increased the Town of Morehead City's net position by \$0.9 million, accounting for 72.9% of the total growth in the government's net position. Key elements of this increase are as follows:

- Charges for services in the Water and Sewer and Solid Waste Funds increased by approximately \$394,000 or 6.9% over the prior year. Water and sewer rates increased midway through the year and accounted for all but a negligible amount of the increase.
- The Water and Sewer Fund expenses were essentially flat.
- The solid waste operation experienced a 9.7% decrease in operating expenses primarily due to nonrecurring hurricane related costs in the prior year.

## Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Morehead City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3.4 million, while total fund balance was \$5.2 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 34.7% of total General Fund expenditures and transfers out of \$9.9 million, while total fund balance represents 52.5% of that same amount. The Town Council of Morehead City has determined that the General Fund should maintain no less than \$2.0 million of unassigned fund balance in order to meet unforeseen needs and opportunities.

At June 30, 2013, the governmental funds of the Town of Morehead City reported a combined fund balance of \$6.4 million, down from \$1.1 million the previous year. The General Fund fund balance decreased \$0.3 million. This decrease is mainly attributable to transfers to capital project funds for park and water access improvements. Revenue and expenditures increased \$0.4 million and \$0.1 million, respectively, while net transfers increased \$1.0 million. The fund balance in the Fire/EMS Fund decreased \$0.5 million largely as a result of capital purchases. The fund balance in the Major and Non-Major Capital Project Funds decreased \$0.3 million primarily due to completion of a major asset in the Fire/EMS Station #2 Capital Project Fund.

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

Total revenue exceeded the final budget by approximately \$198,000 in the General Fund. The most significant favorable variances were in ad valorem taxes and permits and fees. Expenditures were tightly controlled, and the Town was able to comply with its budgetary requirements in all categories. The favorable variances were the result of expenditure reductions in operations and the delay of Street-related capital outlay.

**Proprietary Funds.** Proprietary funds 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 \$0.4 million in the Solid Waste fund. Unrestricted net position in the Water and Sewer Fund increased approximately \$1.3 million. The Solid Waste Fund increased \$0.1 million. Other factors concerning the finances of these funds were addressed in the discussion of the business-type activities.

## Capital Asset and Debt Administration

**Capital Assets.** At June 30, 2013, the Town had \$84.8 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 \$1.5 million, or 1.8%, over last year. The summary of capital assets at June 30, 2013 and 2012 is presented below:

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 9,812,519	\$ 9,748,815	\$ 913,775	\$ 835,664	\$ 10,726,294	\$ 10,584,479
Intangible assets	506,253	506,253	91,667	20,000	597,920	526,253
Infrastructure	5,401,712	5,407,679	-	-	5,401,712	5,407,679
Buildings and other improvements	18,974,415	17,275,851	2,086,716	2,001,123	21,061,131	19,276,974
Equipment and vehicles	3,185,983	2,362,821	629,362	733,859	3,815,345	3,096,680
Operating plant	-	-	41,388,553	42,516,877	41,388,553	42,516,877
Construction in progress	416,692	1,221,940	1,391,835	700,075	1,808,527	1,922,015
<b>Total</b>	<b>\$ 38,297,574</b>	<b>\$ 36,523,359</b>	<b>\$ 46,501,908</b>	<b>\$ 46,807,598</b>	<b>\$ 84,799,482</b>	<b>\$ 83,330,957</b>

This year's major capital asset additions included:

- Building and other improvements - \$1.8 million
- Equipment and vehicles - \$0.7 million

More detailed information about the Town's capital assets is presented in Note 6 of the basic financial statements.

**Long-term Debt.** At June 30, 2013, the City had \$30.7 million of debt outstanding in installment purchases, loans from the State of North Carolina and US Department of Agriculture (USDA), and bond anticipation notes. Details by type of debt are presented in the following table:

**Town of Morehead City's Outstanding Debt**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Installment contracts	\$ 8,258,121	\$ 8,531,541	\$ 1,236,578	\$ 1,620,429	\$ 9,494,699	\$ 10,151,970
Bond anticipation notes	-	-	4,932,000	-	4,932,000	-
Notes payable	324,771	333,167	15,954,144	16,318,704	16,278,915	16,651,871
<b>Total</b>	<b>\$ 8,582,892</b>	<b>\$ 8,864,708</b>	<b>\$ 22,122,722</b>	<b>\$ 17,939,133</b>	<b>\$ 30,705,614</b>	<b>\$ 26,803,841</b>

The Town of Morehead City's total long-term debt increased by \$3.9 million (14.6%) during the past fiscal year. No new debt was issued by the governmental funds during the year and \$0.3 million of principal was paid on other previously outstanding debt. \$5.6 million was borrowed for business-type activities. Of this amount, \$4.9 million in bond anticipation notes was issued for construction of the new water treatment facilities. The balance of \$0.7 million was final draws on loans issued through the State of North Carolina in previous years. Principal of \$1.4 million was paid on business-type previously outstanding debt. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Morehead City is \$153,023,693.

More detailed information about the Town's long-term obligations is presented in Note 8 of the basic financial statements.

**Economic Factors and Next Year's Budget and Rates**

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

- During calendar year 2012, 1,256 permits were issued with a value of \$21.5 million compared to \$38.1 million for 2011.

- The June 2013 unemployment rate for Carteret County (unadjusted) was 7.7 percent compared to 9.3 percent for the state and 7.8 percent for the nation.

The following are highlights for the 2014 budgets for the governmental activities:

The General Fund initial budget for 2013-2014 increased 2.4% from \$10.3 million to \$10.5 million. The Town increased the ad valorem tax rate by \$.03 per \$100 of valuation from \$.285 to \$.315. This increase, coupled with modest growth in the tax base and a determined approach to collecting, resulted in an increase in estimated revenue from this source of \$0.6 million. Sales taxes, another of the largest revenue sources for the Town, are projected to continue to increase. Other revenue sources including Permits and Fees and Sales and Services also show signs of growth. On the expenditure side, increased transfers to the Fire/EMS Fund were necessary as the County elected to reduce the amount paid to the Town for fire/EMS service to the district outside municipal boundaries that is served by the Town. A compensation study performed in spring 2013 revealed that the pay scale for Town employees was below market in numerous positions and that compression resulting from multiple years without pay increases was also a factor. As a result, the Town Council implemented a plan to increase wages to market rates that will be phased in over a three-year period. Employees realized the first of these increases in July 2013. In addition, the Town Council funded one new full-time position and authorized funding for three seasonal positions that had previously been frozen, all in Public Works. Town Council funded \$0.9 million of capital, a reduction from the prior year, as emphasis was placed on human resources. \$0.4 million of restricted and \$0.1 of unassigned fund balance were appropriated primarily to fund capital items while still maintaining unassigned fund balance at a level that will exceed the Town Council's minimum of \$2.0 million.

The initial budget for 2013-2014 of \$3.0 million in the Fire/EMS Fund was \$0.1 million more than the previous year. The increase coupled with reductions in capital outlay and debt service costs from the prior year provided funding for three new positions. As noted above, transfers from the General Fund were increased while service district revenue from the County declined. Fire/EMS employees realized salary increases in the same manner as described above. Operating costs remained essentially flat.

The following are highlights for the 2014 budgets for the business-type activities:

The budget for the Water and Sewer Fund increased \$0.7 million. An 8% rate increase was budgeted to be effective midway through the fiscal year. The increase is part of a series of increases that Council approved to provide a rate structure that will support current and upcoming debt service on major capital projects not taken by the Town in recent years. Congruent with the governmental funds, Water and Sewer Fund employees participated in the compensation study and realized increases in the same manner. One new water treatment plant position was added to prepare for operation of the two new water treatment plants that are currently under construction. Capital outlay increased \$0.8 million and items funded included three replacement vehicles, equipment replacements, replacement of an existing lift station, as well as a manhole replacement and funding to begin mapping of the old sections of the Town's system.

The initial 2013-2014 budget for the Solid Waste Fund remained flat compared to the prior year and the budget was again balanced without the need for appropriating fund balance as charges for services provided the bulk of the revenue necessary to fund operations. This fund has only one full-time and one part-time employee. They participated in the compensation study and resulting pay plan increases. However, because of the limited number of personnel, the dollar impact was not as significant as for the other funds.

### **Contacting the Town's Financial Management**

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

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Town of Morehead City, North Carolina

Statement of Net Position

June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 6,289,937	\$ 6,921,312	\$ 13,211,249
Restricted cash and investments	117,587	4,060,134	4,177,721
Receivables:			
Due from governmental agencies	640,326	36,444	676,770
Local option sales tax receivable	516,854	-	516,854
Taxes receivable, net	74,668	-	74,668
Accrued interest on taxes receivable	19,163	-	19,163
Customer receivables, net	122,090	1,009,914	1,132,004
Notes receivable	-	304,820	304,820
Inventories	3,886	222,623	226,509
Capital assets:			
Land and construction in process	10,735,464	2,397,277	13,132,741
Other capital assets, net of depreciation	27,562,110	44,104,631	71,666,741
<b>Total assets</b>	<b>46,082,085</b>	<b>59,057,155</b>	<b>105,139,240</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	1,136,321	444,347	1,580,668
Accrued interest payable	87,219	89,963	177,182
Customer deposits	-	510,434	510,434
Noncurrent liabilities:			
Due within one year	566,901	1,502,149	2,069,050
Due in more than one year	9,106,119	20,770,666	29,876,785
<b>Total liabilities</b>	<b>10,896,560</b>	<b>23,317,559</b>	<b>34,214,119</b>
<b>Deferred Inflows of Resources</b>	<b>73,205</b>	<b>8,459</b>	<b>81,664</b>
<b>Net Position</b>			
Net investment in capital assets	29,832,269	28,439,320	58,271,589
Restricted:			
Stablization by State Statute	1,033,870	-	1,033,870
General government	431,747	-	431,747
Streets	413,074	-	413,074
Public safety	246,867	-	246,867
Recreation	82,906	-	82,906
Library	27,646	-	27,646
Unrestricted	3,043,941	7,291,817	10,335,758
<b>Total net position</b>	<b>\$ 35,112,320</b>	<b>\$ 35,731,137</b>	<b>\$ 70,843,457</b>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities  
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 1,805,015	\$ 87,547	\$ 39,525	\$ -
Public safety	7,074,479	621,344	263,607	200,000
Highways and streets	231,503	-	-	339,608
Cultural and recreation	763,721	114,772	-	195,251
Library	140,368	6,858	53,075	-
Interest on long-term debt	297,958	-	-	-
<b>Total governmental activities</b>	<b>10,313,044</b>	<b>830,521</b>	<b>356,207</b>	<b>734,859</b>
Business-type activities:				
Water and sewer	4,907,070	5,160,283	250,515	77,691
Solid waste	872,407	920,217	5,010	-
<b>Total business-type activities</b>	<b>5,779,477</b>	<b>6,080,500</b>	<b>255,525</b>	<b>77,691</b>
<b>Total primary government</b>	<b>\$ 16,092,521</b>	<b>\$ 6,911,021</b>	<b>\$ 611,732</b>	<b>\$ 812,550</b>

General revenue:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Miscellaneous income, unrestricted

**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**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,677,943)	\$ -	\$ (1,677,943)
(5,989,528)	-	(5,989,528)
108,105	-	108,105
(453,698)	-	(453,698)
(80,435)	-	(80,435)
(297,958)	-	(297,958)
<b>(8,391,457)</b>	<b>-</b>	<b>(8,391,457)</b>
-	581,419	581,419
-	52,820	52,820
-	634,239	634,239
<b>(8,391,457)</b>	<b>634,239</b>	<b>(7,757,218)</b>
5,411,825	-	5,411,825
2,006,679	-	2,006,679
93,464	-	93,464
1,089,515	-	1,089,515
11,551	27,689	39,240
133,242	292,317	425,559
<b>8,746,276</b>	<b>320,006</b>	<b>9,066,282</b>
354,819	954,245	1,309,064
34,757,501	34,776,892	69,534,393
<b>\$ 35,112,320</b>	<b>\$ 35,731,137</b>	<b>\$ 70,843,457</b>

Town of Morehead City, North Carolina

Balance Sheet-Governmental Funds

June 30, 2013

	Major General	Major Fire/EMS District	Jib Waterfront Access Capital Project Fund	Non-Major Governmental Funds	Totals
<b>Assets:</b>					
Cash and cash equivalents	\$ 4,768,528	\$ 562,576	\$ 571,553	\$ 387,280	\$ 6,289,937
Restricted cash equivalents	97,163	20,424	-	-	117,587
Receivables	1,043,198	122,090	37,997	150,653	1,353,938
Inventories	3,886	-	-	-	3,886
<b>Total assets</b>	<b>\$ 5,912,775</b>	<b>\$ 705,090</b>	<b>\$ 609,550</b>	<b>\$ 537,933</b>	<b>\$ 7,765,348</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 358,220	\$ 102,034	\$ 391,403	\$ 48,731	\$ 900,388
Accrued salaries	171,172	64,761	-	-	235,933
<b>Total liabilities</b>	<b>529,392</b>	<b>166,795</b>	<b>391,403</b>	<b>48,731</b>	<b>1,136,321</b>
<b>Deferred Inflows of Resources</b>	<b>201,534</b>	<b>3,089</b>	<b>37,997</b>	<b>-</b>	<b>242,620</b>
<b>Fund Balances:</b>					
Non Spendable:					
Inventories	3,886	-	-	-	3,886
Restricted:					
Stablization by State Statute	914,869	119,001	-	-	1,033,870
General government	30,544	-	180,150	221,053	431,747
Streets	413,074	-	-	-	413,074
Public safety	93,730	-	-	153,137	246,867
Recreation	13,351	-	-	69,555	82,906
Library	27,646	-	-	-	27,646
Committed:					
Sidewalk construction	108,630	-	-	-	108,630
Recreation facilities development	23,349	-	-	-	23,349
Assigned:					
Public safety	-	364,205	-	-	364,205
Streets	-	-	-	45,457	45,457
Subsequent year's expenditures	129,500	52,000	-	-	181,500
Unassigned	3,423,270	-	-	-	3,423,270
<b>Total fund balances</b>	<b>5,181,849</b>	<b>535,206</b>	<b>180,150</b>	<b>489,202</b>	<b>6,386,407</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 5,912,775</b>	<b>\$ 705,090</b>	<b>\$ 609,550</b>	<b>\$ 537,933</b>	<b>\$ 7,765,348</b>

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, 2013**

---

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

Total fund balances for governmental funds	<b>\$ 6,386,407</b>
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	<b>38,297,574</b>
Other long-term assets are not available to pay for current-period expenditures and therefore are:	
Deferred Inflows of Resources	<b>169,415</b>
Accrued interest on property taxes - Statement of Net Position	<b>19,163</b>
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<b>(9,673,020)</b>
Accrued interest payable on long-term liabilities not recorded in the fund statements	<b><u>(87,219)</u></b>
Net position of governmental activities	<b><u><u>\$ 35,112,320</u></u></b>

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, 2013

	Major General	Major Fire/EMS District	Jib Waterfront Access Capital Project Fund	Non-Major Governmental Funds	Totals
<b>Revenue</b>					
Ad valorem taxes	\$ 5,405,814	\$ -	\$ -	\$ -	\$ 5,405,814
Other taxes and licenses	93,464	-	-	-	93,464
Unrestricted intergovernmental	2,942,437	153,757	-	-	3,096,194
Restricted intergovernmental	650,927	45,361	-	356,781	1,053,069
Permits and fees	193,414	-	-	-	193,414
Sales and services	228,742	941,737	-	-	1,170,479
Investment earnings	9,429	1,294	133	695	11,551
Miscellaneous	44,935	28,395	-	59,912	133,242
<b>Total revenue</b>	<b>9,569,162</b>	<b>1,170,544</b>	<b>133</b>	<b>417,388</b>	<b>11,157,227</b>
<b>Expenditures</b>					
Current:					
General government	1,356,069	-	272,707	58,897	1,687,673
Public safety	3,721,508	3,223,702	-	653,685	7,598,895
Highways and streets	905,944	-	-	-	905,944
Library	166,493	-	-	-	166,493
Recreation	438,843	-	-	615,042	1,053,885
Parks	248,542	-	-	-	248,542
Debt service:					
Principal	212,189	69,627	-	-	281,816
Interest	260,227	32,740	-	7,677	300,644
<b>Total expenditures</b>	<b>7,309,815</b>	<b>3,326,069</b>	<b>272,707</b>	<b>1,335,301</b>	<b>12,243,892</b>
<b>Revenue over (under) expenditures</b>	<b>2,259,347</b>	<b>(2,155,525)</b>	<b>(272,574)</b>	<b>(917,913)</b>	<b>(1,086,665)</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	1,634,540	597,834	322,950	2,555,324
Transfers out	(2,553,133)	-	-	(2,191)	(2,555,324)
<b>Total other financing sources (uses)</b>	<b>(2,553,133)</b>	<b>1,634,540</b>	<b>597,834</b>	<b>320,759</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>(293,786)</b>	<b>(520,985)</b>	<b>325,260</b>	<b>(597,154)</b>	<b>(1,086,665)</b>
Fund balances, beginning as previously reported					
	5,475,635	1,572,097	(145,110)	1,086,356	7,988,978
Restatement for write off of receivable	-	(515,906)	-	-	(515,906)
Fund balances, beginning as restated	5,475,635	1,056,191	(145,110)	1,086,356	7,473,072
Fund balance, ending	\$ 5,181,849	\$ 535,206	\$ 180,150	\$ 489,202	\$ 6,386,407

See Notes to Financial Statements.

**Town of Morehead City, North Carolina**

**Reconciliation of the Statement of Revenue, Expenditures and Changes in  
Fund Balance to the Statement of Activities of Governmental Funds  
For the Year Ended June 30, 2013**

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

Net changes in fund balances - total governmental funds **\$ (1,086,665)**

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 **2,879,010**  
Depreciation expense **(1,083,747)**

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

Loss on sale of capital assets **(21,048)**

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

Decrease in deferred EMS fees **(17,806)**  
Increase in deferred property taxes **4,358**  
Increase in deferred grant revenues **38,613**  
Increase in accrued interest receivable **1,653**  
Decrease in contracted services receivable **(515,906)**

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 **(457,682)**  
Retirement of long-term liabilities **611,354**

Some expenses reported in the statement of activities do not require the use of current funds:

Decrease in accrued interest payable **2,685**

Total changes in net position of governmental activities **\$ 354,819**

See Notes to Financial Statements.

Town of Morehead City, North Carolina

General Fund and Fire/EMS District Fund Annually Budgeted Major Funds  
 Statement of Revenue, Expenditures and Changes in Fund Balance-Budget and Actual (Non-GAAP)  
 For the Fiscal Year Ended June 30, 2013

	General Fund			Variance with Final Budget
	Budget, Original	Budget, Final	Actual	
Revenue				
Ad valorem taxes	\$ 5,310,000	\$ 5,310,000	\$ 5,405,814	\$ 95,814
Other taxes	87,600	87,600	93,464	5,864
Unrestricted intergovernmental	2,926,550	2,926,550	2,942,437	15,887
Restricted intergovernmental	623,475	694,709	650,927	(43,782)
Permits and fees	135,300	135,300	193,414	58,114
Sales and services	180,100	180,100	228,742	48,642
Investment earnings	12,000	12,000	9,429	(2,571)
Miscellaneous	25,275	25,275	44,935	19,660
<b>Total revenue</b>	<b>9,300,300</b>	<b>9,371,534</b>	<b>9,569,162</b>	<b>197,628</b>
Expenditures				
Current:				
General government	1,427,487	1,529,065	1,356,069	172,996
Public safety	3,856,960	3,976,816	3,721,508	255,308
Highways and streets	1,425,300	1,450,300	905,944	544,356
Recreation and parks	803,500	803,500	687,385	116,115
Library	286,950	286,950	166,493	120,457
Contingency	224,641	169,421	-	169,421
Debt service	490,172	490,172	472,416	17,756
<b>Total expenditures</b>	<b>8,515,010</b>	<b>8,706,224</b>	<b>7,309,815</b>	<b>1,396,409</b>
<b>Revenue over (under) expenditures</b>	<b>785,290</b>	<b>665,310</b>	<b>2,259,347</b>	<b>1,594,037</b>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(1,740,890)	(2,553,133)	(2,553,133)	-
Fund balance appropriated	955,600	1,887,823	-	(1,887,823)
<b>Total other financing sources (uses)</b>	<b>(785,290)</b>	<b>(665,310)</b>	<b>(2,553,133)</b>	<b>(1,887,823)</b>
<b>Revenue and other financing sources over expenditures and other financing uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(293,786)</b>	<b>\$ (293,786)</b>
Fund balance, beginning, as previously reported			5,475,635	
Restatement for write off of receivable			-	
Fund balance, beginning of year as restated			5,475,635	
Fund balance, ending			<u>\$ 5,181,849</u>	
Reconciliation:				
Prepaid costs reported as prepaid expense on GAAP basis				
Fund balance ending, as reported for GAAP				

See Notes to Financial Statements.



**Fire/EMS District Fund**

Budget, Original	Budget, Final	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -
-	-	-	-
155,000	155,000	153,757	(1,243)
55,800	55,800	45,361	(10,439)
-	-	-	-
1,035,160	936,415	941,737	5,322
2,500	2,500	1,294	(1,206)
-	-	28,395	28,395
<b>1,248,460</b>	<b>1,149,715</b>	<b>1,170,544</b>	<b>20,829</b>
-	-	-	-
2,651,925	3,354,680	3,216,513	138,167
-	-	-	-
-	-	-	-
-	-	-	-
82,206	82,206	-	82,206
148,869	148,869	102,367	46,502
<b>2,883,000</b>	<b>3,585,755</b>	<b>3,318,880</b>	<b>266,875</b>
<b>(1,634,540)</b>	<b>(2,436,040)</b>	<b>(2,148,336)</b>	<b>287,704</b>
1,634,540	1,634,540	1,634,540	-
-	-	-	-
-	801,500	-	(801,500)
<b>1,634,540</b>	<b>2,436,040</b>	<b>1,634,540</b>	<b>(801,500)</b>
<b>\$ -</b>	<b>\$ -</b>	<b>(513,796)</b>	<b>\$ (513,796)</b>
		<u>1,572,097</u>	
		<u>(515,906)</u>	
		<u>1,056,191</u>	
		542,395	
		<u>(7,189)</u>	
		<u><u>\$ 535,206</u></u>	

Town of Morehead City, North Carolina

Statement of Net Position

Proprietary Funds

June 30, 2013

	Water and Sewer Fund	Solid Waste Fund	Totals
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 6,649,150	\$ 272,162	\$ 6,921,312
Restricted cash and cash equivalents	4,060,134	-	4,060,134
Receivables	889,350	157,008	1,046,358
Inventories	222,623	-	222,623
<b>Total current assets</b>	<b>11,821,257</b>	<b>429,170</b>	<b>12,250,427</b>
Noncurrent assets			
Notes receivable	304,820	-	304,820
Capital assets, net	46,431,654	70,254	46,501,908
<b>Total noncurrent assets</b>	<b>46,736,474</b>	<b>70,254</b>	<b>46,806,728</b>
<b>Total assets</b>	<b>58,557,731</b>	<b>499,424</b>	<b>59,057,155</b>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities			
Accounts payable and accrued liabilities	340,208	57,724	397,932
Current maturities of long-term debt	1,439,030	-	1,439,030
Customer deposits	510,434	-	510,434
Accrued salaries	44,329	2,086	46,415
Accrued compensated absences-current portion	62,183	936	63,119
Accrued interest payable	89,963	-	89,963
<b>Total current liabilities</b>	<b>2,486,147</b>	<b>60,746</b>	<b>2,546,893</b>
Noncurrent liabilities			
Installment notes	20,683,692	-	20,683,692
Net other post employment benefits obligation	88,186	(1,212)	86,974
<b>Total noncurrent liabilities</b>	<b>20,771,878</b>	<b>(1,212)</b>	<b>20,770,666</b>
<b>Total liabilities</b>	<b>23,258,025</b>	<b>59,534</b>	<b>23,317,559</b>
<b>Deferred Inflows of Resources</b>	<b>8,459</b>	<b>-</b>	<b>8,459</b>
<b>Net Position</b>			
Net investment in capital assets	28,369,066	70,254	28,439,320
Unrestricted	6,922,181	369,636	7,291,817
<b>Total net position</b>	<b>\$ 35,291,247</b>	<b>\$ 439,890</b>	<b>\$ 35,731,137</b>

See Notes to Financial Statements.

**Town of Morehead City, North Carolina**

**Statement of Revenue, Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended June 30, 2013**

	Water and Sewer Fund	Solid Waste Fund	Totals
<b>Operating revenue</b>			
Charges for sales and services	\$ 5,160,283	\$ 920,217	\$ 6,080,500
Miscellaneous	290,858	1,459	292,317
Total operating revenue	5,451,141	921,676	6,372,817
<b>Operating expenses</b>			
Cost of sales and services	2,992,333	855,954	3,848,287
Depreciation	1,498,918	16,453	1,515,371
Total operating expenses	4,491,251	872,407	5,363,658
Operating income	959,890	49,269	1,009,159
<b>Nonoperating revenue (expense)</b>			
Interest revenue	27,321	368	27,689
Restricted intergovernmental	134,883	5,010	139,893
Interest expense and fiscal charges	(416,204)	-	(416,204)
Total nonoperating revenue	(254,000)	5,378	(248,622)
Loss of disposal of capital assets	(184)	-	(184)
Contributed capital assets	90,917	-	90,917
Contributions - capital project funds	102,975	-	102,975
Change in net position	899,598	54,647	954,245
Net position, beginning	34,391,649	385,243	34,776,892
Net Position, ending	\$ 35,291,247	\$ 439,890	\$ 35,731,137

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Cash Flows  
 Proprietary Funds  
 For the Fiscal Year Ended June 30, 2012

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers	\$ 5,408,330	\$ 912,325	\$ 6,320,655
Cash paid to suppliers for goods and services	(2,219,242)	(805,387)	(3,024,629)
Cash paid to employees	(1,311,314)	(46,424)	(1,357,738)
Customer deposits	7,657	-	7,657
<b>Net cash provided by operating activities</b>	<b>1,885,431</b>	<b>60,514</b>	<b>1,945,945</b>
<b>Cash Flows from Non-Capital and Related Financing Activities:</b>			
Contributions-capital project funds	102,975	-	102,975
Restricted intergovernmental	134,883	5,010	139,893
<b>Net cash provided by non-capital and related financing activities</b>	<b>237,858</b>	<b>5,010</b>	<b>242,868</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and construction of capital assets	(1,118,948)	-	(1,118,948)
Debt issued	5,745,064	-	5,745,064
Principal paid on long-term debt	(1,561,475)	-	(1,561,475)
Interest paid on long-term debt	(403,065)	-	(403,065)
<b>Net cash provided by capital and related financing activities</b>	<b>2,661,576</b>	<b>-</b>	<b>2,661,576</b>
<b>Cash Flows from Investing Activities:</b>			
Interest on investments	27,321	368	27,689
<b>Net increase in cash and cash equivalents</b>	<b>4,812,186</b>	<b>65,892</b>	<b>4,878,078</b>
Cash and cash equivalents, beginning	5,897,098	206,270	6,103,368
Cash and cash equivalents, ending	<b>\$ 10,709,284</b>	<b>\$ 272,162</b>	<b>\$ 10,981,446</b>

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)  
 Proprietary Funds  
 For the Year Ended June 30, 2013

Page 2 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</b>			
Operating income	\$ 959,890	\$ 49,269	\$ 1,009,159
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,498,918	16,453	1,515,371
Change in assets and liabilities:			
Notes receivable	59,332	-	59,332
Receivables	(102,143)	(9,351)	(111,494)
Inventory	(10,622)	-	(10,622)
Accounts payable and accrued liabilities	(539,139)	4,390	(534,749)
Customer deposits	7,657	-	7,657
Accrued salaries	(2,208)	27	(2,181)
Accrued other postemployment benefits	19,430	(349)	19,081
Accrued compensated absences	(5,684)	75	(5,609)
<b>Net cash provided by operating activities</b>	<b>\$ 1,885,431</b>	<b>\$ 60,514</b>	<b>\$ 1,945,945</b>
Supplemental Disclosure of Non-cash Transactions:			
Accounts payable for constructed capital assets	\$ 198,634	\$ -	\$ 198,634

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2013

	Special Separation Allowance Pension Trust Fund	Other Postemployment Benefits Trust Fund	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 176,770	\$ 204,207	\$ 380,977
<b>Total assets</b>	<u>176,770</u>	<u>204,207</u>	<u>380,977</u>
<b>Net Position</b>			
Assets held in trust for pension benefits	176,770	204,207	380,977
<b>Total net position</b>	<u>\$ 176,770</u>	<u>\$ 204,207</u>	<u>\$ 380,977</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Changes in Fiduciary Net Position

Fiduciary Fund

For the Fiscal Year Ended June 30, 2013

	Special Separation Allowance Pension Trust Fund	Other Postemployment Benefits Trust Fund	Totals
<b>Additions</b>			
Contributions	\$ 56,200	\$ 134,308	\$ 190,508
Interest	326	371	697
<b>Total additions</b>	<b>56,526</b>	<b>134,679</b>	<b>191,205</b>
<b>Deductions</b>			
Benefits paid	58,985	82,882	141,867
<b>Total deductions</b>	<b>58,985</b>	<b>82,882</b>	<b>141,867</b>
<b>Net increase (decrease)</b>	<b>(2,459)</b>	<b>51,797</b>	<b>49,338</b>
<b>Net position reserved for employees' pension benefits</b>			
Beginning of year	179,229	152,410	331,639
End of year	<b>\$ 176,770</b>	<b>\$ 204,207</b>	<b>\$ 380,977</b>

See Notes to Financial Statements.

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## NOTES TO THE BASIC FINANCIAL STATEMENTS

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**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 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 financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

**Reporting Entity**

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

**Basis of Presentation**

**Government-wide and Fund Financial Statements**

The Government-wide Financial Statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenue and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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

Separate Fund Financial Statements are provided for the governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the Government-wide Financial Statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the Fund Financial Statements. All remaining governmental and enterprise funds are aggregated by fund category and reported as non-major funds.

The accounts of the Town are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (expenses). Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (Continued)**

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

**Governmental Funds** are used to account for the Town's general governmental activities. The Town reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales tax, and State shared revenues. The primary expenditures are for public safety, street maintenance and construction, parks and recreation, and general government services.

**Fire and EMS District Fund** - The Fire and EMS District Fund is used to account for activities of the EMS and fire department including revenue and services for districts outside of the Town limits. The primary revenues are sales tax, charges for services, and General Fund transfers.

**Jib Waterfront Access Capital Project Fund** – This fund is used to account for funds accumulated for the acquisition and development of the Jib Waterfront property. The project is being funded by general fund transfers and grants.

The Town reports the following non-major governmental funds:

**Capital Project Funds** – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Town has six non-major capital project funds, the individual descriptions of which are disclosed in the supplemental non-major fund-types section.

**Proprietary Funds** include the following major funds:

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

**Solid Waste Enterprise Fund** – Although the Solid Waste Enterprise Fund does not meet the criteria for a major fund, it is being treated as major this year to be consistent with prior years. The Solid Waste Enterprise Fund accounts for the solid waste disposal activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for collection and disposal of solid waste for the Town's customers.

Additionally, the government reports the following fund types:

**Fiduciary Funds** account for the assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Town has the following Fiduciary Funds:

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Pension Trust Fund** - Trust Funds are used to account for assets held in a trustee capacity. The Town maintains the Law Enforcement Officers' Pension Trust Fund. This fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

**Post Employment Benefits Trust Fund** - This fund accounts for medical benefits for Town retirees. This fund is a single-employer, public employee postemployment benefit plan.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

The government-wide, proprietary and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. Property taxes are recognized as revenue in the year for which they are levied. Revenue from grants and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available when it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 90 days of the end of the current fiscal period, except for property taxes. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest from long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Therefore the net receivable amount is offset by a deferred revenue. Carteret County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County including the Town of Morehead City. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Carteret County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1, 2013 through the fiscal year-end apply to the 2013-2014 fiscal year and are not shown as receivables at June 30, 2013.

Sales taxes and certain intergovernmental revenue, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Certain other intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenue. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants and then by general revenue.

**Town of Morehead City, North Carolina**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Budgetary Data**

The Town's budgets are adopted on the modified accrual basis of accounting as required by the North Carolina General Statutes. The State allows long-term interfund loans to be treated as other financing sources and uses for budgetary purposes.

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

<u>Annual Ordinance Funds</u>	<u>Project Ordinance Funds</u>
General Fund	Newport River Water Access Capital Project Fund
Fire/EMS District Fund	MATS Capital Project Fund
Water and Sewer Fund	School Property Acquisition/Improvement Capital Project Fund
Solid Waste Fund	Baseball Park Capital Project Fund
Water and Sewer Capital Project Fund*	Fire/EMS Station #2 Replacement Capital Project Fund
Water and Sewer Capital Reserve Fund*	Jib Waterfront Access Capital Project Fund
Water and Sewer Rebatable Capital Reserve Fund*	Shepard St. Boat Ramp Capital Project Fund
	Water/Sewer Extensions Capital Project Fund*
	WWTP Improvement Capital Project Fund*
	WaterTreatment Capital Project Fund*
	Water Reuse Capital Project Fund*
	Lift Station Improvements Grant Projects Fund*

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

All annual appropriations lapse at the fiscal year end and project appropriations lapse at the end of the project. Expenditures may not legally exceed appropriations at the functional level for the general fund and at the fund level for all other funds. Any revisions that alter the total expenditures of any fund must be approved by the governing board. Budget amounts are as originally adopted, or as amended by the Town as of June 30, 2013. 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.

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

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Deposits and Investments**

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund. Investments at June 30, 2013 consist of amounts in the NCCMT which are stated at fair value, which is the NCCMT's share price.

**Cash and Cash Equivalents**

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash equivalents for purposes of reporting cash flows.

**Restricted Assets**

The unexpended debt proceeds received by the Town to finance specific projects are classified as restricted assets for the Water and Sewer Enterprise Fund because their use is restricted to the purpose for which the notes were originally issued and they collateralize the associated debt. The restricted cash in the General Fund and Fire/EMS Fund consist of required reserves for USDA loans.

**Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)] property (other than registered motor vehicles) is assessed for tax purposes as of January 1. The value at that date determines the basis for the tax levy for the fiscal year beginning July 1. Property taxes are not formally levied until the budget adoption (July 1) and are not due until September 1 (lien date). Taxes are past due on the following January 6. By the following June 30, taxes receivable are delinquent and are not considered a resource to finance current year operations and are recorded as deferred revenue in the governmental fund financial statements until collected. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is reported net of such discounts.

Registered motor vehicles taxes are described elsewhere in Note 1.

**Allowance for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on historical collection experience.

**Inventories and Prepaid Items**

Inventories in governmental funds are reported at cost, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The amount is recorded as an asset, offset by a non-spendable classification of fund

**Note 1. Summary of Significant Accounting Policies (Continued)**

balance in an equal amount. Inventories of Enterprise Funds are reported at the lower of cost or market, using the FIFO method. The inventories consist of various items used in the maintenance of existing utility systems and expansion of new systems. Depending on the eventual use of these inventories, these items may be expensed in the future as maintenance of existing systems or capitalized as a part of the development of new systems.

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.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (short-term interfund loans) or “advances to/from other funds” (long-term interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the Fund Financial Statements, are offset by a fund balance reserve account in the applicable governmental fund to indicate that they are not available for the appropriation and are not expendable available financial resources.

**Capital Assets**

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g. roads, bridges, traffic signals and other similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 for equipment, vehicles, building and other improvements, \$100,000 for infrastructure, and \$25,000 for intangibles and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated using the straight-line method over the remaining useful lives of the related fixed assets, as applicable.

Costs associated with construction in progress are recorded in their respective capital asset category upon approval by the Town Council, which approximates the completion date.

The range of estimated useful lives for the major classification of depreciable assets is as follows:

Buildings and other improvements	10 - 50 years
Operating plant	20 - 50 years
Equipment and vehicles	3 - 20 years
Infrastructure	20 - 50 years

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether the impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Town are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as



Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (Continued)**

a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

**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 liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bond using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and 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.

**Net Position/Fund Balances**

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent 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.

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.

**Prepays and inventories** - portion of fund balance that is not an available resource because it represents the year-end balance of ending prepaid items and inventories, 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. The Town's restricted fund balance consists of the following:

**Stabilization by State Statute** – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]. This amount is usually comprised of accounts and interfund receivables which have not been offset by deferred revenues.

**Streets** – portion of fund balance restricted by revenue source for street improvements. This amount represents the balance of the total unexpended Powell Bill Funds.

**Public Safety** – portion of fund balance restricted by revenue source for various public safety activities and drug law enforcement.

## Town of Morehead City, North Carolina

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Recreation** – portion of fund balance restricted by revenue source for various recreation projects.

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

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

**Committed Fund Balance** – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Morehead City's Council (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the Town Council. The governing 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 to remove or revise the limitation.

The Town's committed fund balance consists of the following:

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

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

**Assigned Fund Balance** – portion of fund balance that is intended for specific purposes.

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

**Streets** – portion of fund balance assigned by the Town Council for the multi-purpose trail (MATS).

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

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

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

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

## Town of Morehead City, North Carolina

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Compensated Absences

The Town's vacation policies provide for the accumulation of up to thirty (30) days earned vacation leave for all employees with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences, and the salary-related payments are recorded as the leave is earned. For the governmental funds, the Town records the liquidation of the liability in the fund in which the underlying salary is paid, primarily the General and Fire/EMS funds.

The Town has adopted a last-in, first-out method of using accumulated compensated time. The portion of the accumulated vacation pay which is expected to be liquidated in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

##### Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

#### Note 2. Stewardship, Compliance and Accountability

##### Budgetary GAAP Reporting Reconciliation

As described in Note 1, governmental funds are budgeted on a modified accrual basis as required by North Carolina General Statutes. However, the State allows long-term interfund loans to be treated as other financing sources and uses for budgetary purposes. In addition, capital outlays are treated as prepaid expense on a budgetary basis. A budget to GAAP reconciliation for these transactions is presented as follows:

Excess of Revenue and Financing Sources Over Expenditures And Other Financing Uses - Fire/EMS District Fund	
Budgetary basis	\$ (513,796)
Amortization of prepaid costs reported as prepaid expense on GAAP basis	(7,189)
GAAP basis	<u>\$ (520,985)</u>

#### Note 3. Cash and Cash Equivalents

**Petty cash:** At June 30, 2013, the Town had petty cash funds on hand totaling \$1,750.

**Town of Morehead City, North Carolina**

**Notes to Financial Statements**

**Note 3. Cash and Cash Equivalents (Continued)**

**Deposits:** All deposits of the Town in excess of federal depository insurance coverage are collateralized under the Pooling Method. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the potential exists for undercollateralization, and 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 Pooling Method depository. The Town has no formal policy regarding the custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At year end, the Town's deposits had a carrying amount of \$15,020,244 and bank balance of \$15,033,114. Of the bank balance, \$2,404,413 was covered by federal depository insurance, and \$12,628,701 was covered by collateral held under the Pooling Method.

**Investments:** At June 30, 2013, the Town had investments which were limited to participation in the North Carolina Capital Management Trust (NCCMT) which carried a credit rating of AAAm by Standard and Poor's. The investments were \$46,643 in the cash fund and \$2,701,310 in the term fund at NCCMT. The Town has no policy regarding credit risk, interest rate risk, concentration of credit risk or custodial credit risk.

**Note 4. Receivables**

Receivables at June 30, 2013, consist of the following:

	Major General	Major Fire & EMS District	Major Jib Waterfront Access	Major Water & Sewer Fund	Major Solid Waste Fund	Non-Major Governmental Funds	Total
Receivables							
Local option sales tax	\$ 516,854	\$ -		\$ -	\$ -	\$ -	\$ 516,854
Property tax	116,751	-		-	-	-	116,751
Allowance for uncollectibles	(42,083)	-		-	-	-	(42,083)
	<u>74,668</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>74,668</u>
Accounts receivable:							
Services	-	1,293,602		878,864	131,898	-	2,304,364
Allowance for uncollectibles	-	(1,171,512)		(848)	-	-	(1,172,360)
	<u>-</u>	<u>122,090</u>		<u>878,016</u>	<u>131,898</u>	<u>-</u>	<u>1,132,004</u>
Due from governmental agencies	451,676	-	37,997	11,334	25,110	150,653	676,770
Net total receivables	<u>\$ 1,043,198</u>	<u>\$ 122,090</u>	<u>\$ 37,997</u>	<u>\$ 889,350</u>	<u>\$ 157,008</u>	<u>\$ 150,653</u>	<u>\$ 2,400,296</u>

**Town of Morehead City, North Carolina**

**Notes to Financial Statements**

**Note 5. Interfund Transactions and Balances**

The Town transferred \$1,634,540 from the Major General Fund to the Major Fire/EMS District Fund to pay for a portion of the cost of operations of the receiving fund. The Town also transferred \$322,950 from the Major General Fund to Non-Major Governmental Funds to fund a portion of the cost of construction occurring in those funds. The Town transferred \$595,643 from the Major General Fund to the Major Jib Waterfront Access Capital Project Fund to fund a portion of the construction in that fund. The Town transferred \$2,191 from a Non-Major Governmental Fund to the Major Jib Water Access Capital Project fund to close out the transferring fund. The Town transferred \$190,999 from the Major Water and Sewer Fund to the Non-Major Water and Sewer Capital Project to fund a portion of the cost of construction occurring in that fund. The Town also transferred \$15,989 from the Non-Major Capital Reserve Fund to the Non-Major Water and Sewer Capital Project Fund to fund a portion of construction occurring in that fund. The Town also transferred \$14,070 from the Non-Major WWTP capital project fund and \$79,381 from the Non-Major Lift Station Improvements Grant Project Fund to the Non-Major Water and Sewer Capital Project Fund to fund a portion of construction occurring in that fund.

**Note 6. Capital Assets**

Capital asset activity for the year ended June 30, 2013, was as follows:

**Primary Government**

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,748,815	\$ 63,704	\$ -	\$ 9,812,519
Intangible assets	506,253	-	-	506,253
Construction in progress	1,221,940	1,574,958	(2,380,206)	416,692
Total capital assets not being depreciated	<u>11,477,008</u>	<u>1,638,662</u>	<u>(2,380,206)</u>	<u>10,735,464</u>
Capital assets being depreciated:				
Buildings and other improvements	19,892,459	2,307,690	(80,251)	22,119,898
Infrastructure	5,956,012	113,342	-	6,069,354
Equipment and vehicles	5,711,745	1,199,522	(318,728)	6,592,539
Total capital assets being depreciated	<u>31,560,216</u>	<u>3,620,554</u>	<u>(398,979)</u>	<u>34,781,791</u>
Less accumulated depreciation for:				
Buildings and other improvements	(2,616,608)	(588,212)	59,337	(3,145,483)
Infrastructure	(548,333)	(119,309)	-	(667,642)
Equipment and vehicles	(3,348,924)	(376,226)	318,594	(3,406,556)
Total accumulated depreciation	<u>(6,513,865)</u>	<u>(1,083,747)</u>	<u>377,931</u>	<u>(7,219,681)</u>
Total capital assets being depreciated, net	<u>25,046,351</u>			<u>27,562,110</u>
Governmental activity capital assets, net	<u>\$ 36,523,359</u>			<u>\$ 38,297,574</u>

## Notes to Financial Statements

**Note 6. Capital Assets (Continued)**

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 835,664	\$ 78,111	\$ -	\$ 913,775
Intangible assets	20,000	71,667	-	91,667
Construction in progress	700,075	1,052,924	(361,164)	1,391,835
Total capital assets not being depreciated	<u>1,555,739</u>	<u>1,202,702</u>	<u>(361,164)</u>	<u>2,397,277</u>
Capital assets being depreciated:				
Buildings and other improvements	2,186,195	133,374	-	2,319,569
Equipment and vehicles	1,650,673	94,703	(39,363)	1,706,013
Operating plant	55,611,503	140,250	-	55,751,753
Total capital assets being depreciated	<u>59,448,371</u>	<u>368,327</u>	<u>(39,363)</u>	<u>59,777,335</u>
Less accumulated depreciation for:				
Buildings and other improvements	(185,072)	(47,781)	-	(232,853)
Equipment and vehicles	(1,003,521)	(182,563)	39,179	(1,146,905)
Operating plant	(13,094,626)	(1,268,574)	-	(14,363,200)
Total accumulated depreciation	<u>(14,283,219)</u>	<u>(1,498,918)</u>	<u>39,179</u>	<u>(15,742,958)</u>
Total capital assets being depreciated, net	<u>45,165,152</u>			<u>44,034,377</u>
Water and Sewer Fund capital assets, net	<u>46,720,891</u>			<u>46,431,654</u>
Solid Waste Fund				
Capital assets being depreciated:				
Equipment and vehicles	202,117	-	-	202,117
Less accumulated depreciation for:				
Equipment and vehicles	(115,410)	(16,453)	-	(131,863)
Total capital assets being depreciated, net	<u>86,707</u>			<u>70,254</u>
Solid Waste Fund capital assets, net	<u>86,707</u>			<u>70,254</u>
Business-type activity capital assets, net	<u>\$ 46,807,598</u>			<u>\$ 46,501,908</u>

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

## Governmental activities:

General government	\$ 71,397
Public safety	485,089
Highway and streets	152,765
Parks and recreation	346,447
Library	28,049
	<u>\$ 1,083,747</u>

## Business-type activities:

Water and Sewer Fund	\$ 1,498,918
Solid Waste Fund	16,453
	<u>\$ 1,515,371</u>

**Town of Morehead City, North Carolina**

**Notes to Financial Statements**

**Note 6. Capital Assets (Continued)**

**Construction Commitments**

As of June 30, 2013, the Town has active construction projects. The Town's commitments with contractors at June 30, 2013, are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Webb Library Elevator	\$ 53,600	\$ 62,189
Jib Plaza on Morehead City Waterfront	159,988	447,389
Equipment Shelter at Wastewater Treatment Plant	7,014	31,906
Off System Sewer Hauler Dump Station	-	56,775
Elevated Water Storage Tank - Country Club Road	108,700	1,456,300
Water Well - Country Club Road	-	144,700
Water Treatment Plants - Country Club Road and Arthur Farm Road	403,650	5,171,966
	<u>\$ 732,952</u>	<u>\$ 7,371,225</u>

The Town expects to fund the Water Storage and Water Treatment Plant through the United States Department of Agriculture. The USDA has approved loans in the amount of \$4,932,000 and a grant in the amount of \$4,869,000. The Town has received temporary financing through Bank of America for \$4,932,000. This loan will be refinanced through USDA once the project is complete.

**Note 7. Deferred Inflows of Resources**

Deferred inflows of resources at June 30, 2013 is comprised of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
<b>General Fund</b>		
Prepaid licenses and taxes	\$ -	\$ 41,475
Prepaid fees	-	31,730
Grants receivable	53,661	
Property taxes receivable	74,668	-
	<u>128,329</u>	<u>73,205</u>
<b>Fire/EMS Fund</b>		
FEMA/Hurricane Irene grant revenue	3,089	-
	<u>3,089</u>	<u>-</u>
<b>Water/Sewer Fund</b>		
Vinnings GIS/Mapping fees	-	8,459
	<u>-</u>	<u>8,459</u>
<b>Jib Waterfront Access Capital Project Fund</b>		
NC DENR waterfront access grant	37,997	-
	<u>37,997</u>	<u>-</u>
	<u>\$ 169,415</u>	<u>\$ 81,664</u>

## Town of Morehead City, North Carolina

### Notes to Financial Statements

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#### Note 8. 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, 2013, is as follows:

	Beginning		Ending		Current
	Balance	Additions	Reductions	Balance	Portion of Balance
*Accrued compensated absences	\$ 364,403	\$ 327,216	\$ 327,343	\$ 364,276	\$ 327,848
Net pension obligation	212,598	-	2,195	210,403	-
Other postemployment benefits	384,983	130,466	-	515,449	-
Notes payable	333,167	-	8,396	324,771	8,742
Installment contracts	8,531,541	-	273,420	8,258,121	230,311
Total	<u>\$ 9,826,692</u>	<u>\$ 457,682</u>	<u>\$ 611,354</u>	<u>\$ 9,673,020</u>	<u>\$ 566,901</u>

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

The Town has a \$1,200,000 installment purchase contract to finance the construction of improvements to street and drainage conditions of the Town. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 3.89% annually renegotiated to 2.49% effective May 2012. As of June 30, 2013, the remaining obligation due under this agreement totaled \$640,000.

The Town has a \$182,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2013, \$10,627 remains in a restricted account and the remaining obligation due under this agreement totaled \$156,897.

The Town has a \$195,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2013, \$11,512 remains in a restricted account and the remaining obligation due under this agreement totaled \$167,874.

The Town has a \$1,050,000 installment loan payable from Branch Banking & Trust to finance the Shepard Street property purchase. The agreement has a term of 15 years and is collateralized by the property. The note bears interest at a rate of 4.57% annually renegotiated to 3.39% effective May 2012. As of June 30, 2013, the remaining obligation due under this agreement totaled \$840,000.

The Town has a \$4,808,000 installment purchase contract from USDA to finance the E911 Police Center. The agreement has a term of 40 years and is collateralized by the property. The note bears interest at a rate of 4.125% annually. As of June 30, 2013, \$75,024 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,703,121.

The Town has a \$2,075,000 installment note payable 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, 2013, \$20,424 remains in a restricted account and the remaining obligation due under this agreement totaled \$2,075,000.



**Note 8. 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, 2013, is as follows:

	<b>Beginning</b>			<b>Ending</b>	<b>Current</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>Portion of</b>
					<b>Balance</b>
Bond anticipation note	\$ -	\$ 4,932,000	\$ -	\$ 4,932,000	\$ -
Notes payable	16,318,704	813,064	1,177,624	15,954,144	1,042,741
Installment contracts	1,620,429	-	383,851	1,236,578	396,289
*Accrued compensated absences	68,728	57,899	63,508	63,119	63,119
Other postemployment benefits	67,893	19,431	350	86,974	-
<b>Total</b>	<b>\$ 18,075,754</b>	<b>\$ 5,822,394</b>	<b>\$ 1,625,333</b>	<b>\$ 22,272,815</b>	<b>\$ 1,502,149</b>

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

The Town has a \$1,700,000 installment purchase contract to finance the construction of improvements to the water and sewer system. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note shall bear interest at a rate of 4.45% annually. As of June 30, 2013, the remaining obligation due under this agreement totaled \$567,950.

The Town has a \$1,750,000 installment purchase contract to finance the construction of improvements to the water and sewer system. The agreement has a term of 7 years and is collateralized by a purchase-money deed of trust. The note shall bear interest at a rate of 3.33% annually renegotiated to 1.97% effective May 2012. As of June 30, 2013, the remaining obligation due under this agreement totaled \$668,628.

The Town has a \$1,700,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the water and sewer system. The note is payable from water and sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.6%. As of June 30, 2013, the remaining obligation due under this agreement totaled \$850,000.

The Town has a \$959,333 installment note payable to the State of North Carolina over a 19-year term to finance the acquisition and construction of improvements to the water system. The note is payable from water revenue or sales tax distributions to the Town and bears an annual interest rate of 4.02%. As of June 30, 2013, the remaining obligation due under this agreement totaled \$605,894.

The Town has a \$1,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the sewer system. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.36%. As of June 30, 2013, the remaining obligation due under this agreement totaled \$600,000.

The Town has a \$15,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the construction of a new wastewater treatment plant. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.265%. As of June 30, 2013, the remaining obligation due under this agreement totaled \$12,000,000.

Notes to Financial Statements

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**Note 8. Long-Term Obligations (Continued)**

The Town has a \$645,000 installment note payable to the State of North Carolina over a 20-year term to finance sewer lift station improvements. The note is payable from sewer revenue or sales tax distributions to the Town and is interest free. As of June 30, 2013, the obligation due is \$548,250.

The Town has a \$1,500,000 installment note payable to the State of North Carolina over a 20-year term to finance water treatment improvements. The note is payable from water revenue or sales tax distributions to the Town and is interest free. As of June 30, 2013, the obligation due is \$1,350,000.

The Town has a bond anticipation note in the amount of \$4,932,000 payable to Bank of America at 0.97% maturing January 7, 2015. This bond will fund the water storage and treatment plants. After completion, the bond anticipation note is expected to be refinanced by USDA as noted in note 6.

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

	Principal	Interest
Governmental activities		
2013-2014	\$ 239,053	\$ 328,534
2014-2015	242,635	320,586
2015-2016	246,362	312,495
2016-2017	250,239	304,253
2017-2018	254,272	295,855
2019-2023	1,177,781	1,350,366
2024-2028	855,988	1,161,274
2029-2033	872,216	999,114
2034-2038	1,016,816	809,668
2039-2043	1,164,216	596,419
2044-2048	1,417,786	342,849
2049-2053	845,528	66,107
	8,582,892	6,887,520

## Town of Morehead City, North Carolina

### Notes to Financial Statements

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#### Note 8. Long-Term Obligations (Continued)

	Principal	Interest
Business-type activities, Water and Sewer Fund		
2013-2014	1,439,030	415,937
2014-2015	6,382,222	381,291
2015-2016	1,324,081	300,529
2016-2017	1,194,226	270,274
2017-2018	1,042,741	242,788
2019-2023	5,213,706	877,831
2024-2028	4,487,216	349,379
2029-2033	1,039,500	16,988
	<u>22,122,722</u>	<u>2,855,017</u>
	<u>\$ 30,705,614</u>	<u>\$ 9,742,537</u>

Interest paid on the above obligations during 2013 totaled \$703,586. State statutes provide for a legal debt limit of 8 percent of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2013 amounts to \$153,023,693.

#### Note 9. Pension Plan and Postemployment Obligations

##### Local Governmental Employees' Retirement System

*Plan Description.* Town of Morehead City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012 and 2011 were \$374,446, \$365,684, and \$350,005, respectively, and were equivalent to the required amount.

##### Law Enforcement Officers' Special Separation Allowance

###### *1. Plan Description.*

The Town of Morehead City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .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.

## Town of Morehead City, North Carolina

### Notes to Financial Statements

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#### Note 9. Pension Plan Obligations (Continued)

Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The separation allowance is reported in the Town's report as a pension trust fund and no stand-alone financial report is issued.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>39</u>
Total	<u><u>41</u></u>

#### 2. Summary of Significant Accounting Policies.

*Basis of Accounting.* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* Investments are reported at fair value.

#### 3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits. For the current year, the Town contributed \$56,200, or 4% of annual covered payroll, to the plan. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method and level dollar closed amortization method (remaining period 18 years). The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year, and (c) inflation at 3%. The assumptions did not include postemployment benefit increases or cost of living adjustments.

The Town's annual pension cost and net pension obligation for the Special Separation Allowance as of June 30, 2013 are as follows:

Notes to Financial Statements

**Note 9. Pension Plan Obligations (Continued)**

Employer annual required contribution	\$ 56,605
Interest on net pension obligation	10,630
Adjustment to annual required contribution	<u>(13,230)</u>
Annual pension cost	54,005
Employer contributions made for fiscal year	<u>56,200</u>
Increase in net pension obligation	(2,195)
Net pension obligation beginning of fiscal year	<u>212,598</u>
Net pension obligation end of fiscal year	<u><u>\$ 210,403</u></u>

Fiscal Year Ended	Three-Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation End of Year
June 30, 2011	\$ 61,472	81.01%	\$ 220,748
June 30, 2012	54,050	115.08%	212,598
June 30, 2013	54,005	104.06%	210,403

4. *Funded Status and Funding Progress.*

As of December 31, 2012, the most recent actuarial valuation date, the plan was 37.94 percent funded. The actuarial accrued liability for benefits was \$561,767, and the actuarial value of assets was \$213,137, resulting in an unfunded actuarial accrued liability (UAAL) of \$348,630. The covered payroll (annual payroll of active employees covered by the plan) was \$1,568,906, and the ratio of the UAAL to the covered payroll was 22.22 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Town of Morehead City, North Carolina**

**Notes to Financial Statements**

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**Note 9. Pension Plan Obligations (Continued)**

The following are financial statements for the Town's Separation Allowance included as Fiduciary Funds in the Basic Financial Statements at June 30, 2013:

**Statement of Net Position**

<b>Assets</b>	
Cash and cash equivalents	\$ 176,770
<b>Total assets</b>	<u>176,770</u>
<b>Net Position</b>	
Assets held in trust for pension benefits	176,770
<b>Total net position</b>	<u>\$ 176,770</u>

**Statement of Changes in Net Position**

<b>Additions</b>	
Contributions	\$ 56,200
Interest	326
<b>Total additions</b>	<u>56,526</u>
<b>Deductions</b>	
Benefits paid	58,985
<b>Total deductions</b>	<u>58,985</u>
<b>Net decrease</b>	(2,459)
<b>Net position reserved for employees' pension benefits</b>	
Beginning of year	<u>179,229</u>
End of year	<u>\$ 176,770</u>

Supplemental Retirement Income Plan for Law Enforcement:

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

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$104,359, which consisted of \$81,207 from the Town and \$23,152 from the law enforcement officers.

## Town of Morehead City, North Carolina

### Notes to Financial Statements

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#### Note 10. Other Postemployment Benefits

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

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

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

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

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

Membership of the HCB Plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	8	6
Active plan members	<u>109</u>	<u>38</u>
	<u>117</u>	<u>44</u>

*Funding Policy.* The Town pays the full cost of coverage for the healthcare benefits for qualified retirees under a Town resolution that can be amended by Town Council. The Town contributes the projected pay-as-you-go financing requirement, with an additional amount to prefund benefits as determined annually by the Council.

The current ARC rate is 5.29% of annual covered payroll. For the current year, the Town contributed \$134,308 or 2.5% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees, and none of the retirees elected to participate in the dependent care coverage benefit. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council.

Notes to Financial Statements

**Note 10. Other Postemployment Benefits (Continued)**

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

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

Annual required contribution	\$ 265,860
Interest on net OPEB obligation	18,016
Adjustment on annual required contribution	<u>2,452</u>
Annual OPEB cost (expense)	286,328
Contributions made	<u>(134,308)</u>
Increase in net OPEB obligation	152,020
Net OPEB obligation, beginning of year	<u>450,403</u>
Net OPEB obligation, end of year	<u><u>\$ 602,423</u></u>

For Year Ended	Three-Year Trend Information		
	Annual	Percentage of Annual	Net OPEB
June 30,	OPEB Cost	OPEB Cost Contributed	Obligation
2011	\$ 255,892	43.62%	\$ 300,746
2012	267,511	44.06%	450,403
2013	286,328	46.91%	602,423

*Funded Status and Funding Progress.* As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$3,024,100. The covered payroll (annual payroll of active employees covered by the plan) was \$5,374,692, and the ratio of the UAAL to the covered payroll was 56.3 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits. The financial statements present information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.



Notes to Financial Statements

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**Note 10. Other Postemployment Benefits (Continued)**

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

In the December 31, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The rate included a 3.00 percent inflation assumption. The medical cost trend rate decreased from 9.5 to 5.00 percent. The UAAL is being amortized as a level percentage of projected unit credit on a level percent of pay, open basis. The remaining amortization period at December 31, 2011 was 30 years.

The following are financial statements for the Other Postemployment Benefits Trust Fund included as Fiduciary Funds in the Basic Financial Statements at June 30, 2013:

**Statement of Net Position**

<b>Assets</b>	
Cash and cash equivalents	\$ 204,207
<b>Total assets</b>	<u>204,207</u>
<b>Net Position</b>	
Assets held in trust for pension benefits	204,207
<b>Total net position</b>	<u>\$ 204,207</u>

**Statement of Changes in Net Position**

<b>Additions</b>	
Contributions	\$ 134,308
Interest	371
<b>Total additions</b>	<u>134,679</u>
<b>Deductions</b>	
Benefits paid	82,882
<b>Total deductions</b>	<u>82,882</u>
<b>Net increase</b>	51,797
<b>Net position reserved for employees' pension benefits</b>	
Beginning of year	152,410
End of year	<u>\$ 204,207</u>

**Note 11. Other Employment Benefits**

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

**Note 12. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a participant in two insurance pools administered by the North Carolina League of Municipalities. One pool (IRFFNC) provides coverage for property damage and general liability (including auto and law enforcement officers). Major policies and their limits of coverage include: public officials (\$3 million) and law enforcement liability (\$3 million), vehicle liability (\$2 million), public employee scheduled and blanket bonds (\$250,000), general liability (\$2 million), municipal equipment (\$1,721,829), vehicles (\$2,828,112) and property (\$65,100,520). The other pool (NCRIMA) provides workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence losses in excess of \$1,000,000 for general liability and \$500,000 for property damage, and single occurrence losses of \$500,000 for workers' compensation. The Town provides employee health insurance through Blue Cross Blue Shield up to an unlimited lifetime benefit. The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because certain properties owned by the Town are in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of up to \$500,000 per structure through the NFIP. The Town is also eligible to and has purchased commercial flood insurance for \$96,900 of coverage for contents.

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

**Note 13. Claims, Judgments and Contingent Liabilities**

At June 30, 2013, the Town was a defendant in various lawsuits; however, no provision was made in the financial statements for any contingent liabilities. In the opinion of management and the Town attorney, the ultimate outcome of these legal matters will not have a material adverse effect on the Town's financial position.

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds as a result of future audits will be immaterial.

**Note 14. Jointly Governed Organizations**

The Town, in conjunction with seven counties and twenty-eight other municipalities, established the Eastern Carolina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$3,069 to the Council during the fiscal year ended June 30, 2013.

**Note 15. Pronouncements Issued, Not Yet Effective**

The GASB has issued several pronouncements prior to June 30, 2013 that have effective dates that may affect future financial presentations.

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

- GASB Statement Number 66, "Technical Corrections – 2012 – An Amendment of GASB Statement No. 10 and No. 62" will be effective for the Town beginning with its year ending June 30, 2014.
- GASB Statement Number 67, "Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25" will be effective for the Town beginning with its year ending June 30, 2014.
- GASB Statement Number 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27" will be effective for the Town beginning with its year ending June 30, 2015.
- GASB Statement Number 69 – "Government Combinations and Disposals of Government Operations" will be effective for the Town beginning with its year ending June 30, 2014.
- GASB Statement Number 70 – "Accounting and Financial Reporting for Nonexchange Financial Guarantees" will be effective for the Town beginning with its year ending June 30, 2014.

**Note 16. Restatement applicable to prior year**

The Town has determined that a receivable of \$515,906 recorded in the Fire/EMS Fund was not reported correctly resulting in an understatement of deferred revenue and an overstatement to revenue in the modified accrual fund statement. The Town has also determined that the receivable is no longer deemed to be collectible. The effect of restatement to the Fire/EMS Fund would have resulted in a decrease to the change in fund balance ending June 30, 2012 of \$515,906. Therefore, beginning fund balance for the Major Fire/EMS Fund has been restated as of July 1, 2012 to decrease those amounts previously reported by \$515,906.

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## **REQUIRED SUPPLEMENTAL FINANCIAL DATA**

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

- **Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance**
  - **Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance**
  - **Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance**
  - **Schedule of Funding Progress for the Other Postemployment Benefits**
  - **Schedule of Employer Contributions for the Other Postemployment Benefits**
  - **Notes to the Required Schedules for the Other Postemployment Benefits**
-

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**Town of Morehead City, North Carolina**

**Law Enforcement Officers' Special Separation Allowance  
Required Supplementary Information  
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percent of Covered Payroll ((b-a)/c)
12/31/06	\$ 52,935	\$ 398,590	\$ 345,655	13.28%	\$ 1,453,223	23.79%
12/31/07	66,781	440,929	374,148	15.15%	1,508,655	24.80%
12/31/08	61,310	458,867	397,557	13.36%	1,565,387	25.40%
12/31/09	100,822	595,325	494,503	16.94%	1,575,255	31.39%
12/31/10	161,881	599,079	437,198	27.02%	1,531,274	28.55%
12/31/11	199,814	610,238	410,424	32.74%	1,565,447	26.22%
12/31/12	213,137	561,767	348,630	37.94%	1,568,906	22.22%

**Town of Morehead City, North Carolina**

**Law Enforcement Officers' Special Separation Allowance  
Required Supplementary Information  
Schedule of Employer Contributions**

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed
2007	\$ 43,862	102.59%
2008	44,174	84.51%
2009	46,292	95.48%
2010	49,802	92.97%
2011	62,211	80.05%
2012	56,182	110.71%
2013	56,605	99.28%

Notes to the Required Schedules:

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

Valuation Date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18
Asset valuation method	market value
Actuarial assumptions	
Investment rate of return	5.00%
Projected salary increases	Ranging from 4.25% to 7.85%
*includes inflation at	3.00%
Cost of living adjustments	None



**Town of Morehead City, North Carolina**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percent of Covered Payroll ((b-a)/c)
12/31/09	\$ -	\$ 2,701,961	\$2,701,961	0.00%	\$ 5,329,709	50.70%
12/31/11	-	3,024,100	3,024,100	0.00%	5,374,692	56.30%

**Town of Morehead City, North Carolina**

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

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2010	\$ 256,251	38.92%
2011	256,251	43.56%
2012	265,860	44.33%
2013	265,860	50.52%

Notes to the Required Schedules:

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

Valuation Date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	market value
Actuarial assumptions	
Investment rate of return	4.00%
Projected salary increases	Ranging from 9.50% - 5.00%
*includes inflation at	3.00%
Cost of living adjustments	None

## **MAJOR GOVERNMENTAL FUNDS**

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- **General Fund**
  - **Fire/EMS District Fund**
  - **Jib Waterfront Access Capital Project Fund**
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## **GENERAL FUND**

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**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.**

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Town of Morehead City, North Carolina

**General Fund  
Schedule of Revenue, Expenditures and Changes in Fund Balance –  
Budget and Actual (Non-GAAP)  
Year Ended June 30, 2013  
With Comparative Actual Amounts for Year Ended June 30, 2012**

(Page 1 of 5)

	2013		Variance, with Final Budget	2012
	Final Budget	Actual		Actual
<b>Revenue</b>				
Ad valorem taxes:				
Current year	\$ 5,276,500	\$ 5,316,050	\$ 39,550	\$ 5,272,121
Prior years	20,000	65,057	45,057	43,109
Interest and penalties	13,500	24,707	11,207	22,029
<b>Total ad valorem taxes</b>	<b>5,310,000</b>	<b>5,405,814</b>	<b>95,814</b>	<b>5,337,259</b>
Other taxes:				
Privilege licenses	67,600	67,965	365	68,086
Motor vehicle lease tax	20,000	25,499	5,499	24,440
<b>Total other taxes</b>	<b>87,600</b>	<b>93,464</b>	<b>5,864</b>	<b>92,526</b>
Unrestricted intergovernmental:				
Local option sales tax	1,810,000	1,852,922	42,922	1,671,080
Franchise tax fees	560,000	534,477	(25,523)	519,847
Beer and wine tax	41,850	35,570	(6,280)	37,664
Carteret County ABC revenue	125,000	162,620	37,620	153,690
Video programming sales tax	144,500	125,771	(18,729)	127,688
Telecommunications tax	170,000	149,436	(20,564)	159,242
Piped natural gas tax	17,000	22,518	5,518	17,553
Payment in lieu of taxes	58,200	59,123	923	58,187
<b>Total unrestricted intergovernmental</b>	<b>2,926,550</b>	<b>2,942,437</b>	<b>15,887</b>	<b>2,744,951</b>
Restricted intergovernmental:				
Powell Bill	257,600	261,007	3,407	252,306
COPS grant	29,900	22,883	(7,017)	-
NCDOT sidewalk grants	63,500	78,601	15,101	-
School resource officer	54,400	62,575	8,175	60,686
Governor's highway safety program grant	9,000	9,022	22	21,146
Bullet proof vest grant	3,000	-	(3,000)	-
Controlled substance tax	2,000	2,488	488	3,985
Restitution funds	-	1,395	1,395	613
Federal drug forfeit funds	39,984	33,984	(6,000)	-
Harbor realignment study grant	-	-	-	9,669
CAMA	2,000	4,525	2,525	3,235
Court released seized property	-	-	-	335

(Continued)

Town of Morehead City, North Carolina

General Fund  
 Schedule of Revenue, Expenditures and Changes in Fund Balance –  
 Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts for Year Ended June 30, 2012

(Page 2 of 5)

	2013			2012
	Final Budget	Actual	Variance, with Final Budget	Actual
Mosquito control grant	\$ -	\$ -	\$ -	\$ 4,910
Teen Court grant	52,000	57,647	5,647	49,712
Webb Library funding	53,075	53,075	-	53,075
Housing Authority grant	35,000	35,000	-	35,000
FEMA reimbursements	-	-	-	51,739
Miscellaneous police grants	93,250	28,725	(64,525)	6,056
<b>Total restricted governmental</b>	<b>694,709</b>	<b>650,927</b>	<b>(43,782)</b>	<b>552,467</b>
Permits and fees:				
Building permits and inspection fees	130,000	189,003	59,003	113,406
Planning/Zoning fees and charges	5,000	4,236	(764)	5,933
Recreation development fees	-	-	-	-
Franchise fees	300	175	(125)	415
<b>Total permits and fees</b>	<b>135,300</b>	<b>193,414</b>	<b>58,114</b>	<b>119,754</b>
Sales and services:				
Court cost and fees	4,000	4,286	286	3,597
Lot cleaning fees	1,000	293	(707)	1,262
Cemetery fees	1,000	2,660	1,660	1,575
Recreation concessions	4,500	3,340	(1,160)	5,015
Sale of cemetery lots	5,000	6,400	1,400	5,550
Mail box rent and mail fees	3,000	3,727	727	3,650
Library fees and charges	7,000	6,856	(144)	7,947
Leases	41,100	65,772	24,672	57,281
E 911 cost sharing	24,000	23,976	(24)	23,704
Recreation fees and charges	89,500	111,432	21,932	98,174
<b>Total sales and services</b>	<b>180,100</b>	<b>228,742</b>	<b>48,642</b>	<b>207,755</b>
Investment earnings	12,000	9,429	(2,571)	14,916
Miscellaneous revenue:				
Restricted donations	275	4,573	4,298	3,194
Insurance reimbursements/refunds	-	10,128	10,128	52,615
Sale of surplus property	-	2,803	2,803	7,098
Miscellaneous	25,000	27,431	2,431	59,761
<b>Total miscellaneous revenue</b>	<b>25,275</b>	<b>44,935</b>	<b>19,660</b>	<b>122,668</b>
<b>Total revenue</b>	<b>9,371,534</b>	<b>9,569,162</b>	<b>197,628</b>	<b>9,192,296</b>

(Continued)

Town of Morehead City, North Carolina

General Fund  
 Schedule of Revenue, Expenditures and Changes in Fund Balance –  
 Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts for Year Ended June 30, 2012

(Page 3 of 5)

	2013		Variance, with Final Budget	2012
	Final Budget	Actual		Actual
Expenditures				
General government:				
Mayor - town council				
Salaries and benefits		\$ 24,848		\$ 28,836
Other		7,511		9,230
	<b>\$ 43,372</b>	<b>32,359</b>	<b>\$ 11,013</b>	<b>38,066</b>
Administration:				
Salaries, wages and benefits		164,579		183,326
Other		14,733		13,521
	<b>208,890</b>	<b>179,312</b>	<b>29,578</b>	<b>196,847</b>
Finance:				
Salaries, wages and benefits		181,562		162,944
Other		12,444		12,005
	<b>211,254</b>	<b>194,006</b>	<b>17,248</b>	<b>174,949</b>
Central services:				
Employee benefits		68,759		72,309
Professional services		115,724		153,920
Capital outlay		57,014		156,514
Other		256,880		243,505
	<b>561,142</b>	<b>498,377</b>	<b>62,765</b>	<b>626,248</b>
Community projects	<b>65,909</b>	<b>60,301</b>	<b>5,608</b>	59,012
Cemetery, buildings and grounds:				
Salaries, wages and benefits		190,943		198,863
Capital outlay		26,248		-
Other		125,073		108,620
	<b>383,800</b>	<b>342,264</b>	<b>41,536</b>	<b>307,483</b>
Garage:				
Salaries, wages and benefits		40,562		27,923
Capital outlay		2,627		-
Other		6,261		8,092
	<b>54,698</b>	<b>49,450</b>	<b>5,248</b>	<b>36,015</b>
<b>Total general government</b>	<b>1,529,065</b>	<b>1,356,069</b>	<b>172,996</b>	<b>1,438,620</b>

(Continued)

Town of Morehead City, North Carolina

General Fund  
 Schedule of Revenue, Expenditures and Changes in Fund Balance –  
 Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts for Year Ended June 30, 2012  
 (Page 4 of 5)

	2013		Variance, with Final Budget	2012
	Final Budget	Actual		Actual
Public safety:				
Police:				
Salaries, wages and benefits		\$ 2,606,970		\$ 2,505,177
Capital outlay		160,999		186,015
Other		514,180		500,943
	<b>\$ 3,476,622</b>	<b>3,282,149</b>	<b>\$ 194,473</b>	<b>3,192,135</b>
Inspections:				
Salaries, wages and benefits		397,503		373,099
Other		25,106		23,607
	<b>460,210</b>	<b>422,609</b>	<b>37,601</b>	<b>396,706</b>
Federal drug forfeit funds:				
Capital outlay		13,104		
Other		3,646		566
	<b>39,984</b>	<b>16,750</b>	<b>23,234</b>	<b>566</b>
<b>Total public safety</b>	<b>3,976,816</b>	<b>3,721,508</b>	<b>255,308</b>	<b>3,589,407</b>
Highways and streets:				
Transportation:				
Salaries, wages and benefits		360,892		366,247
Capital outlay		65,363		-
Other		345,346		276,202
	<b>854,750</b>	<b>771,601</b>	<b>83,149</b>	<b>642,449</b>
Powell Bill funds	<b>595,550</b>	<b>134,343</b>	<b>461,207</b>	<b>168,742</b>
<b>Total highways and streets</b>	<b>1,450,300</b>	<b>905,944</b>	<b>544,356</b>	<b>811,191</b>
Recreation:				
Salaries, wages and benefits		284,414		283,827
Capital outlay		-		6,065
Other		154,429		145,514
<b>Total recreation</b>	<b>514,050</b>	<b>438,843</b>	<b>75,207</b>	<b>435,406</b>
Parks:				
Salaries, wages and benefits		96,949		98,911
Capital outlay		1,711		9,767
Other		149,882		176,399
<b>Total parks</b>	<b>289,450</b>	<b>248,542</b>	<b>40,908</b>	<b>285,077</b>

(Continued)



Town of Morehead City, North Carolina

General Fund  
 Schedule of Revenue, Expenditures and Changes in Fund Balance –  
 Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts for Year Ended June 30, 2012  
 (Page 5 of 5)

	2013		Variance, with Final Budget	2012
	Final Budget	Actual		Actual
Library:				
Salaries, wages and benefits		\$ 73,028		\$ 81,833
Capital outlay		54,174		-
Other		39,291		35,765
<b>Total library</b>	<b>\$ 286,950</b>	<b>166,493</b>	<b>\$ 120,457</b>	<b>117,598</b>
Debt service:				
Principal retirement		212,189		209,149
Interest fees		260,227		293,797
<b>Total debt service</b>	<b>490,172</b>	<b>472,416</b>	<b>17,756</b>	<b>502,946</b>
Contingency	169,421	-	169,421	-
<b>Total expenditures</b>	<b>8,706,224</b>	<b>7,309,815</b>	<b>1,396,409</b>	<b>7,180,245</b>
<b>Revenue over expenditures</b>	<b>665,310</b>	<b>2,259,347</b>	<b>1,594,037</b>	<b>2,012,051</b>
Other financing sources (uses)				
Fund balance appropriated	1,887,823	-	(1,887,823)	-
Transfers out:				
Fire/EMS District Fund	(1,634,540)	(1,634,540)	-	(1,365,000)
Baseball Park Capital Project Fund	(322,950)	(322,950)	-	(200,000)
Newport River Public Access Capital Project Fund	-	-	-	-
Shepard St. Boat Ramp Capital Project fund	-	-	-	-
Jib Waterfront Access Capital Project Fund	(595,643)	(595,643)	-	-
<b>Total other financing uses</b>	<b>(665,310)</b>	<b>(2,553,133)</b>	<b>(1,887,823)</b>	<b>(1,565,000)</b>
<b>Revenue and other financing sources over (under) expenditures and other financing uses</b>	<b>\$ -</b>	<b>(293,786)</b>	<b>\$ (293,786)</b>	<b>447,051</b>
Fund balance, beginning		5,475,635		5,028,584
Fund balance, ending		<b>\$ 5,181,849</b>		<b>\$ 5,475,635</b>

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**FIRE/EMS DISTRICT FUND**

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

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Town of Morehead City, North Carolina

Fire/EMS District Fund  
 Schedule of Revenue, Expenditures and Changes in Fund Balance –  
 Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts for Year Ended June 30, 2012

(Page 1 of 2)

	2013			2012
	Budget	Actual	Variance with Final Budget	Actual
Revenue				
Operating revenue				
Unrestricted intergovernmental-sales tax	\$ 155,000	\$ 153,757	\$ (1,243)	\$ 170,983
Restricted - intergovernmental				
Federal grants	55,800	45,361	(10,439)	198,329
Charges for services	936,415	941,737	5,322	1,033,745
<b>Total operating revenue</b>	<b>1,147,215</b>	<b>1,140,855</b>	<b>(6,360)</b>	<b>1,403,057</b>
Investment earnings	2,500	1,294	(1,206)	6,634
Miscellaneous	-	28,395	28,395	9,927
<b>Total revenue</b>	<b>1,149,715</b>	<b>1,170,544</b>	<b>20,829</b>	<b>1,419,618</b>
Expenditures				
Public safety:				
Salaries, wages, and benefits		1,795,042		1,729,427
Other		614,443		444,499
Capital outlay		807,028		259,759
	<b>3,354,680</b>	<b>3,216,513</b>	<b>138,167</b>	<b>2,433,685</b>

(Continued)

Town of Morehead City, North Carolina

Fire/EMS District Fund  
 Schedule of Revenue, Expenditures and Changes in Fund Balance –  
 Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts for Year Ended June 30, 2012

(Page 2 of 2)

	2013			2012
	Budget	Actual	Variance with Final Budget	Actual
Debt service:				
Principal retirement		\$ 69,627		\$ 67,764
Interest fees		32,740		3,292
	<u>\$ 148,869</u>	<u>102,367</u>	<u>\$ -</u>	<u>71,056</u>
<b>Total expenditures</b>	<b>3,503,549</b>	<b>3,318,880</b>	<b>138,167</b>	<b>2,504,741</b>
<b>Revenue under expenditures</b>	<b>(2,353,834)</b>	<b>(2,148,336)</b>	<b>205,498</b>	<b>(1,085,123)</b>
Other financing sources (uses):				
Fund balance appropriated	801,500	-	(801,500)	
Contingency	(82,206)	-	82,206	-
Operating transfer in:				
General fund	1,634,540	1,634,540	-	1,365,000
<b>Total other financing sources</b>	<b>2,353,834</b>	<b>1,634,540</b>	<b>(719,294)</b>	<b>1,365,000</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>(513,796)</b>	<b>\$ (513,796)</b>	<b>279,877</b>
Fund balance, beginning, as previously reported		1,572,097		1,305,816
Restatement for write off of receivable		(515,906)		-
Beginning of year as restated		<u>1,056,191</u>		<u>1,305,816</u>
Fund balance, ending		542,395		1,585,693
Reconciliation:				
Amortization of prepaid costs reported as prepaid expense on GAAP basis		(7,189)		(13,596)
Revenues and other financing sources over (under) expenditures, GAAP		<u>\$ 535,206</u>		<u>\$ 1,572,097</u>

**JIB WATERFRONT ACCESS CAPITAL PROJECT FUND**

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**This fund is used to account for funds accumulated for the acquisition and development of the Jib Waterfront property.**

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**Town of Morehead City, Morehead City  
Jib Waterfront Access Capital Project Fund**

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
From Inception and for the Year Ended June 30, 2013**

	Project Authorization	Prior Years	Actual Current Year	Project To Date
<b>Revenue</b>				
Restricted intergovernmental				
CAMA grant	\$ 200,000	\$ 200,000	\$ -	\$ 200,000
Division of Water Resources grant	300,000	300,000	-	300,000
Waterfront access	150,000	-	-	-
Interest revenue	-	(455)	133	(322)
Miscellaneous revenue - donations	68,874	-	-	-
<b>Total revenue</b>	<b>718,874</b>	<b>499,545</b>	<b>133</b>	<b>499,678</b>
<b>Expenditures</b>				
Jib waterfront access expenditures	2,376,722	1,507,026	272,707	1,779,733
Interest expense on interfund loan	10,000	4,836	-	4,836
<b>Total expenditures</b>	<b>2,386,722</b>	<b>1,511,862</b>	<b>272,707</b>	<b>1,784,569</b>
<b>Revenue under expenditures</b>	<b>(1,667,848)</b>	<b>(1,012,317)</b>	<b>(272,574)</b>	<b>(1,284,891)</b>
<b>Other financing sources (uses)</b>				
Transfer from General Fund	1,665,643	867,207	595,643	1,462,850
Transfer from Shepard Street Boat Ramp	2,205	-	2,191	2,191
Transfer from Water/Sewer Fund	650,000	650,000	-	650,000
Transfer to Water/Sewer Fund	(650,000)	(650,000)	-	(650,000)
<b>Total other financing sources (uses)</b>	<b>1,667,848</b>	<b>867,207</b>	<b>597,834</b>	<b>1,465,041</b>
<b>Revenue and other financing sources     over (under) expenditures</b>	<b>\$ -</b>	<b>\$ (145,110)</b>	<b>325,260</b>	<b>\$ 180,150</b>
Fund balance (deficit), beginning			(145,110)	
Fund balance, ending			<b>\$ 180,150</b>	

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## NON-MAJOR GOVERNMENTAL FUNDS

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

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

Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2013

With Comparative Totals as of June 30, 2012

	MATS Capital Project Fund	Baseball Park Capital Project Fund	Newport River Water Access Capital Project Fund
<b>Assets:</b>			
Cash and cash equivalents	\$ 45,457	\$ 96,978	\$ -
Accounts receivable	-	-	150,653
Due from other non-major funds	-	-	-
<b>Total assets</b>	<b>\$ 45,457</b>	<b>\$ 96,978</b>	<b>\$ 150,653</b>
<b>Liabilities and fund balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ -	\$ 41,576	\$ 635
Due to other non-major funds	-	-	135,865
<b>Total liabilities</b>	<b>-</b>	<b>41,576</b>	<b>136,500</b>
<b>Fund balances:</b>			
Restricted			
Recreation	-	55,402	14,153
General government	-	-	-
Public safety	-	-	-
Assigned			
Streets	45,457	-	-
Unassigned	-	-	-
<b>Total fund balances</b>	<b>45,457</b>	<b>55,402</b>	<b>14,153</b>
<b>Total liabilities and fund balances</b>	<b>\$ 45,457</b>	<b>\$ 96,978</b>	<b>\$ 150,653</b>

School Property Acquisition/ Improvements Capital Project Fund	Fire/EMS Station #2 Replacement Capital Project Fund	Totals	
		2013	2012
\$ 120,816	\$ 124,029	\$ 387,280	\$ 626,289
-	-	150,653	-
135,865	-	135,865	668,572
<b>\$ 256,681</b>	<b>\$ 124,029</b>	<b>\$ 673,798</b>	<b>\$ 1,294,861</b>
\$ 5,551	\$ 969	\$ 48,731	\$ 208,505
-	-	135,865	-
5,551	969	184,596	208,505
-	-	69,555	204,730
221,053	-	221,053	222,627
30,077	123,060	153,137	613,613
-	-	45,457	45,386
-	-	-	-
251,130	123,060	489,202	1,086,356
<b>\$ 256,681</b>	<b>\$ 124,029</b>	<b>\$ 673,798</b>	<b>\$ 1,294,861</b>

Town of Morehead City, North Carolina

Non-Major Governmental Funds  
 Combining Statement of Revenue, Expenditures and  
 Changes in Fund Balance  
 Year Ended June 30, 2013  
 With Comparative Totals For Year Ended June 30, 2012

	MATS Capital Project Fund	Baseball Park Capital Project Fund	Newport River Water Access Capital Project Fund
Revenue			
Restricted intergovernmental	\$ -	\$ -	\$ 156,780
Miscellaneous	-	-	-
Investment earnings	71	157	(20)
<b>Total revenue</b>	<b>71</b>	<b>157</b>	<b>156,760</b>
Expenditures			
Capital outlay	-	466,392	148,650
Interest expense	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>466,392</b>	<b>148,650</b>
<b>Revenue over (under) expenditures</b>	<b>71</b>	<b>(466,235)</b>	<b>8,110</b>
Other financing sources (uses)			
Issuance of debt	-	-	-
Transfers in	-	322,950	-
Transfers out	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>322,950</b>	<b>-</b>
<b>Revenue and other financing sources over (under) expenditures and other financing uses</b>	<b>71</b>	<b>(143,285)</b>	<b>8,110</b>
Fund balance (deficit), beginning	45,386	198,687	6,043
Fund balance, ending	<b>\$ 45,457</b>	<b>\$ 55,402</b>	<b>\$ 14,153</b>

School Property Acquisition/ Improvements Capital Project Fund	Shepard St. Boat Ramp Capital Project Fund	Fire/EMS Station #2 Replacement Capital Project Fund	2013 Totals	2012 Totals
\$ 1	\$ -	\$ 200,000	\$ 356,781	\$ 100,000
59,512	-	400	59,912	-
411	2	74	695	(269)
<b>59,924</b>	<b>2</b>	<b>200,474</b>	<b>417,388</b>	<b>99,731</b>
79,402	-	633,180	1,327,624	944,125
-	-	7,677	7,677	-
<b>79,402</b>	<b>-</b>	<b>640,857</b>	<b>1,335,301</b>	<b>944,125</b>
<b>(19,478)</b>	<b>2</b>	<b>(440,383)</b>	<b>(917,913)</b>	<b>(844,394)</b>
-	-	-	-	2,075,000
-	-	-	322,950	200,000
-	(2,191)	-	(2,191)	-
-	(2,191)	-	320,759	2,275,000
<b>(19,478)</b>	<b>(2,189)</b>	<b>(440,383)</b>	<b>(597,154)</b>	1,430,606
<b>270,608</b>	<b>2,189</b>	<b>563,443</b>	<b>1,086,356</b>	(344,250)
<b>\$ 251,130</b>	<b>\$ -</b>	<b>\$ 123,060</b>	<b>\$ 489,202</b>	<b>\$ 1,086,356</b>

Town of Morehead City, North Carolina

**MATS Capital Project Fund**  
**Schedule of Revenue, Expenditures, and**  
**Changes in Fund Balance, Budget and Actual**  
**From Inception and for the Year Ended June 30, 2013**

	Project	Actual		Project
	Authorization	Prior	Current	To Date
		Years	Year	
<b>Revenue</b>				
Restricted intergovernmental				
NCDOT Grant	\$ 287,909	\$287,909	\$ -	\$ 287,909
Carteret County Grant	35,989	35,989	-	35,989
Interest earnings	4,500	7,669	71	7,740
<b>Total revenue</b>	<b>328,398</b>	<b>331,567</b>	<b>71</b>	<b>331,638</b>
<b>Expenditures</b>				
Trail improvements	914,697	871,965	-	871,965
<b>Total expenditures</b>	<b>914,697</b>	<b>871,965</b>	<b>-</b>	<b>871,965</b>
<b>Revenue over (under) expenditures</b>	<b>(586,299)</b>	<b>(540,398)</b>	<b>71</b>	<b>(540,327)</b>
<b>Other financing sources</b>				
Transfers in				
Street Improvements Fund	128,000	127,485	-	127,485
General Fund	458,299	458,299	-	458,299
<b>Total other financing sources</b>	<b>586,299</b>	<b>585,784</b>	<b>-</b>	<b>585,784</b>
<b>Revenue and other financing sources over expenditures</b>	<b>\$ -</b>	<b>\$ 45,386</b>	<b>71</b>	<b>\$ 45,457</b>
Fund balance, beginning			<u>45,386</u>	
Fund balance, ending			<u>\$ 45,457</u>	



Town of Morehead City, North Carolina

Baseball Park Capital Project Fund  
 Schedule of Revenue, Expenditures and  
 Changes in Fund Balance, Budget and Actual  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Project To Date
<b>Revenue</b>				
Restricted intergovernmental				
LWCF grant	\$ 250,000	\$ 250,000	\$ -	\$ 250,000
PARTF grant	150,000	150,000	-	150,000
Interest revenue	33,043	33,090	157	33,247
Miscellaneous revenue - donations	264,500	264,500	-	264,500
<b>Total revenue</b>	<b>697,543</b>	<b>697,590</b>	<b>157</b>	<b>697,747</b>
<b>Expenditures</b>				
Baseball park construction	2,931,750	2,410,160	466,392	2,876,552
<b>Total expenditures</b>	<b>2,931,750</b>	<b>2,410,160</b>	<b>466,392</b>	<b>2,876,552</b>
<b>Revenue under expenditures</b>	<b>(2,234,207)</b>	<b>(1,712,570)</b>	<b>(466,235)</b>	<b>(2,178,805)</b>
<b>Other financing sources</b>				
Transfer from General Fund	2,227,950	1,905,000	322,950	2,227,950
Transfer from Mayberry/20th Street	6,257	6,257	-	6,257
<b>Total other financing sources</b>	<b>2,234,207</b>	<b>1,911,257</b>	<b>322,950</b>	<b>2,234,207</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 198,687</b>	<b>(143,285)</b>	<b>\$ 55,402</b>
Fund balance, beginning			<u>198,687</u>	
Fund balance, ending			<u>\$ 55,402</u>	

Town of Morehead City, North Carolina

Newport River Water Access Capital Project Fund  
 Schedule of Revenue, Expenditures and  
 Changes in Fund Balance – Budget and Actual  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Actual		Project To Date
		Prior Years	Current Year	
<b>Revenue</b>				
Restricted intergovernmental				
CAMA Public Access grant	\$ 600,000	\$ 600,000	\$ -	\$ 600,000
Carteret County Water Access funds	500,000	500,000	-	500,000
WAMI grant	1,190,000	1,150,000	-	1,150,000
DENR/DWR Dredging grant	26,500	26,516	-	26,516
NC Marine Resources grant	187,550	-	156,780	156,780
Investment earnings	3,800	1,933	(20)	1,913
<b>Total revenue</b>	<b>2,507,850</b>	<b>2,278,449</b>	<b>156,760</b>	<b>2,435,209</b>
<b>Expenditures</b>				
Water access improvements	2,657,850	2,422,406	148,650	2,571,056
<b>Total expenditures</b>	<b>2,657,850</b>	<b>2,422,406</b>	<b>148,650</b>	<b>2,571,056</b>
<b>Revenue over (under) expenditures</b>	<b>(150,000)</b>	<b>(143,957)</b>	<b>8,110</b>	<b>(135,847)</b>
<b>Other financing sources</b>				
Transfer from General Fund	150,000	150,000	-	150,000
<b>Total other financing sources</b>	<b>150,000</b>	<b>150,000</b>	<b>-</b>	<b>150,000</b>
<b>Revenue under other financing sources     over expenditures</b>	<b>\$ -</b>	<b>\$ 6,043</b>	<b>8,110</b>	<b>\$ 14,153</b>
Fund balance, beginning			<u>6,043</u>	
Fund balance, ending			<u>\$ 14,153</u>	

**Town of Morehead City, North Carolina**  
**School Property Acquisition/Improvements Capital Project Fund**

**Schedule of Revenue, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual (Non-GAAP)**  
**From Inception and for the Year Ended June 30, 2013**

	Project	Actual		
	Authorization	Prior Years	Current Year	Project To Date
<b>Revenue</b>				
Restricted intergovernmental				
Carteret County	\$ 996,754	\$ 996,753	\$ 1	\$ 996,754
Interest revenue	8,923	9,180	411	9,591
Interest revenue, Build America Bonds	33,633	33,633	-	33,633
Miscellaneous revenue-rent	270,900	272,939	18,424	291,363
Miscellaneous revenue-insurance reimbursement	17,601	-	41,088	41,088
<b>Total revenue</b>	<b>1,327,811</b>	<b>1,312,505</b>	<b>59,924</b>	<b>1,372,429</b>
<b>Expenditures</b>				
General government		148,196	58,897	241,690
Capital outlay				
General government		1,003,409	-	1,003,409
Public safety		5,859,923	20,505	5,845,831
	<b>7,292,836</b>	<b>7,011,528</b>	<b>79,402</b>	<b>7,090,930</b>
<b>Debt service:</b>				
Principal retirement	5,000,000	5,000,000	-	5,000,000
Interest fees	98,000	96,094	-	96,094
	<b>5,098,000</b>	<b>5,096,094</b>	<b>-</b>	<b>5,096,094</b>
<b>Total expenditures</b>	<b>12,390,836</b>	<b>12,107,622</b>	<b>79,402</b>	<b>12,187,024</b>
<b>Revenue under expenditures</b>	<b>(11,063,025)</b>	<b>(10,795,117)</b>	<b>(19,478)</b>	<b>(10,814,595)</b>
<b>Other financing sources (uses)</b>				
Contingency	(2,700)	-	-	-
Issuance of debt	9,808,000	9,808,000	-	9,808,000
Transfer from General Fund	1,257,725	1,257,725	-	1,257,725
<b>Total other financing sources</b>	<b>11,063,025</b>	<b>11,065,725</b>	<b>-</b>	<b>11,065,725</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 270,608</b>	<b>(19,478)</b>	<b>\$ 251,130</b>
Fund balance, beginning			<u>270,608</u>	
Fund balance, ending			<u><u>\$ 251,130</u></u>	

Town of Morehead City, North Carolina

Shepard St. Boat Ramp Capital Project Fund  
 Schedule of Revenue, Expenditures and  
 Changes in Fund Balance, Budget and Actual  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Interest revenue	\$ 50	\$ 35	\$ 2	\$ 37
Expenditures				
Capital outlay - Shepard St. boat ramp	1,067,845	1,067,846	-	1,067,846
<b>Total expenditures</b>	<b>1,067,845</b>	<b>1,067,846</b>	<b>-</b>	<b>1,067,846</b>
<b>Revenue over (under) expenditures</b>	<b>(1,067,795)</b>	<b>(1,067,811)</b>	<b>2</b>	<b>(1,067,809)</b>
Other financing sources (uses)				
Issuance of debt	1,050,000	1,050,000	-	1,050,000
Transfer from General Fund	20,000	20,000	-	20,000
Capital Project Fund	(2,205)	-	(2,191)	(2,191)
<b>Total other financing sources (uses)</b>	<b>1,067,795</b>	<b>1,070,000</b>	<b>(2,191)</b>	<b>1,067,809</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 2,189</b>	<b>(2,189)</b>	<b>\$ -</b>
Fund balance, beginning			2,189	
Fund balance, ending			\$ -	

**Town of Morehead City, North Carolina  
Fire/EMS Station #2 Replacement Capital Project Fund**

**Schedule of Revenue, Expenditures, and Changes in Fund Balance  
Budget and Actual (Non-GAAP)  
From Inception and for the Year Ended June 30, 2013**

	Project Authorization	Prior Years	Actual Current Year	Project To Date
<b>Revenue</b>				
Restricted intergovernmental-USDA grant	\$ 200,000	\$ -	\$ 200,000	\$ 200,000
Interest revenue	-	(6,373)	74	(6,299)
Miscellaneous revenue - donations	-	-	400	400
<b>Total revenue</b>	<b>200,000</b>	<b>(6,373)</b>	<b>200,474</b>	<b>194,101</b>
<b>Expenditures</b>				
Capital outlay - Fire/EMS St. #2 replacement	2,819,000	2,049,184	633,180	2,682,364
Interest expense on Fire/EMS St. #2 replacement	-	-	7,677	7,677
<b>Total expenditures</b>	<b>2,819,000</b>	<b>2,049,184</b>	<b>640,857</b>	<b>2,690,041</b>
<b>Revenue under expenditures</b>	<b>(2,619,000)</b>	<b>(2,055,557)</b>	<b>(440,383)</b>	<b>(2,495,940)</b>
<b>Other financing sources</b>				
Issuance of debt	2,075,000	2,075,000	-	2,075,000
Transfer from Fire/EMS Fund	544,000	544,000	-	544,000
<b>Total other financing sources</b>	<b>2,619,000</b>	<b>2,619,000</b>	<b>-</b>	<b>2,619,000</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 563,443</b>	<b>(440,383)</b>	<b>\$ 123,060</b>
Fund balance, beginning			<b>563,443</b>	
Fund balance, ending			<b>\$ 123,060</b>	

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## ENTERPRISE FUNDS

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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, 2013

With Comparative Actual Amounts For The Year Ended June 30, 2012

(Page 1 of 3)

	2013		Variance with Final Budget	2012
	Budget	Actual		Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 2,360,000	\$ 2,472,207	\$ 112,207	\$ 2,263,122
Water charges	2,560,000	2,668,088	108,088	2,476,309
Tap fees	13,500	19,988	6,488	19,110
Total charges for sales and services	4,933,500	5,160,283	226,783	4,758,541
Miscellaneous	265,000	290,858	25,858	293,251
<b>Total operating revenue</b>	<b>5,198,500</b>	<b>5,451,141</b>	<b>252,641</b>	<b>5,051,792</b>
Operating expenditures				
Cost of sales and services -				
Water, wells and pumping stations:				
Salaries, wages and employee benefits		48,483		-
Other		131,146		116,839
Repairs and maintenance		82,727		101,920
Capital Outlay		16,760		-
<b>Total cost of sales and services -         water, wells and pumping stations</b>	<b>392,350</b>	<b>279,116</b>	<b>113,234</b>	<b>218,759</b>
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits		682,647		727,987
Other		710,934		749,779
Repairs and maintenance		39,770		33,680
Capital outlay		35,621		-
<b>Total cost of sales and services - water         distribution and sewer collection</b>	<b>1,655,541</b>	<b>1,468,972</b>	<b>186,569</b>	<b>1,511,446</b>
Cost of sales and services -				
Lift stations and sewer mains:				
Other		74,178		73,866
Repairs and maintenance		69,192		76,535
Capital outlay		22,972		15,600
<b>Total cost of sales and services -         lift stations and sewer mains</b>	<b>174,800</b>	<b>166,342</b>	<b>8,458</b>	<b>166,001</b>

(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, 2013

With Comparative Actual Amounts For The Year Ended June 30, 2012

(Page 2 of 3)

	2013		Variance with Final Budget	2012
	Budget	Actual		Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits		\$ 426,698		\$ 391,364
Other		311,880		264,826
Repairs and maintenance		69,130		74,083
Capital outlay		32,849		5,075
<b>Total cost of sales and services -   wastewater treatment plant</b>	<b>\$ 939,600</b>	<b>840,557</b>	<b>\$ 99,043</b>	<b>735,348</b>
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits		153,486		154,084
Other		61,608		66,454
<b>Total cost of sales and services -   water billing and collection</b>	<b>231,109</b>	<b>215,094</b>	<b>16,015</b>	<b>220,538</b>
<b>Total operating expenditures</b>	<b>3,393,400</b>	<b>2,970,081</b>	<b>423,319</b>	<b>2,852,092</b>
<b>Operating revenue over operating expenditures</b>	<b>1,805,100</b>	<b>2,481,060</b>	<b>675,960</b>	<b>2,199,700</b>
Nonoperating revenue (expenditures)				
Interest revenue	28,200	24,414	(3,786)	31,761
Restricted intergovernmental	-	-	-	48,751
Interest and fiscal charges	(409,872)	(416,082)	(6,210)	(444,630)
Bond and installment agreement principal payments	(1,426,592)	(1,426,591)	1	(1,409,692)
<b>Total nonoperating expenditures</b>	<b>(1,808,264)</b>	<b>(1,818,259)</b>	<b>(9,995)</b>	<b>(1,773,810)</b>
<b>Revenue over (under) expenditures</b>	<b>(3,164)</b>	<b>662,801</b>	<b>665,965</b>	<b>425,890</b>

(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, 2013

With Comparative Actual Amounts For The Year Ended June 30, 2012

(Page 3 of 3)

	2013			2012
	Budget	Actual	Variance with Final Budget	Actual
Other financing sources (uses)				
Capital contributions	\$ 58,280	\$ 58,286	\$ 6	\$ 56,122
Interfund loan repayment		-	-	-
Transfers in	-	-	-	-
Transfers out:				
Water and Sewer Capital Project Funds	(330,000)	(190,999)	139,001	(106,125)
Water Treatment Capital Project Fund	-	-	-	(189,000)
Contingency	(142,136)	-	142,136	-
Fund balance appropriated	417,020	-	(417,020)	-
<b>Total other financing sources (uses)</b>	<b>3,164</b>	<b>(132,713)</b>	<b>(135,877)</b>	<b>(239,003)</b>
<b>Revenue and other sources over expenditures and other financing uses</b>	<b>\$ -</b>	<b>\$ 530,088</b>	<b>\$ 530,088</b>	<b>\$ 186,887</b>

Reconciliation of modified accrual basis to full accrual basis:

Revenue and other financing sources over expenditures and other financing uses	\$ 530,088	\$ 186,887
Depreciation	(1,498,918)	(1,462,806)
Note and installment agreement principal payment	1,426,591	1,409,692
Capitalized expenditures included in capital outlay and other expenditures	102,843	20,675
Transfer to Water and Sewer Capital Project Funds	190,999	295,125
Contributed capital from notes receivable	(59,326)	(56,480)
Repairs and maintenance expense from capital project funds	(104,624)	(138,093)
Contributed capital assets	90,917	-
Contributions-capital project funds	102,975	-
Interest expense in capital project funds	(122)	(926)
Intergovernmental revenue from capital projects	134,883	522,823
Interest earned from capital project funds	2,907	4,069
Loss on disposal of capital assets	(184)	(33,282)
Net other post employment benefit obligation	(19,431)	(21,992)
<b>Net income, full accrual basis</b>	<b>\$ 899,598</b>	<b>\$ 725,692</b>

**Town of Morehead City, North Carolina  
Solid Waste Fund**

**Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)  
Year Ended June 30, 2013  
With Comparative Actual Amounts for Year Ended June 30, 2012**

	2013			2012
	Budget	Actual	Variance, with Final Budget	Actual
<b>Revenue:</b>				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 920,000	\$ 920,217	\$ 217	\$ 897,145
Miscellaneous	100	1,459	1,359	1,363
<b>Total operating revenue</b>	<b>920,100</b>	<b>921,676</b>	<b>1,576</b>	<b>898,508</b>
<b>Operating expenditures:</b>				
Contracted Services		634,792		725,091
Salaries, wages and employee benefits		48,938		46,177
Operating		172,574		171,735
<b>Total operating expenditures</b>	<b>879,650</b>	<b>856,304</b>	<b>23,346</b>	<b>943,003</b>
<b>Operating revenue over (under) operating expenditures</b>	<b>40,450</b>	<b>65,372</b>	<b>24,922</b>	<b>(44,495)</b>
<b>Nonoperating revenue:</b>				
Interest revenue	200	368	168	375
Restricted intergovernmental	6,000	5,010	(990)	109,798
<b>Total nonoperating revenue</b>	<b>6,200</b>	<b>5,378</b>	<b>(822)</b>	<b>110,173</b>
<b>Revenue over expenditures</b>	<b>46,650</b>	<b>70,750</b>	<b>24,100</b>	<b>65,678</b>
<b>Other financing sources (uses)</b>				
Contingency	(46,650)	-	46,650	-
<b>Total other financing uses</b>	<b>(46,650)</b>	<b>-</b>	<b>46,650</b>	<b>-</b>
<b>Revenue and other financing sources over expenditures</b>	<b>\$ -</b>	<b>\$ 70,750</b>	<b>70,750</b>	<b>\$ 65,678</b>
<b>Reconciliation of modified accrual basis with full accrual basis:</b>				
Revenue and other financing sources over expenditures		\$ 70,750		\$ 65,678
Net other postemployment benefit obligation		350		350
Depreciation		(16,453)		(23,571)
<b>Net income, full accrual basis</b>		<b>\$ 54,647</b>		<b>\$ 42,457</b>

Town of Morehead City, North Carolina

Water and Sewer Capital Reserve Fund  
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts For The Year Ended June 30, 2012

	2013			2012
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Impact fees	\$ 120,000	\$ 98,891	\$ (21,109)	\$ 62,883
Interest	2,000	1,549	(451)	2,245
<b>Total revenue</b>	<b>122,000</b>	<b>100,440</b>	<b>(21,560)</b>	<b>65,128</b>
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(110,000)	(15,989)	94,011	(28,937)
Reserved for future appropriation	(12,000)	-	12,000	-
<b>Total other financing sources (uses)</b>	<b>(122,000)</b>	<b>(15,989)</b>	<b>106,011</b>	<b>(28,937)</b>
<b>Revenue and other financing sources         over other financing sources</b>	<b>\$ -</b>	<b>\$ 84,451</b>	<b>\$ 84,451</b>	<b>\$ 36,191</b>

Town of Morehead City, North Carolina

Water and Sewer Capital Project Fund  
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts For The Year Ended June 30, 2012

	2013			2012
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Interest	\$ -	\$ 7	\$ 7	\$ (33)
<b>Total revenue</b>	<b>-</b>	<b>7</b>	<b>7</b>	<b>(33)</b>
Expenditures				
Repair and extension	60,530	-	60,530	-
Engineering	-	-	-	18,258
Contracted services-mapping	50,000	50,000	-	-
Improvements	30,000	-	30,000	-
Sewer rehab pilot	40,000	15,989	24,011	8,875
Land purchase	30,000	-	30,000	-
Other equipment	100,000	5,985	94,015	-
Slip lining/I & I reduction	100,000	70,000	30,000	43,535
Lift station & force main repair	113,000	112,522	478	-
Well relining repair	40,000	16,000	24,000	20,061
SCADA/Well control system	50,000	29,942	20,058	44,333
<b>Total expenditures</b>	<b>613,530</b>	<b>300,438</b>	<b>313,092</b>	<b>135,062</b>
<b>Revenue over (under) expenditures</b>	<b>(613,530)</b>	<b>(300,431)</b>	<b>313,099</b>	<b>(135,095)</b>
Other financing sources				
Transfers in:				
Water and sewer fund	330,000	190,999	(139,001)	106,125
Water and Sewer capital reserve fund	110,000	15,989	(94,011)	28,937
Water and sewer rebatable capital reserve fund	80,000	-	(80,000)	-
WWTP capital project fund	14,130	14,070	(60)	-
Lift station improvements grant project fund	79,400	79,381	(19)	-
<b>Total other financing sources and (uses)</b>	<b>613,530</b>	<b>300,439</b>	<b>(313,091)</b>	<b>135,062</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 8</b>	<b>\$ 8</b>	<b>\$ (33)</b>

Town of Morehead City, North Carolina

Water and Sewer Rebatale Capital Reserve Fund  
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)  
 Year Ended June 30, 2013  
 With Comparative Actual Amounts For The Year Ended June 30, 2012

	2013			2012
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Contributed capital	\$ 5,000	\$ 5,056	\$ 56	\$ 7,264
Interest	500	362	(138)	582
<b>Total revenue</b>	<b>5,500</b>	<b>5,418</b>	<b>(82)</b>	<b>7,846</b>
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(80,000)	-	80,000	-
Fund balance appropriated	74,500	-	(74,500)	-
<b>Total other financing uses</b>	<b>(5,500)</b>	<b>-</b>	<b>5,500</b>	<b>-</b>
<b>Revenue over other         financing uses</b>	<b>\$ -</b>	<b>\$ 5,418</b>	<b>\$ 5,418</b>	<b>\$ 7,846</b>

Town of Morehead City, North Carolina

Water Treatment Capital Project Fund  
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Current Year	Project to Date
<b>Revenue</b>				
Restricted Intergovernmental				
ARRA funds (PWS)-debt forgiveness	\$ 1,500,000	\$ 1,385,895	\$ 114,105	\$ 1,500,000
ARRA funds/USDA-RDA grant	4,869,000	-	-	-
Interest	-	678	650	1,328
<b>Total revenue</b>	<b>6,369,000</b>	<b>1,386,573</b>	<b>114,755</b>	<b>1,501,328</b>
<b>Expenditures</b>				
Water treatment improvements	13,100,000	3,839,435	810,065	4,649,500
<b>Total expenditures</b>	<b>13,100,000</b>	<b>3,839,435</b>	<b>810,065</b>	<b>4,649,500</b>
<b>Revenue under expenditures</b>	<b>(6,731,000)</b>	<b>(2,452,862)</b>	<b>(695,310)</b>	<b>(3,148,172)</b>
<b>Other financing sources</b>				
Issuance of debt-ARRA funds (PWS)	1,500,000	1,385,895	114,105	1,500,000
Issuance of debt ARRA funds (USDA-RDA)	4,932,000	-	-	-
Issuance of bond anticipation notes	-	-	4,932,000	4,932,000
Transfer from water/sewer fund	299,000	299,000	-	299,000
<b>Total other financing sources</b>	<b>6,731,000</b>	<b>1,684,895</b>	<b>5,046,105</b>	<b>6,731,000</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ (767,967)</b>	<b>\$ 4,350,795</b>	<b>\$ 3,582,828</b>



Town of Morehead City, North Carolina

**Water Reuse Capital Project Fund**  
**Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)**  
**From Inception and for the Year Ended June 30, 2013**

	Project Authorization	Prior Years	Current Year	Project to Date
<b>Revenue</b>				
Restricted Intergovernmental				
CWMTF Reuse Grant	\$ 81,900	\$ 81,899	\$ -	\$ 81,899
Interest	-	3,987	99	4,086
<b>Total revenue</b>	<b>81,900</b>	<b>85,886</b>	<b>99</b>	<b>85,985</b>
<b>Expenditures</b>				
Water and sewer improvements	279,350	279,165	-	279,165
<b>Total expenditures</b>	<b>279,350</b>	<b>279,165</b>	<b>-</b>	<b>279,165</b>
<b>Revenue over (under) expenditures</b>	<b>(197,450)</b>	<b>(193,279)</b>	<b>99</b>	<b>(193,180)</b>
<b>Other financing sources</b>				
Transfer from water and sewer capital reserve	29,800	29,800	-	29,800
Transfer from water and sewer fund	227,000	227,000	-	227,000
Contingency	(59,350)	-	-	-
<b>Total other financing sources</b>	<b>197,450</b>	<b>256,800</b>	<b>-</b>	<b>256,800</b>
<b>Revenue and other financing sources over expenditures</b>	<b>\$ -</b>	<b>\$ 63,521</b>	<b>\$ 99</b>	<b>\$ 63,620</b>

Town of Morehead City, North Carolina

Water/Sewer Extensions Improvement Capital Project Fund  
 Statement of Revenue and Expenditures -Budget and Actual (Non-GAAP)  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Current Year	Project to Date
<b>Revenue</b>				
Restricted Intergovernmental				
Rural Center Grant - Vinings	\$ -	\$ 40,000	\$ -	\$ 40,000
Contributed Capital - Radio Island	713,616	713,618	-	713,618
Contributed Capital - SCYC	486,414	486,413	-	486,413
Contributed Capital - Mariners Point	827,795	827,795	-	827,795
Contributed Capital - Morgan Street	140,000	123,964	-	123,964
Contributed Capital - Vinings Apts.	393,587	342,213	(972)	341,241
Interest earned	73,709	76,614	179	76,793
<b>Total revenue</b>	<b>2,635,121</b>	<b>2,610,617</b>	<b>(793)</b>	<b>2,609,824</b>
<b>Expenditures</b>				
Water and sewer improvements	2,991,055	2,986,778	10,223	2,997,001
<b>Total expenditures</b>	<b>2,991,055</b>	<b>2,986,778</b>	<b>10,223</b>	<b>2,997,001</b>
<b>Revenue under expenditures</b>	<b>(355,934)</b>	<b>(376,161)</b>	<b>(11,016)</b>	<b>(387,177)</b>
<b>Other financing sources (uses)</b>				
Transfer to Water & Sewer	(182,128)	(182,128)	-	(182,128)
Contingency - Vinings	(32,159)	-	-	-
Contingency - Morgan Street	(7,314)	-	-	-
Transfers in:				
Water & Sewer Rebatable Capital Reserve	77,297	77,297	-	77,297
Radio Island Capital Project Fund	391,913	391,912	-	391,912
Water & Sewer Fund	176,500	176,500	-	176,500
Reserved for future appropriations	(68,175)	-	-	-
<b>Total other financing sources</b>	<b>355,934</b>	<b>463,581</b>	<b>-</b>	<b>463,581</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 87,420</b>	<b>\$ (11,016)</b>	<b>\$ 76,404</b>

Town of Morehead City, North Carolina

WWTP Improvement Capital Project Fund  
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Current Year	Project to Date
<b>Revenue</b>				
Interest	\$ 16,000	\$ 16,058	\$ (122)	\$ 15,936
<b>Total revenue</b>	<b>16,000</b>	<b>16,058</b>	<b>(122)</b>	<b>15,936</b>
<b>Expenditures</b>				
Water and sewer improvements	15,838,870	15,838,866	-	15,838,866
<b>Total expenditures</b>	<b>15,838,870</b>	<b>15,838,866</b>	<b>-</b>	<b>15,838,866</b>
<b>Revenue under expenditures</b>	<b>(15,822,870)</b>	<b>(15,822,808)</b>	<b>(122)</b>	<b>(15,822,930)</b>
<b>Other financing sources</b>				
Issuance of debt	15,000,000	14,456,702	543,298	15,000,000
Transfer from Water/Sewer Cap. Res. Fund	675,000	675,000	-	675,000
Transfer from Water/Sewer Fund	162,000	162,000	-	162,000
Transfer to water/sewer Cap. Project Fund	(14,130)	-	(14,070)	(14,070)
<b>Total other financing sources</b>	<b>15,822,870</b>	<b>15,293,702</b>	<b>529,228</b>	<b>15,822,930</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ (529,106)</b>	<b>\$ 529,106</b>	<b>\$ -</b>

Town of Morehead City, North Carolina

Lift Station Improvements Grant Project Fund  
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)  
 From Inception and for the Year Ended June 30, 2013

	Project Authorization	Prior Years	Current Year	Project to Date
<b>Revenue</b>				
Restricted Intergovernmental				
Rural Center Grant	\$ 464,300	\$ 464,271	\$ -	\$ 464,271
ARRA funds-debt forgiveness	645,000	624,222	20,778	645,000
Interest	50	(15)	61	46
<b>Total revenue</b>	<b>1,109,350</b>	<b>1,088,478</b>	<b>20,839</b>	<b>1,109,317</b>
<b>Expenditures</b>				
Lift station improvements	1,724,950	1,724,936	-	1,724,936
<b>Total expenditures</b>	<b>1,724,950</b>	<b>1,724,936</b>	<b>-</b>	<b>1,724,936</b>
<b>Revenue over (under) expenditures</b>	<b>(615,600)</b>	<b>(636,458)</b>	<b>20,839</b>	<b>(615,619)</b>
<b>Other financing sources (uses)</b>				
Issuance of debt-ARRA funds	645,000	624,222	20,778	645,000
Transfer to Water/Sewer Annual Cap. Proj. Fund	(79,400)	-	(79,381)	(79,381)
Transfer from Water/Sewer Fund	50,000	50,000	-	50,000
<b>Total other financing sources (uses)</b>	<b>615,600</b>	<b>674,222</b>	<b>(58,603)</b>	<b>615,619</b>
<b>Revenue and other financing sources     over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 37,764</b>	<b>\$ (37,764)</b>	<b>\$ -</b>

## **OTHER FINANCIAL INFORMATION**

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**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**
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**Town of Morehead City, North Carolina**

**Schedule of Ad Valorem Taxes Receivable  
June 30, 2013**

Year Ended June 30	Uncollected Balance June 30, 2012	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2013
2012-2013	\$ -	\$ 5,454,703	\$ 5,373,750	\$ 80,953
2011-2012	83,182	(1,499)	65,389	16,294
2010-2011	7,487	(260)	1,239	5,988
2009-2010	5,604	(3,818)	29	1,757
2008-2009	5,919	-	30	5,889
2007-2008	1,712	-	-	1,712
2006-2007	8,785	(7,233)	286	1,266
2005-2006	1,004	-	-	1,004
2004-2005	1,657	-	-	1,657
2003-2004	22	-	-	22
2002-2003	210	-	-	210
2001-2002	224	(224)	-	-
	<u>\$ 115,806</u>	<u>\$ 5,441,669</u>	<u>\$ 5,440,723</u>	<u>116,752</u>

Less allowance for doubtful accounts

(42,083)

\$ 74,669

Reconciliation with revenues:

Taxes - Ad valorem, General Fund	\$ 5,405,814
Net collection adjustments	1,916
Amounts adjusted for tax discount	57,700
Less penalties and interest collected, net	<u>(24,707)</u>
Total collections and credits	<u>\$ 5,440,723</u>

**Town of Morehead City, North Carolina**

**Analysis of Current Tax Levy  
For the Year Ended June 30, 2013**

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 1,883,638,360	0.285	\$ 5,368,370	\$ 5,168,588	\$ 199,782
Late listing penalties			3,922	3,922	-
<b>Total</b>	<b>1,883,638,360</b>		<b>5,372,292</b>	<b>5,172,510</b>	<b>199,782</b>
Discoveries:					
Current year taxes	33,448,526	0.285	95,328	95,328	-
Prior year taxes	2,084,504	0.220	4,586	4,586	-
Prior year taxes	103,775	0.380	394	394	-
Other adjustments	-		754	754	-
<b>Total</b>	<b>35,636,805</b>		<b>101,062</b>	<b>101,062</b>	<b>-</b>
Abatements					
Current year taxes	6,375,225	0.285	18,170	13,083	5,087
Prior year taxes	-	0.220	-	-	-
Prior year taxes	103,775	0.380	394	394	-
Other adjustments	-	-	87	87	-
<b>Total</b>	<b>6,479,000</b>		<b>18,651</b>	<b>13,564</b>	<b>5,087</b>
Total property valuation	<u>\$ 1,912,796,165</u>				
Net levy			5,454,703	5,260,008	194,695
Uncollected taxes at June 30, 2013			80,953	54,684	26,269
Current year's taxes collected			<u>\$ 5,373,750</u>	<u>\$ 5,205,324</u>	<u>\$ 168,426</u>
Current levy collection percentage			<u>98.52%</u>	<u>98.96%</u>	<u>86.51%</u>



**STATISTICAL SECTION  
(Unaudited)**

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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.

<b>Contents</b>	<b>Page</b>
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time	104
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	116
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.	120
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.	126
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.	130

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Town of Morehead City, North Carolina

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

	2004	2005	2006	2007
Governmental activities:				
Net investment in capital assets	\$ 5,343,984	\$ 6,969,774	\$ 7,368,834	\$ 11,334,954
Restricted	206,075	59,502	67,442	17,982
Unrestricted	3,941,879	4,388,933	5,429,501	5,995,760
<b>Total governmental activities net position</b>	<b>\$ 9,491,938</b>	<b>\$ 11,418,209</b>	<b>\$ 12,865,777</b>	<b>\$ 17,348,696</b>
Business-type activities:				
Net investment in capital assets	\$ 16,648,998	\$ 16,859,995	\$ 18,392,723	\$ 21,246,564
Unrestricted	5,112,878	5,904,172	5,909,873	6,272,564
<b>Total business-type activities net position</b>	<b>\$ 21,761,876</b>	<b>\$ 22,764,167</b>	<b>\$ 24,302,596</b>	<b>\$ 27,519,128</b>
Primary government:				
Net investment in capital assets	\$ 21,992,982	\$ 23,829,769	\$ 25,761,557	\$ 32,581,518
Restricted	206,075	59,502	67,442	17,982
Unrestricted	9,054,757	10,293,105	11,339,374	12,268,324
<b>Total primary government net position</b>	<b>\$ 31,253,814</b>	<b>\$ 34,182,376</b>	<b>\$ 37,168,373</b>	<b>\$ 44,867,824</b>

2008	2009	2010	2011	2012	2013
\$ 14,487,313	\$ 20,038,930	\$ 27,397,697	\$ 28,415,541	\$ 28,409,590	<b>\$ 29,832,269</b>
44,853	49,870	49,870	2,604,295	3,029,403	<b>2,236,110</b>
6,110,999	5,319,695	3,541,078	2,902,265	3,318,508	<b>3,043,941</b>
<b>\$ 20,643,165</b>	<b>\$ 25,408,495</b>	<b>\$ 30,988,645</b>	<b>\$ 33,922,101</b>	<b>\$ 34,757,501</b>	<b>\$ 35,112,320</b>
\$ 22,276,242	\$ 23,703,651	\$ 25,608,344	\$ 27,669,652	\$ 28,868,465	<b>\$ 28,439,320</b>
6,784,898	6,663,538	5,696,777	6,339,091	5,908,427	<b>7,291,817</b>
<b>\$ 29,061,140</b>	<b>\$ 30,367,189</b>	<b>\$ 31,305,121</b>	<b>\$ 34,008,743</b>	<b>\$ 34,776,892</b>	<b>\$ 35,731,137</b>
\$ 36,763,555	\$ 43,742,581	\$ 53,006,041	\$ 56,085,193	\$ 57,278,055	<b>\$ 58,271,589</b>
44,853	49,870	49,870	2,604,295	3,029,403	<b>2,236,110</b>
12,895,897	11,983,233	9,237,855	9,241,356	9,226,935	<b>10,335,758</b>
<b>\$ 49,704,305</b>	<b>\$ 55,775,684</b>	<b>\$ 62,293,766</b>	<b>\$ 67,930,844</b>	<b>\$ 69,534,393</b>	<b>\$ 70,843,457</b>

Town of Morehead City, North Carolina

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

	2004	2005	2006	2007
Expenses:				
Governmental activities:				
General government	\$ 1,069,653	\$ 1,062,169	\$ 1,273,118	\$ 1,481,178
Public safety	4,180,633	4,481,960	4,683,022	5,070,021
Highways and streets	807,138	667,372	711,562	359,256
Economic and physical development	57,679	10,573	6,505	-
Cultural and recreation	713,564	702,866	719,270	408,615
Library	-	-	-	-
Interest on long-term debt	82,633	81,946	80,666	130,978
<b>Total governmental activities expenses</b>	<b>6,911,300</b>	<b>7,006,886</b>	<b>7,474,143</b>	<b>7,450,048</b>
Business-type activities:				
Water and sewer	2,985,469	2,720,098	3,342,171	3,586,411
Solid waste	754,519	677,425	848,223	774,657
<b>Total business-type activities expenses</b>	<b>3,739,988</b>	<b>3,397,523</b>	<b>4,190,394</b>	<b>4,361,068</b>
<b>Total primary government expenses</b>	<b>10,651,288</b>	<b>10,404,409</b>	<b>11,664,537</b>	<b>11,811,116</b>
Program revenue:				
Governmental activities:				
Charges for services:				
General government	311,478	315,251	339,861	86,862
Public safety	632,978	750,517	681,881	799,982
Highways and streets	-	27,390	-	46,515
Cultural and recreation	97,952	97,370	91,559	151,042
Library	-	-	-	-
Operating grants and contributions:				
General government	1,462	-	-	45,615
Public safety	451,368	423,771	468,919	209,490
Highways and streets	226,546	476,981	247,417	425,220
Cultural and recreation	8,125	115,000	298	292,621
Library	-	-	-	-
Capital grants and contributions:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways and streets	-	107,360	21,484	-
Economic and physical development	57,650	10,557	-	-
Cultural and recreation	314,000	202,300	16,194	277,419
Library	-	-	-	-
<b>Total governmental activities program revenue</b>	<b>2,101,559</b>	<b>2,526,497</b>	<b>1,867,613</b>	<b>2,334,766</b>
Business-type activities:				
Charges for services:				
Water and sewer	2,836,560	3,101,515	3,406,037	3,846,383
Solid waste	681,135	702,697	729,613	747,112
Operating grants and contributions	91,867	-	125,663	-
Capital grants and contributions	2,120,618	461,574	1,243,927	2,593,703
<b>Total business-type activities program revenue</b>	<b>5,730,180</b>	<b>4,265,786</b>	<b>5,505,240</b>	<b>7,187,198</b>
<b>Total primary government program revenue</b>	<b>7,831,739</b>	<b>6,792,283</b>	<b>7,372,853</b>	<b>9,521,964</b>

(Continued)

2008	2009	2010	2011	2012	2013
\$ 1,500,379	\$ 1,435,315	\$ 1,374,988	\$ 1,439,277	\$ 1,608,076	\$ 1,805,015
5,685,970	5,797,619	5,877,638	5,924,665	5,941,696	7,074,479
913,660	922,125	861,275	960,596	932,790	231,503
-	-	-	-	-	-
935,483	791,320	719,211	1,266,613	1,066,750	763,721
-	138,631	138,268	141,726	135,880	140,368
92,389	72,241	70,524	208,152	340,508	297,958
9,127,881	9,157,251	9,041,904	9,941,029	10,025,700	10,313,044
4,317,521	4,405,690	4,521,842	4,667,772	4,933,504	4,907,070
798,825	803,220	857,002	895,433	966,224	872,407
5,116,346	5,208,910	5,378,844	5,563,205	5,899,728	5,779,477
14,244,227	14,366,161	14,420,748	15,504,234	15,925,428	16,092,521
63,521	78,207	72,296	144,243	91,956	87,547
720,403	772,663	904,846	816,709	115,574	621,344
10,472	61,406	-	-	-	-
118,773	80,794	124,142	103,932	103,211	114,772
-	31,336	7,759	7,818	7,947	6,858
2,135	33,871	2,381	-	47,863	39,525
269,149	247,953	291,185	180,140	304,801	263,607
337,333	275,479	250,052	249,100	252,306	-
55,000	18,979	133,991	-	-	-
-	55,000	53,075	53,075	53,075	53,075
-	107,028	-	-	-	-
-	53,253	935,555	537,023	179,812	200,000
-	1,866,084	127,876	-	498,563	339,608
-	-	-	-	-	-
797,500	1,347,082	3,049,718	2,003,391	100,000	195,251
-	30,806	-	-	-	-
2,374,286	5,059,941	5,952,876	4,095,431	1,755,108	1,921,587
4,187,986	4,249,027	4,356,093	4,707,662	4,758,541	5,160,283
757,122	810,719	821,547	846,708	927,927	920,217
-	-	9,431	5,985	127,767	255,525
1,388,956	1,294,674	806,506	2,374,606	522,823	77,691
6,334,064	6,354,420	5,993,577	7,934,961	6,337,058	6,413,716
8,708,350	11,414,361	11,946,453	12,030,392	8,092,166	8,335,303

**Town of Morehead City, North Carolina**

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

	2004	2005	2006	2007
Net (expense) revenue:				
Governmental activities	(4,809,741)	(4,480,389)	(5,606,530)	(5,115,282)
Business-type activities	1,990,192	868,263	1,314,846	2,826,130
<b>Total primary government net expense</b>	<b>(2,819,549)</b>	<b>(3,612,126)</b>	<b>(4,291,684)</b>	<b>(2,289,152)</b>
General revenue and other changes in net position:				
Governmental activities:				
Taxes:				
Property taxes, levied for general purpose	3,965,340	4,093,114	4,398,749	4,581,817
Local option sales tax	1,409,986	1,456,317	1,586,576	1,779,655
Other taxes	263,264	207,783	238,514	277,341
Unrestricted intergovernmental	469,781	544,198	561,558	819,157
Investment earnings, unrestricted	39,880	105,248	268,701	372,072
Miscellaneous income, unrestricted	-	-	-	1,768,159
<b>Total governmental activities</b>	<b>6,148,251</b>	<b>6,406,660</b>	<b>7,054,098</b>	<b>9,598,201</b>
Business-type activities:				
Investment earnings	90,648	134,028	223,583	390,402
Miscellaneous income	-	-	-	-
<b>Total business-type activities</b>	<b>90,648</b>	<b>134,028</b>	<b>223,583</b>	<b>390,402</b>
<b>Total primary government</b>	<b>6,238,899</b>	<b>6,540,688</b>	<b>7,277,681</b>	<b>9,988,603</b>
Changes in net position:				
Governmental activities	1,338,510	1,926,271	1,447,568	4,482,919
Business-type activities	2,080,840	1,002,291	1,538,429	3,216,532
<b>Total primary government</b>	<b>\$ 3,419,350</b>	<b>\$ 2,928,562</b>	<b>\$ 2,985,997</b>	<b>\$ 7,699,451</b>

2008	2009	2010	2011	2012	2013
(6,753,595)	(4,097,310)	(3,089,028)	(5,845,598)	(8,270,592)	<b>(8,391,457)</b>
1,217,718	1,145,510	614,733	2,371,756	437,330	<b>634,239</b>
<b>(5,535,877)</b>	<b>(2,951,800)</b>	<b>(2,474,295)</b>	<b>(3,473,842)</b>	<b>(7,833,262)</b>	<b>(7,757,218)</b>
5,514,458	5,769,140	5,785,183	5,775,012	5,953,304	<b>5,411,825</b>
1,897,449	1,717,304	1,485,898	1,511,872	1,842,063	<b>2,006,679</b>
87,954	90,484	255,550	254,620	263,509	<b>93,464</b>
998,888	1,100,858	1,054,303	1,121,557	902,888	<b>1,089,515</b>
257,686	108,206	36,910	56,951	21,560	<b>11,551</b>
1,291,629	76,648	51,334	59,042	122,668	<b>133,242</b>
<b>10,048,064</b>	<b>8,862,640</b>	<b>8,669,178</b>	<b>8,779,054</b>	<b>9,105,992</b>	<b>8,746,276</b>
324,294	160,539	60,010	44,917	36,205	<b>27,689</b>
-	-	263,189	286,949	294,614	<b>292,317</b>
<b>324,294</b>	<b>160,539</b>	<b>323,199</b>	<b>331,866</b>	<b>330,819</b>	<b>320,006</b>
<b>10,372,358</b>	<b>9,023,179</b>	<b>8,992,377</b>	<b>9,110,920</b>	<b>9,436,811</b>	<b>9,066,282</b>
3,294,469	4,765,330	5,580,150	2,933,456	835,400	<b>354,819</b>
1,542,012	1,306,049	937,932	2,703,622	768,149	<b>954,245</b>
<b>\$ 4,836,481</b>	<b>\$ 6,071,379</b>	<b>\$ 6,518,082</b>	<b>\$ 5,637,078</b>	<b>\$ 1,603,549</b>	<b>\$ 1,309,064</b>

**Town of Morehead City, North Carolina**

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

	2004	2005	2006	2007
General Fund:				
Reserved	\$ 1,184,141	\$ 852,185	\$ 1,009,261	\$ 1,369,881
Unreserved	2,711,541	3,714,260	4,189,048	3,976,579
<b>Total General Fund</b>	<b>\$ 3,895,682</b>	<b>\$ 4,566,445</b>	<b>\$ 5,198,309</b>	<b>\$ 5,346,460</b>
All Other Governmental Funds:				
Reserved	\$ 343,467	\$ 635,137	\$ 855,428	\$ 536,360
Unreserved, reported in:				
Special revenue funds	268,446	(58,476)	529,141	49,027
Capital projects funds	(135,250)	(348,065)	413,970	633,262
<b>Total all other Government     Funds</b>	<b>\$ 476,663</b>	<b>\$ 228,596</b>	<b>\$ 1,798,539</b>	<b>\$ 1,218,649</b>



	Fiscal Year		
	2008	2009	2010
\$	1,295,931	\$ 1,058,644	\$ 1,356,068
	3,036,393	3,297,549	3,760,096
\$	<u>4,332,324</u>	<u>\$ 4,356,193</u>	<u>\$ 5,116,164</u>
\$	424,139	\$ 338,140	\$ 4,525,157
	433,635	849,191	63,131
	1,255,086	225,666	(2,253,538)
\$	<u>2,112,860</u>	<u>\$ 1,412,997</u>	<u>\$ 2,334,750</u>

**Town of Morehead City, North Carolina**

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

	<b>Fiscal Year</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
General Fund:			
Non Spendable	\$ 3,886	\$ 3,506	\$ 5,704
Restricted	1,493,214	1,306,003	1,396,236
Committed	131,979	131,979	131,979
Assigned	129,500	955,600	743,829
Unassigned	3,423,270	3,078,547	2,750,836
<b>Total General Fund</b>	<b>\$ 5,181,849</b>	<b>\$ 5,475,635</b>	<b>\$ 5,028,584</b>
All Other Governmental Funds:			
Non Spendable	\$ -	\$ 7,189	\$ 20,785
Restricted	742,896	1,723,400	1,208,059
Assigned	461,662	927,864	434,965
Unassigned	-	(145,110)	(783,374)
<b>Total all other Governmental     Funds</b>	<b>\$ 1,204,558</b>	<b>\$ 2,513,343</b>	<b>\$ 880,435</b>

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

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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)

	2004	2005	2006	2007
Revenue:				
Taxes	\$ 3,966,227	\$ 4,110,172	\$ 4,395,523	\$ 4,583,518
Other taxes and licenses	1,673,250	1,664,100	1,825,090	277,341
Intergovernmental	1,641,693	1,885,328	1,340,960	3,498,663
Permits and fees	455,714	498,911	419,236	497,046
Sales and services	430,637	455,927	527,171	538,688
Investment earnings	39,880	105,248	268,701	372,072
Miscellaneous	248,916	286,031	177,799	1,872,278
<b>Total revenue</b>	<b>8,456,317</b>	<b>9,005,717</b>	<b>8,954,480</b>	<b>11,639,606</b>
Expenditures:				
General government	1,104,425	1,059,147	1,195,511	1,364,735
Public safety	4,020,739	4,227,291	4,370,515	4,709,486
Highway and streets	789,368	686,881	707,944	775,807
Culture and recreation	1,445,323	524,676	568,144	649,516
Economic and physical development	57,679	10,573	(52)	-
Capital outlay	309,916	1,698,594	1,064,919	3,898,300
Debt service:				
Interest	89,151	86,257	76,668	123,669
Principal	200,855	289,602	388,603	549,832
<b>Total expenditures</b>	<b>8,017,456</b>	<b>8,583,021</b>	<b>8,372,252</b>	<b>12,071,345</b>
<b>Excess of revenue (under) expenditures</b>	<b>438,861</b>	<b>422,696</b>	<b>582,228</b>	<b>(431,739)</b>
Other financing sources (uses):				
Transfers in	1,443,388	1,270,354	1,117,104	3,068,632
Transfers out	(1,443,388)	(1,270,354)	(1,117,104)	(3,068,632)
Debt issued	385,000	-	1,619,579	-
<b>Total other financing sources</b>	<b>385,000</b>	<b>-</b>	<b>1,619,579</b>	<b>-</b>
<b>Net changes in fund balance</b>	<b>\$ 823,861</b>	<b>\$ 422,696</b>	<b>\$ 2,201,807</b>	<b>\$ (431,739)</b>
Debt service as a percentage of noncapital expenditures	3.76%	5.46%	6.37%	8.24%

2008	2009	2010	2011	2012	2013
\$ 5,510,995	\$ 5,766,103	\$ 5,752,282	\$ 5,794,269	\$ 5,921,562	\$ 5,405,814
87,954	285,374	255,550	254,620	263,509	93,464
4,115,879	3,674,288	4,609,859	5,594,738	3,595,747	4,149,263
296,788	250,492	130,440	207,628	119,754	193,414
566,135	680,616	683,340	708,283	657,197	1,170,479
257,686	108,206	37,179	56,951	21,560	11,551
380,096	193,977	155,857	165,862	154,852	133,242
11,215,533	10,959,056	11,624,507	12,782,351	10,734,181	11,157,227
1,493,602	1,302,666	1,118,017	1,272,341	1,316,704	1,329,077
5,368,924	5,518,315	5,618,063	5,550,763	5,603,595	5,814,771
814,348	771,565	715,181	839,748	811,191	840,581
813,027	757,067	645,897	774,498	822,249	797,993
-	-	-	-	-	-
2,617,912	2,669,623	7,587,018	5,274,968	1,601,481	2,879,010
97,371	79,404	61,200	196,232	297,089	300,644
460,274	536,410	247,407	5,223,696	276,913	281,816
11,665,458	11,635,050	15,992,783	19,132,246	10,729,222	12,243,892
(449,925)	(675,994)	(4,368,276)	(6,349,895)	4,959	(1,086,665)
2,270,721	1,831,074	2,088,594	2,371,207	1,565,000	2,553,133
(2,270,721)	(1,831,074)	(2,088,594)	(2,371,207)	(1,565,000)	(2,553,133)
330,000	-	6,050,000	4,808,000	2,075,000	-
330,000	-	6,050,000	4,808,000	2,075,000	-
\$ (119,925)	\$ (675,994)	\$ 1,681,724	\$ (1,541,895)	\$ 2,079,959	\$ (1,086,665)
6.16%	5.59%	3.67%	38.10%	6.29%	6.22%

**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
2004	792,471,863	128,599,744	21,544,709	942,616,316	0.0038	1,007,334,137	92.45%
2005	825,520,131	129,298,376	22,437,019	977,255,526	0.0038	1,104,771,797	86.62%
2006	891,984,091	152,464,411	19,185,995	1,063,634,497	0.0038	1,323,784,743	77.79%
2007	922,463,052	155,794,591	20,134,240	1,098,391,883	0.0038	1,715,353,314	60.44%
2008	1,989,594,948	185,678,265	29,112,844	2,204,386,057	0.0022	2,204,386,057	100.00%
2009	2,262,441,716	175,944,310	30,386,490	2,468,772,516	0.0022	2,505,560,186	98.40%
2010	2,122,207,558	179,711,084	32,984,173	2,334,902,815	0.0022	2,096,590,115	112.65%
2011	2,129,549,437	177,889,405	31,869,633	2,339,308,475	0.0022	2,382,103,664	98.03%
2012	1,681,511,072	184,162,834	30,263,614	1,895,937,520	0.00285	1,895,937,520	100.00%
<b>2013</b>	<b>1,697,292,892</b>	<b>185,708,092</b>	<b>29,795,181</b>	<b>1,912,796,165</b>	<b>0.00285</b>	<b>1,767,526,766</b>	<b>109.36%</b>

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 bills and collects property taxes for registered motor vehicles on behalf of the Town. The values reported above include property taxes billed and collected by the Town and County.

\* 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>
2004	0.380	0.420
2005	0.380	0.420
2006	0.380	0.420
2007	0.380	0.440
2008	0.220	0.230
2009	0.220	0.230
2010	0.220	0.230
2011	0.220	0.230
2012	0.285	0.300
<b>2013</b>	<b>0.285</b>	<b>0.290</b>

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, 2013			Fiscal Year Ending June 30, 2004		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
ITAC 192 LLC	\$ 22,732,511	1	1.23			
US Portfolio Two LLC	15,079,895	2	0.82			
Progress Energy Carolinas	13,899,906	3	0.75			
Morehead Plaza LLC ETAL	13,099,338	4	0.71			
Oceanside Yacht Club Dev. Inc.	11,917,706	5	0.65			
Old Towne Yacht Club Inc	11,037,348	6	0.60			
Wal Mart Real Est Business Trust	10,936,264	7	0.59	11,815,034	2	1.25
Southstar Holding MHC LLC ETAL	10,151,061	8	0.55			
Radio Island Marina Club Inc	8,846,000	9	0.48			
Vinings at Morehead LLC	8,833,919	10	0.48			
USPG Portfolio One LLC				12,554,696	1	1.33
Carolina Power & Light Co				9,405,632	3	1.00
Carolina Telephone				8,788,144	4	0.93
Southstar Holding MHC LLC				8,424,749	5	0.89
Harborview Enterprises				7,048,000	6	0.75
Maritime Hotel LTD Partnership				5,069,707	7	0.54
Morehead Plaza LLC				5,040,983	8	0.53
Carteret Investment Association				4,277,833	9	0.45
Bally Refrigerated Boxes Inc.				3,809,713	10	0.40
	<u>\$ 126,533,948</u>		<u>6.86</u>	<u>\$ 76,234,491</u>		<u>8.07</u>

**NOTES:**

1 Values reported above include amounts for property billed and collected by the Town. It excludes values for registered motor vehicles billed and collected by Carteret County 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
2004	\$ 3,377,760	\$ 3,358,402	99.43%	\$ 18,766	\$ 3,377,168	99.98%
2005	3,508,734	3,496,785	99.66%	10,282	3,507,067	99.95%
2006	3,814,505	3,802,159	99.68%	11,332	3,813,491	99.97%
2007	3,925,936	3,914,535	99.71%	10,038	3,924,573	99.97%
2008	4,671,447	4,647,776	99.49%	17,644	4,665,420	99.87%
2009	4,986,367	4,956,797	99.41%	19,218	4,976,015	99.79%
2010	5,014,647	4,970,086	99.11%	40,169	5,010,255	99.91%
2011	5,015,615	4,982,951	99.35%	29,903	5,012,854	99.94%
2012	5,240,988	5,181,661	98.87%	47,003	5,228,664	99.76%
<b>2013</b>	<b>5,260,008</b>	<b>5,205,324</b>	<b>98.96%</b>	-	5,205,324	<b>98.96%</b>

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
2004	\$ -	\$ 1,954,733	\$ -	\$ -
2005	-	1,665,131	-	-
2006	-	2,488,222	377,000	30,885
2007	-	1,954,749	370,412	21,245
2008	-	1,841,615	363,553	10,965
2009	-	1,323,313	356,411	-
2010	-	7,133,343	348,974	-
2011	-	6,725,391	341,230	-
2012	-	8,531,541	333,167	-
<b>2013</b>	-	<b>8,258,121</b>	<b>324,771</b>	-

**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

General Obligation Bonds	Installment Contracts	Notes Payable	Total Primary Government	Population Estimate	Total Debt Per Capita	Total debt as Percentage of Personal Income
\$ -	\$ 4,983,032	\$ 2,865,693	\$ 9,803,458	7,825	\$ 1,253	0.54%
-	4,569,789	2,861,088	9,096,008	8,092	1,124	0.47%
-	3,294,514	2,726,088	8,916,709	8,209	1,086	0.44%
-	2,951,334	5,283,522	10,581,262	8,390	1,261	0.49%
-	2,593,358	13,811,891	18,621,382	8,691	2,143	0.78%
-	3,858,590	16,667,915	22,206,229	8,763	2,534	0.90%
-	2,341,124	16,774,299	26,597,740	8,830	3,012	1.03%
-	1,987,380	17,188,307	26,242,308	8,693	3,019	0.99%
-	1,620,429	16,318,704	26,803,841	8,810	3,042	N/A
-	<b>1,236,578</b>	<b>20,886,144</b>	<b>30,705,614</b>	<b>9,163</b>	<b>3,351</b>	<b>N/A</b>

**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
2004	\$ -	\$ 1,007,334,137	0.00%	7,825	-
2005	-	1,104,771,797	0.00%	8,092	-
2006	-	1,318,306,906	0.00%	8,209	-
2007	-	1,715,353,314	0.00%	8,390	-
2008	-	2,119,387,966	0.00%	8,691	-
2009	-	2,506,054,275	0.00%	8,763	-
2010	-	2,096,590,115	0.00%	8,830	-
2011	-	2,382,103,664	0.00%	8,693	-
2012	-	1,895,937,520	0.00%	8,810	-
<b>2013</b>	-	<b>1,912,796,165</b>	<b>0.00%</b>	<b>9,163</b>	-

**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, 2013  
(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	\$ 44,645,000	13.35%	\$ 5,959,387
<b>Subtotal, overlapping debt</b>	<u>\$ 44,645,000</u>		<u>5,959,387</u>
Town direct debt	-	100.00%	8,582,892
<b>Total direct and overlapping debt</b>			<u><u>\$ 14,542,279</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)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Debt limit	\$ 75,409,305	\$ 76,180,442	\$ 85,090,760	\$ 87,871,351
Total net debt applicable to limit	-	-	-	-
Legal debt margin	<u>\$ 75,409,305</u>	<u>\$ 76,180,442</u>	<u>\$ 85,090,760</u>	<u>\$ 87,871,351</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%

**Legal Debt Margin Calculation for Fiscal Year 2013**

Total assessed valuation	\$ 1,912,796,165
Debt limit (8% of assessed value)	<u>153,023,693</u>
Legal debt margin	<u><u>\$ 153,023,693</u></u>

2008	2009	2010	2011	2012	2013
\$ 176,350,885	\$ 186,156,521	\$ 186,792,225	\$ 187,144,678	\$ 151,675,002	\$ <b>153,023,693</b>
-	-	-	-	-	-
<u>\$ 176,350,885</u>	<u>\$ 186,156,521</u>	<u>\$ 186,792,225</u>	<u>\$ 187,144,678</u>	<u>\$ 151,675,002</u>	<u>\$ <b>153,023,693</b></u>
0.00%	0.00%	0.00%	0.00%	0.00%	<b>0.00%</b>

**Town of Morehead City, North Carolina**

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

Fiscal Year Ending June 30,	Population (1)	Median Age (1)	Carteret County Public School Enrollment (2)	Unemployment Rate (3)	Per Capita Personal Income (4)	Personal Income (4)
2004	7,825	44.64	8,181	5.4%	\$ 29,177	\$ 1,803,484
2005	8,092	45.19	8,237	5.0%	30,961	1,945,862
2006	8,209	N/A	8,056	4.6%	32,086	2,029,585
2007	8,390	N/A	8,185	4.5%	34,241	2,162,444
2008	8,691	N/A	8,371	4.3%	37,796	2,401,852
2009	8,763	N/A	8,295	7.4%	38,455	2,477,362
2010	8,830	N/A	8,353	8.4%	38,728	2,583,758
2011	8,693	N/A	8,491	8.5%	39,174	2,639,299
2012	8,810	N/A	8,540	9.3%	N/A	N/A
<b>2013</b>	<b>9,163</b>	<b>N/A</b>	<b>8,307</b>	<b>8.5%</b>	<b>N/A</b>	<b>N/A</b>

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 Seven Years Ago  
(Unaudited)**

Employer	2013			2006*		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Carteret County General Hospital	500-999	1	N/A	1000-1499	1	N/A
Carteret County Board of Education	250-499	2	N/A	250-499	4	N/A
Wal-mart Associates, Inc.	250-499	2	N/A	499-999	2	N/A
Carteret Community College	250-499	2	N/A	250-499	3	N/A
Big Rock Sports, LLC	250-499	2	N/A	250-499		N/A
Town of Morehead City	100-249	3	N/A	100-249	7	N/A
Refrigerated Boxes, Inc.	100-249	3	N/A	100-249	5	N/A
Belks, Inc.	100-249	3	N/A	100-249	9	N/A
Sanitary Fish Market & Restaurant	100-249	3	N/A			N/A
Harborview Healthcare	100-249	3	N/A	0-99	10	N/A
Lowes Home Improvement				100-249	6	N/A
Creative Outlet				100-249	8	N/A

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.
- \* Information not available before 2006

**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									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Government:										
Administration	5	5	5	5	4	4	4	4	4	4
Finance	7	6	6	6	6	6	6	6	6	6
Building & Grounds	5	5	7	7	7	8	6	6	6	5
Garage	2	2	1	1	1	1	1	1	1	1
Public Safety:										
Police	47	45	45	53	51	51	48	48	47	48
Fire/EMS	35	34	34	34	33	33	27	21	21	20
Planning & Inspections	7	6	6	7	7	7	7	7	6	5
Transportation:										
Streets	9	9	9	9	10	10	9	9	9	9
Recreation & Culture:										
Recreation	7	6	8	8	8	8	7	7	7	7
Parks	3	3	1	1	1	0	0	0	0	0
Library	5	4	4	4	4	4	4	2	2	2
Water & Sewer:										
Billing & collections	4	4	4	4	4	4	4	3	3	3
Wells & water treatment	1	-	-	-	-	-	-	-	-	-
Water Distbr. & sewer collect.	14	15	15	14	14	14	14	13	13	13
Wastewater treatment	8	7	7	7	6	6	5	5	5	5
Solid Waste:										
Operations	1	1	1	1	1	1	1	1	1	1
<b>TOTAL</b>	<b>160</b>	<b>152</b>	<b>153</b>	<b>161</b>	<b>157</b>	<b>157</b>	<b>143</b>	<b>133</b>	<b>131</b>	<b>129</b>

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**Town of Morehead City, North Carolina**

**Operating Indicators By Function/Program**

**Last Ten Fiscal Years**

**(Unaudited)**

Function/Program	Calendar Year			
	2004	2005	2006	2007
Function/Program				
Public Safety				
Police calls dispatched ##	60,180	92,714	97,205	98,801
Number of building permits issued ##	852	1,030	1,137	1,000
Construction value of building permits issued \$	60,409,802	\$ 63,685,536	\$ 85,272,028	\$ 94,425,714
Fire/EMS area served in square miles ##	12.25	12.47	12.51	14.17
Fire calls answered ##	786	855	1,156	814
EMS calls answered ##	1,835	1,979	2,378	1,433
Highways and Streets				
Miles of streets maintained **	43.28	43.30	44.11	44.11
Water/Sewer				
Number of customers served **	4,674	4,588	5,052	5,218
Daily avg. gallons water consumption ##	1,257,900	1,301,000	1,284,000	1,289,000
Daily avg. gallons waste water treated ##	1,827,000	1,544,903	1,358,846	1,416,000
Sanitation				
Solid waste collected annually (tons) **	3,395	3,565	3,611	3,733
Recyclables collected annually (tons) **	301	325	366	321

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

2008	2009	2010	2011	2012	2013
96,127	98,291	84,586	81,015	72,351	<b>72,194</b>
953	890	813	943	1,050	<b>1,256</b>
\$ 48,035,938	\$ 27,011,019	\$ 25,341,471	\$24,851,031	\$ 38,126,292	<b>\$ 21,528,398</b>
N/A	14.20	14.20	14.20	15.73	<b>15.73</b>
772	807	727	966	1,015	<b>762</b>
1,619	1,665	1,893	1,801	2,058	<b>2,261</b>
47.15	49.38	49.56	49.82	50.27	<b>50.27</b>
5,299	5,322	5,299	5,323	5,375	<b>5,419</b>
1,254,000	1,212,000	1,244,000	1,209,000	1,208,000	<b>1,163,000</b>
1,321,000	1,156,000	1,329,000	1,199,000	1,169,000	<b>1,121,000</b>
3,392	3,293	3,246	3,235	3,204	<b>3,077</b>
369	434	398	397	398	<b>366</b>

**Town of Morehead City, North Carolina**

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

Function/Program	Calendar Year			
	2004	2005	2006	2007
General Government				
Number of cemeteries	3	3	3	3
Public Safety				
Number of police stations/substations	4	4	4	3
Number of patrol units	44	46	44	44
Number of Fire/EMS stations	2	2	2	3
Number of engines	5	3	4	5
Number of ambulances	2	2	3	3
Highways and Streets				
Miles of streets	43.28	43.30	44.11	44.11
Culture and Recreation				
Number of parks	9	9	9	10
Number of public water accesses	7	7	10	9
Park acreage	87.0	87.0	87.00	87.00
Tennis and multipurpose courts	8	8	8	8
Playgrounds	4	4	4	4
Ballfields	9	9	9	9
Number of libraries	1	1	1	1
Water/Sewer				
Miles of water mains	70.00	70.00	71.00	76.00
Miles of sanitary sewers	73.10	73.10	73.80	74.00
Number of water treatment plants	0	0	0	0
Number of treatment plants	1	2	2	2
Sanitation				
Number of yard waste trucks	1	2	2	2

Notes:

1) Information not available for items noted N/A.

2008	2009	2010	2011	2012	2013
3	3	3	3	3	<b>3</b>
3	3	4	4	4	<b>2</b>
44	44	52	52	50	<b>46</b>
4	4	4	4	4	<b>3</b>
6	5	5	5	5	<b>5</b>
3	3	3	3	4	<b>5</b>
47.15	49.38	49.56	49.82	50.27	<b>50.27</b>
13	13	16	16	16	<b>16</b>
19	19	22	22	22	<b>22</b>
74.00	74.00	76.00	76.00	76.00	<b>77.50</b>
7	7	7	7	7	<b>7</b>
4	4	4	4	5	<b>6</b>
8	10	11	11	11	<b>10</b>
1	1	1	1	1	<b>1</b>
78.82	82.04	83.25	83.25	83.25	<b>83.25</b>
76.95	79.14	79.50	79.50	79.50	<b>79.50</b>
0	0	0	0	1	<b>1</b>
2	2	2	2	2	<b>2</b>
2	2	2	2	2	<b>2</b>

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## **COMPLIANCE SECTION**

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

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**Independent Auditor's Report on  
Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina, as of and for the year ended June 30, 2013, 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 20, 2014. Our report contains an emphasis of matter paragraph regarding a restatement of prior year fund balance.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Costs as Item 13-1 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

## **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 results 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 the 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.

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned above the typed address and date.

Morehead City, North Carolina  
January 20, 2014



**Independent Auditor's Report  
On Compliance for Each Major Federal Program  
And on Internal Control Over Compliance in  
Accordance with OMB Circular A-133 and the  
State Single Audit Implementation Act**

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

**Report on Compliance for Each Major Federal Program**

We have audited Town of Morehead City, North Carolina's compliance with the types of compliance requirements described in the *OMB Circular A-133 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 programs for the year ended June 30, 2013. Town of Morehead City's major federal 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town of Morehead City's major federal 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; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Town of Morehead City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Town of Morehead City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Morehead City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City'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 a 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.

### Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliances and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*McGladrey LLP*

Morehead City, North Carolina  
January 20, 2014



**Independent Auditor's Report  
On Compliance For Each Major State Program  
And on Internal Control Over Compliance  
In Accordance With Applicable Sections of  
OMB Circular A-133 and the State Single Audit  
Implementation Act**

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

**Report on Compliance for its Major State Program**

We have audited Town of Morehead City, North Carolina's 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 the Town of Morehead City's major State programs for the year ended June 30, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its State programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Town of Morehead City'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; applicable sections of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, 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 Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination on Town of Morehead City's compliance.

### ***Opinion on Each Major State Program***

In our opinion, Town of Morehead City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

Management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Morehead City's internal control over compliance with the types of requirements that could have a direct and material effect on each major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City'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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State 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 the 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.

### **Purpose of This Report**

This 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 applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

*McGladrey LLP*

Morehead City, North Carolina  
January 20, 2014



**Town of Morehead City, North Carolina**

**Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2013**

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**Section 1. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial  
statements noted

       yes                      X   no

Federal Awards

Internal control over major Federal programs:

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

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

Any audit findings disclosed that are required to be  
reported in accordance with Section 510(a) of  
OMB Circular A-133?

       yes                      X   no

Identification of major Federal programs:

<u>CFDA #</u>	<u>Program Name</u>
10.780	USDA Community Facilities Loans and Grants (Community Programs) - ARRA
10.781	USDA Water and Waste Disposal Systems for Rural Communities - ARRA

(Continued)

**Town of Morehead City, North Carolina**

**Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2013**

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Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? Yes

State Awards

Internal control over major State 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 State programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act            Yes       X       no

Identification of Major State Programs:  
Non-State System Street-Aid Allocation (Powell Bill)  
Marine Resources Grant – Newport River Pier

**Section 2. Financial Statement Findings**

**Material Weakness**

**Finding 13-1**

Internal Control – Prior Period Adjustment

Criteria: Controls should be in place to ensure that transactions are accounted for in accordance with accounting principles generally accepted in the United States of America. Auditing standards indicate that a restatement of previously issued financial statements is a strong indicator of a deficiency in internal control over financial reporting.

Condition: The Town determined during the year ended June 30, 2013, that the receivable from the County for Fire/EMS services recorded as revenue in prior years had not been received and as such should not have been recorded as revenue in the fund financial statements.

Effect: The Fire/EMS Fund's fund balance at June 30, 2012, was overstated by \$515,906.

Cause: The Town did not correctly record a deferral for revenues not collected within 90 days after year-end.

Recommendation: We recommend that the Town review all receivables to determine if collected with 90 days after year-end.

Views of responsible officials: The Town of Morehead City identified this as an issue during the audit and will correctly record receivables and deferred inflows of resources in the future.

**Town of Morehead City, North Carolina**

**Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2013**

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**Section 3. Findings and Questioned Costs for Federal Awards**

None

**Section 4. Findings and Questioned Costs for State Awards**

None.

**Town of Morehead City, North Carolina**

**Corrective Action Plan  
For the Year Ended June 30, 2013**

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**Section 2. Financial Statement Findings**

**Finding 13-1**

Condition: Prior period adjustment

Contact Name: B. Ellen Sewell, Finance Officer

Corrective Action: Finance Officer will review all receivables to determine that they have been properly recorded as revenues or deferred inflows of resources.

Proposed completion date: Fiscal year ending June 30, 2014

**Section 3. Findings and Questioned Costs for Federal Awards**

No corrective action plan is required in the current year.

**Section 4. Findings and Questioned Costs for State Awards**

No corrective action plan is required in the current year.

**Town of Morehead City, North Carolina**

**Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2013**

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There are no prior audit findings (as that term is defined in OMB Circular A-133) that require reporting in this schedule.

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards  
For the Fiscal Year Ended June 30, 2013

Page 1 of 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
<b>Federal Awards:</b>					
US Department of Housing and Urban Development Pass through East Carolina Regional Housing Authority Public Housing Drug Elimination Program	14.854		\$ 35,000	\$ -	\$ -
US Department of Justice Equitable Sharing Program Pass through Carteret County Board of Education: School Resource Officer Total US Department of Justice	16.922 16.594	N/A	16,750 62,575 79,325	-	-
US Department of Agriculture Direct Programs: USDA Water and Waste Disposal Systems for Rural Communities - ARRA (Water Treatment Plants) USDA Community Facilities Loans and Grants (Community Programs) - ARRA Total US Department of Agriculture	10.781 10.780	N/A	M 722,521 M 633,180 1,355,701	-	-
US Department of Transportation Pass-through NC Department of Transportation Enhancement Grant - Sidewalk Safe Routes to School Safety Belt Performance Grants Total US Department of Transportation	20.205 20.205 20.609	NA	39,987 48,534 7,276 95,797	-	-
Environmental Protection Agency Pass through: NC Department of Environment and Natural Resources - Division of Water Quality ARRA Drinking State Revolving Loan Fund Total Environmental Protection Agency	66.468		87,544 87,544	-	-

(Continued)

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards (Continued)  
For the Fiscal Year Ended June 30, 2013

Page 2 of 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
<b>Federal Awards (Continued):</b>					
US Department of Homeland Security					
Pass through Dept of Crime Control and Public Safety					
Port Security Grant	97.056		\$ 65,575	\$ -	\$ -
COPS Universal Hiring Grant	97.710		30,510	-	-
Public Assistance Grant (FEMA)	97.036		41,823	10,456	7,279
Total US Department of Homeland Security			137,908	10,456	7,279
<b>State Awards:</b>					
NC Department of Environment and Natural Resources					
NC Public Beach & Coastal Waterfront Access Division of Marine Fisheries		N/A	-	191,262	-
Marine Resources Grant - Newport River Pier		N/A	M -	148,650	-
Total NC Department of Environment and Natural Resources			-	339,912	-
NC Department of Transportation					
Nonstate System Street Aid Allocation		N/A	M -	193,677	-
Total NC Department of Transportation			-	193,677	-
NC Department of Health and Human Services					
Division of Child Development					
Pass through Carteret County:					
Teen Court Grant		N/A	-	53,414	-
Total federal expenditures			<u>\$1,791,275</u>		
Total state expenditures				<u>\$ 597,459</u>	
Total local expenditures					<u>\$ 7,279</u>

See Notes to the Schedule of Expenditures of Federal and State Awards.  
M Indicates Major Program

## Town of Morehead City, North Carolina

### Notes to the Schedule of Expenditures of Federal and State Awards For the Year Ended June 30, 2013

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#### **Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Town of Morehead City, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **Note 2. 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 schedule of expenditures of federal and State Awards because there are no continuing requirements beyond the repayment of the loan balances in accordance with loan agreement provisions. The outstanding balances of the Safe Drinking Water Revolving Loan Fund, the Drinking Water Bond, the Clean Water Revolving Loan Fund, and the Clean Water State Revolving Loan Fund at June 30, 2013 were \$850,000, \$605,895, \$600,000, \$12,000,000, \$548,250, and \$1,350,000, respectively. The outstanding balances of the USDA train depot loan, the 911 Building loan, and Fire/EMS Station #2 at June 30, 2013 were \$324,771, \$4,703,121, and \$2,075,000, respectively.



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