

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Prepared by:

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

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INTRODUCTORY SECTION

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

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MOREHEAD CITY NORTH CAROLINA

Gerald A. Jones, Jr., Mayor



David S. Whitlow
City Manager

COUNCIL

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

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Morehead City, North Carolina 28557-4234
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November 24, 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, 2014. 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, 2014 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, 2014. 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 9,300 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 annual budget serves as the foundation for the Town's financial planning and control. The Town's formal annual budget process begins in January. The City Manager, Department Directors, and Town Council work over the next several months reviewing and refining Council goals and objectives for the upcoming year. Based on the outcome of this process, the annual budget is prepared and delivered to the Town Council in May. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than June 30, the close of the Town's fiscal year. The General Fund's legal budgetary control is at the functional level. It is at the fund level in all other funds. The City Manager is authorized to transfer funds within these limits without report to Council. Transfers between functions in the General Fund, between funds, and appropriation of Contingency in the annually adopted budget requires Council approval.

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

The estimated 2014 population for the Town of 9,331 represents a 2% increase from the 2013 estimate of 9,163. The Town encompasses approximately seven square miles and employs 163 full-time equivalent staff. Like many other locations, the Town was negatively impacted by the recession of December 2007 through June 2009, and the rate of growth slowed during that period. However, economic indicators including building permits, number of utility customers, and sales tax revenue point to a rebounding local economy.

Economic Conditions and Outlook

The information in the financial statements may be best understood when considered in the context of the environment in which the Town operates. Morehead City is located in a rural coastal county. The major industries are tourism and fishing. The main attractions are the area's beaches and water related activities. The county also enjoys a number of historical sites that serve as destinations for individuals and groups. The county's economy, while seasonal, is stabilized by being in close proximity to two Marine Corp bases and air stations at Cherry Point and Camp Lejeune, which provide substantial employment for the county. Both Carteret County and Morehead City play host to a vibrant marine science community. The NC State University Marine Sciences and Technology Center, UNC-Chapel Hill Institute of Marine Sciences, and the NC Division of Marine Fisheries are located in Morehead City. The Duke University Marine Laboratory and the NOAA National Marine Fisheries Service are located just outside of the city limits of the Town. The lack of dependence on manufacturing and high tech jobs has somewhat mitigated the impact of the negative economic situations that have faced other communities for the past several years. Carteret County had a 5.5% unemployment rate in June 2014 compared to 6.5% statewide and 6.3% nationally (not seasonally adjusted).

All indications are that the Town and the county will experience continued growth. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the Town limits and the extraterritorial jurisdiction in 2013 was \$26.8 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 long-time 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 first charges given the Manager was to develop a succession plan for department directors and other key personnel. The Council recognized that many employees were within a few years of retirement and that an improving economy would mean increased competition for human resources. The Town had been fortunate to retain many long-term personnel during the economic downturn. Like many other units, the Town had frozen pay rates for several years during the recession and the salary scale had fallen below market for numerous positions. Wage compression was also an issue as employees hired in prior to or early in the recession and who had had no opportunity for increases and new hires were paid essentially the same amount. The Manager immediately set to work, in conjunction with a consultant and the management team, to review and update job descriptions, the performance evaluation system, and the Town's salary schedule and pay plan. The Council endorsed a three year phased in approach to bring salary levels to market and a tax increase of \$.03 per \$100 of valuation was necessary to fund the increases in the governmental funds. Employees realized the first of the increases in July 2013.

An ongoing goal of the Council has been to develop programs and pursue projects that upgrade facilities and enhance the quality of life for citizens and visitors through the cooperative efforts of governmental units, the business community, nonprofit organizations, and individual citizens. 2013-2014 major initiatives undertaken in the governmental funds to meet this goal include improvements to "Jib" area, so named because of the likeness of the shape of the property to a jib sail, on the downtown waterfront. The first phase of the project included a plaza and fountain along with a scenic overlook and was completed during the year. Funding for the project was provided by the Town, grant funds from the State of North Carolina, and the Big Rock Foundation. In addition to a monetary contribution to the project, the Big Rock Foundation engaged a sculptor to create a life size blue marlin that appears to leap out of the fountain. Additionally, the Downtown Morehead City Revitalization Association engaged public participation by selling various sized engraved pavers on the plaza which will provide funding for future phases of the project.

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

Other capital improvements in the governmental funds included beginning the construction phase of a street project and completion of an elevator in the library to improve accessibility in the 85 year old building. Vehicles and equipment replacements were acquired to some replace older items.

In the Water/Sewer Fund, construction continued on the last two of three water treatment plants. 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 2014-2015 budget in June 2014. Property taxes provide over half of the revenues for the General Fund. The budget increased the property tax rate \$.015 per \$100 of valuation, from \$.315 to \$.330. Revenue from sales tax, permits and fees and restricted intergovernmental revenue were all projected to increase. Rate increases were budgeted for water and sewer charges. These increases were necessary to pay operating costs associated with these services and to provide adequate funds to pay for debt in the Water and Sewer Fund.

On the spending side, the emphasis was on funding the second of three wage increases implemented over a three year period as described above. 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 was funded in each the Police and Street Departments. Three new full time positions were added in the Fire/EMS Fund and a part-time administrative assistant position was upgraded to full-time. One new position was added in the Water/Sewer Fund in anticipation of the completion of the new water treatment facilities mentioned above. The Solid Waste Fund budget increased as a result of the Council's commitment to move forward with the purchase of new, larger, wheeled recycling containers for citizens. This effort is partially grant funded and will allow the Town to reduce collection from weekly to biweekly thereby reducing future operating costs. Other 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 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, 2013. This was the twenty fourth 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 LLP for their support in the preparation of this report.

Respectfully submitted,



B. Ellen Sewell, Finance Director

Town of Morehead City, North Carolina

**List of Principal Officials
June 30, 2014**

Town Council

Honorable G.A. "Jerry" Jones Jr
Mayor

Diane C. Warrender

William F. Taylor

George W. Ballou
Mayor Pro Tem

Harvey N. Walker, Jr.

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

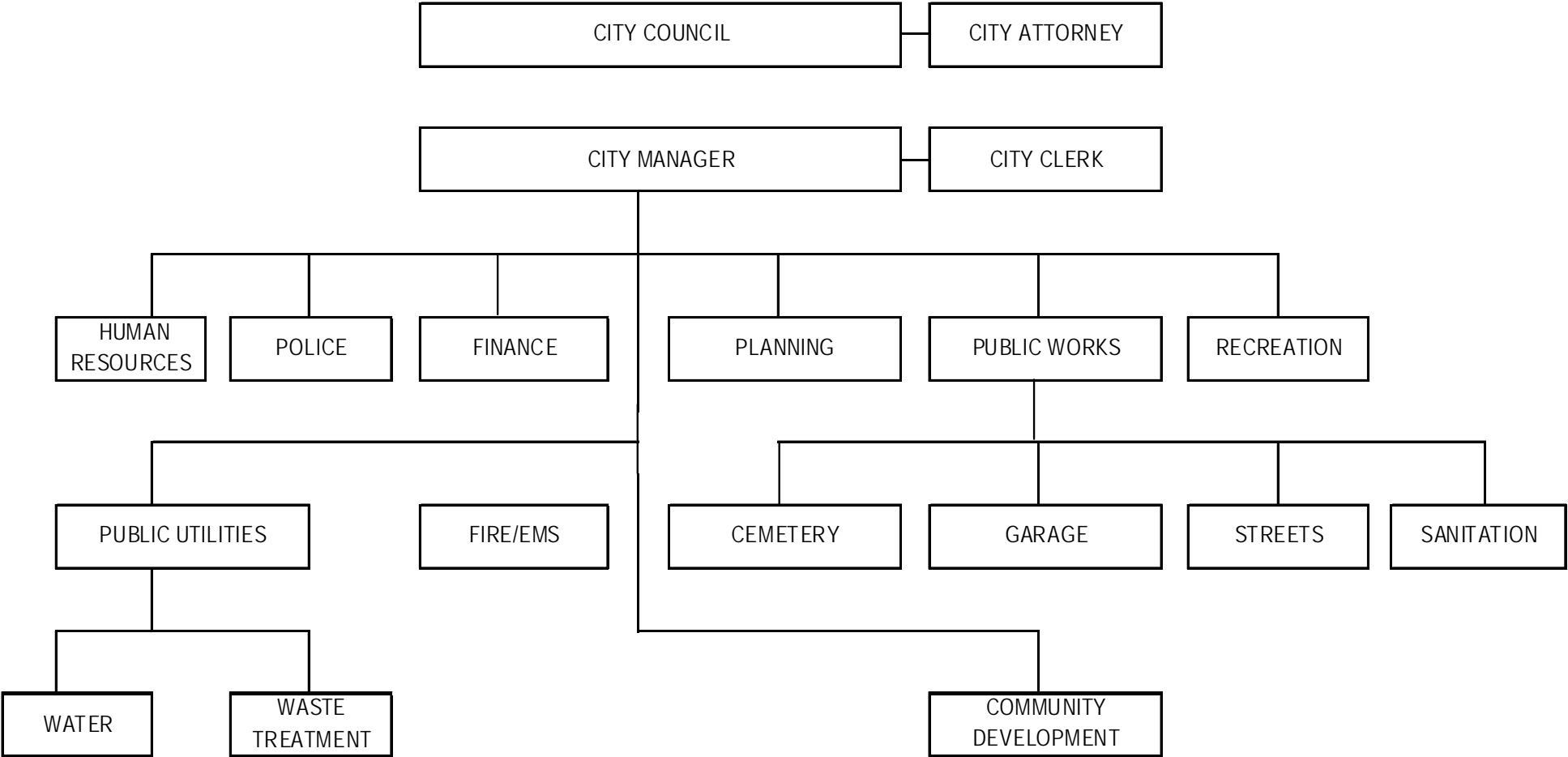
Linda V. Stabb
Planning and Inspection
Director

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, 2013

Executive Director/CEO

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FINANCIAL SECTION

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

To the Honorable Mayor and
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, 2014, 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, 2014, 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.

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 12 through 20 and 63 through 66, 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 November 24, 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.

McGladrey LLP

Morehead City, North Carolina
November 24, 2014

Town of Morehead City, North Carolina

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2014

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, 2014. 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.

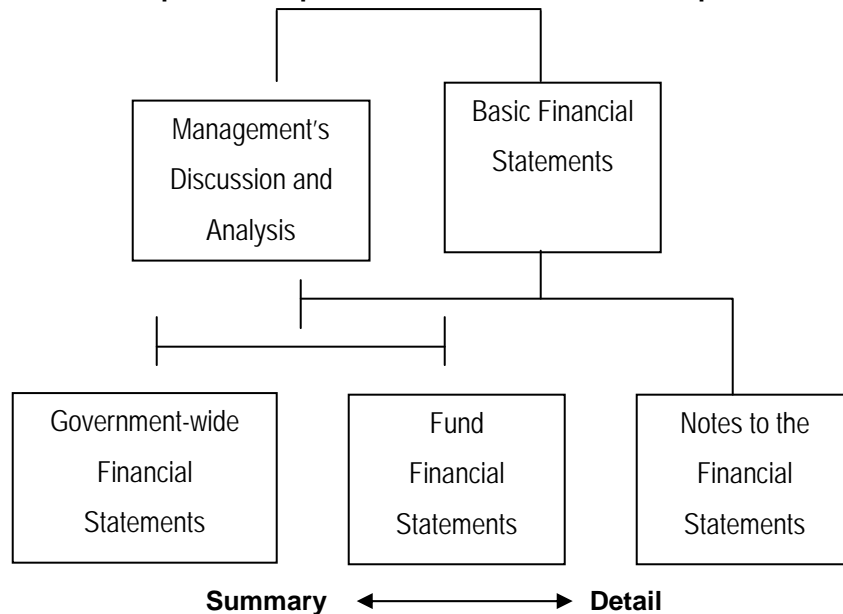
Financial Highlights

- The overall financial position of the Town improved in 2014 as evidenced by an increase in total net position of \$3.5 million. This increase was from both governmental (\$0.2 million) and business-type (\$3.3 million) activities.
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$74.4 million (net position). Of this amount, \$11.2 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 \$6.8 million, an increase of \$.4 million in comparison with the prior year. Approximately 53.5% or \$3.6 million is nonspendable, restricted, committed, or assigned.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$3.3 million or approximately 32.5% of General Fund expenditures and transfers out for the fiscal year, and is available for spending at the government's discretion.
- Governmental net capital assets decreased \$.2 million as depreciation charges and disposals exceeded asset acquisitions. Business-type net capital assets increased \$5.3 million primarily as a result of construction of water treatment facilities.
- The Town's total debt decreased by \$1.6 million during the current fiscal year. There were no new borrowings in the governmental funds or business-type activities, and principal repayments totaled \$0.2 million and 1.4 million, respectively, in these funds.

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 non-financial 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 21 – 23 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 24 – 35 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 37 of this report.

Financial Analysis of the Town as a Whole

Net Position: For the Town, assets exceeded liabilities by \$74.4 million at the close of the most recent fiscal year. A summary of the Town's net position at June 30, 2014 and 2013 is presented below:

Town of Morehead City's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,855,143	\$ 7,784,511	\$ 10,720,813	\$ 12,555,247	\$ 18,575,956	\$ 20,339,758
Capital assets	38,141,081	38,297,574	51,785,839	46,501,908	89,926,920	84,799,482
Total assets	45,996,224	46,082,085	62,506,652	59,057,155	108,502,876	105,139,240
Long-term liabilities outstanding	9,616,436	9,673,020	20,865,793	22,272,815	30,482,229	31,945,835
Other liabilities	944,898	1,223,540	2,605,155	1,044,744	3,550,053	2,268,284
Deferred inflows of resources	83,241	73,205	-	8,459	83,241	81,664
Total liabilities and deferred inflows of resources	10,644,575	10,969,765	23,470,948	23,326,018	34,115,523	34,295,783
Net position:						
Net investment in capital assets	29,797,242	29,832,269	31,102,147	28,439,320	60,899,389	58,271,589
Restricted	2,328,152	2,236,110	-	-	2,328,152	2,236,110
Unrestricted	3,226,255	3,043,941	7,933,557	7,291,817	11,159,812	10,335,758
Total net position	\$ 35,351,649	\$ 35,112,320	\$ 39,035,704	\$ 35,731,137	\$ 74,387,353	\$ 70,843,457

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 \$3.5 million for the fiscal year ended June 30, 2014. However, the largest portion (81.9%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A portion of the Town's net position (3.1%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$11.2 million (15.0%) is unrestricted.

Net position of the governmental activities increased \$.2 million, or .6 percent, to \$35.4 million. \$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.). \$3.2 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 \$3.3 million, or 9.2 percent, to \$39.0 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, 2014 and 2013:

Town of Morehead City's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenue:						
Program revenue:						
Charges for services	\$ 1,397,341	\$ 830,521	\$ 6,413,733	\$ 6,080,500	\$ 7,811,074	\$ 6,911,021
Operating grants and contributions	630,069	356,207	14,853	255,525	644,922	611,732
Capital grants and contributions	421,051	734,859	2,447,316	77,691	2,868,367	812,550
General revenue:						
Property taxes	6,110,807	5,411,825	-	-	6,110,807	5,411,825
Other taxes	2,057,060	2,100,143	-	-	2,057,060	2,100,143
Grants and contributions not restricted to specific programs	1,118,241	1,089,515	-	-	1,118,241	1,089,515
Other	259,691	144,793	356,155	320,006	615,846	464,799
Total revenue	11,994,260	10,667,863	9,232,057	6,733,722	21,226,317	17,401,585
Expenses:						
General government	1,787,898	1,805,015	-	-	1,787,898	1,805,015
Public safety	7,315,678	6,441,299	-	-	7,315,678	6,441,299
Highways and streets	1,019,054	864,683	-	-	1,019,054	864,683
Culture and recreation	1,159,643	763,721	-	-	1,159,643	763,721
Library	158,508	140,368	-	-	158,508	140,368
Interest on long-term debt	314,150	297,958	-	-	314,150	297,958
Water and sewer	-	-	5,028,282	4,907,070	5,028,282	4,907,070
Solid waste	-	-	899,208	872,407	899,208	872,407
Total expenses	11,754,931	10,313,044	5,927,490	5,779,477	17,682,421	16,092,521
Increase in net position	239,329	354,819	3,304,567	954,245	3,543,896	1,309,064
Net position, July 1	35,112,320	34,757,501	35,731,137	34,776,892	70,843,457	69,534,393
Net position, June 30	\$ 35,351,649	\$ 35,112,320	\$ 39,035,704	\$ 35,731,137	\$ 74,387,353	\$ 70,843,457

Total government-wide revenue of \$21.2 million was primarily derived from charges for services (36.8%), property taxes (28.8%) and capital grants and contributions (13.5%). The total expenses of all programs were \$17.7 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 41.4% and water and sewer for 28.4%.

Governmental Activities

Governmental activities increased the Town's net position by \$0.2 million, and accounted for 6.8% of the total growth in the net position of the Town of Morehead City. Key elements related to governmental activities are as follows:

- Revenues increased \$1,326,000 (12.4%) compared to the previous year.
- Property taxes increased \$699,000 over the preceding year, primarily as a result of an increase in the tax rate.
- Charges for services increased \$567,000 due to the prior year write off of uncollectible contracted services receivable.
- Expenses increased approximately \$1,442,000 (14.0%) compared to the prior period as a result of implementation of phase 1 of compensation plan, 3 new positions in Fire and EMS, 1 new position in Public Works and 1 new position in Police. but were still less than revenue.

Business-type Activities

Business-type activities increased the Town of Morehead City's net position by \$3.3 million, accounting for 93.2% of the total growth in the government's net position. Key elements of these activities are as

follows:

- Capital grant revenue and contributions were \$2,370,000 more than the previous year. The majority of the increase, or \$2,157,000 was related to grant funding for construction of water treatment facilities. The balance was from development related water and sewer capital contributions.
- Charges for services in the Water and Sewer and Solid Waste Funds increased by approximately \$333,000 or a 5.5% increase over the previous year. Water and sewer rates increased midway through the year and accounted for all but a negligible amount of the increase.
- The Water and Sewer Fund expenses increased \$121,000 or 2.5% from the preceding year.
- Solid Waste fund revenue and expenses were essentially flat.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Morehead City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3.3 million, while total fund balance was \$5.9 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 32.5% of total General Fund expenditures and transfers out of \$10.1 million, while total fund balance represents 58.6% 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, 2014, the governmental funds of the Town of Morehead City reported a combined fund balance of \$6.8 million, up from \$6.4 million the previous year. The General Fund fund balance increased \$0.7 million. This increase is mainly attributable to increased property tax revenue and a reduction in net transfers when compared to the prior year. Revenue and expenditures increased \$1.2 million and \$0.7 million, respectively. Increased transfers of \$.3 million to the Fire/EMS Fund were offset by \$.8 million decline in transfers to capital project funds resulting in a net decrease in transfers of \$.5 million compared to the prior year. The fund balance in the Fire/EMS Fund increased \$0.2 million largely because of the increased transfer from the General Fund and also because of decreased capital spending when compared to the preceding year. The fund balance in the Major and Non-Major Capital Project Funds decreased \$0.5 million primarily due to completion of several projects.

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 \$493,000 in the General Fund. The most significant favorable variances were in ad valorem taxes and sales tax included in unrestricted intergovernmental revenue. 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 in the completion of Street-related capital outlay.

Proprietary Funds. Proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year totaled \$7.5 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 \$.6 million. The Solid Waste Fund was flat. 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, 2014, the Town had \$89.9 million (net of accumulated depreciation) in capital assets consisting primarily of buildings, improvements other than buildings, water and sewer operating plant and infrastructure. This amount represents a net increase of \$5.1 million, or 6.0%, over last year and is result of increases in water and sewer assets. The summary of capital assets at June 30, 2014 and 2013 is presented below:

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

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 9,812,519	\$ 9,812,519	\$ 913,775	\$ 913,775	\$ 10,726,294	\$ 10,726,294
Intangible assets	562,831	506,253	141,616	91,667	704,447	597,920
Infrastructure	5,280,325	5,401,712	-	-	5,280,325	5,401,712
Buildings and other improvements	19,383,115	18,974,415	2,078,510	2,086,716	21,461,625	21,061,131
Equipment and vehicles	2,992,953	3,185,983	622,418	629,362	3,615,371	3,815,345
Operating plant	-	-	40,176,448	41,388,553	40,176,448	41,388,553
Construction in progress	109,338	416,692	7,853,072	1,391,835	7,962,410	1,808,527
Total	\$ 38,141,081	\$ 38,297,574	\$ 51,785,839	\$ 46,501,908	\$ 89,926,920	\$ 84,799,482

This year's major capital asset changes included:

- Increase in building and other improvements - \$.4 million
- Increase in construction in progress - \$6.2 million
- Decreases in infrastructure, equipment and vehicles, and operating plant as depreciation exceeded asset additions in these categories

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, 2014, the City had \$29.0 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	
	2014	2013	2014	2013	2014	2013
Installment contracts	\$ 8,027,810	\$ 8,258,121	\$ 840,289	\$ 1,236,578	\$ 8,868,099	\$ 9,494,699
Bond anticipation note	-	-	4,932,000	4,932,000	4,932,000	4,932,000
Notes payable	316,029	324,771	14,911,403	15,954,144	15,227,432	16,278,915
Total	\$ 8,343,839	\$ 8,582,892	\$ 20,683,692	\$ 22,122,722	\$ 29,027,531	\$ 30,705,614

The Town of Morehead City's total long-term debt decreased by \$1.6 million (5.5%) during the past fiscal year. No new debt was issued by the Town during the year and \$.2 million and \$1.4 million of principal was paid on outstanding debt in the governmental activities and business-type activities, respectively. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Morehead City is \$155,861,337.

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 2013, 985 permits were issued with a value of \$26.8 million compared to \$21.5 million for 2012.
- The June 2014 unemployment rate for Carteret County (unadjusted) was 5.5 percent compared to 6.5 percent for the state and 6.3 percent for the nation.

The following are highlights for the 2015 budgets for the governmental activities:

The General Fund initial budget for 2014-2015 increased 9.8% from \$10.5 million to \$11.5 million. The Town increased the ad valorem tax rate by \$.015 per \$100 of valuation from \$.315 to \$.330. 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 \$0.3 million. Sales taxes, another of the largest revenue sources for the Town, are projected to continue increasing. And, other revenue sources including Restricted Intergovernmental Revenue and Permits and Fees are expected to be higher. On the expenditure side, Council affirmed their commitment to attracting and retaining quality employees to serve citizens by placing their primary emphasis on funding the second year of a three year implementation to upgrade the Town's salary schedule and pay plan. All departments with employees saw increases in salary related line items. In addition, two new full-time positions, one in Police and one in Streets, were added. Council also funded \$1.1 million of capital, an increase from the prior year of \$.3 million. The General Fund provides the bulk of funding for the Fire/EMS Fund. Transfers to this fund increased \$.3 million over the preceding year. \$.3 million of restricted and \$.6 million of unassigned fund balance were appropriated to primarily 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 2014-2015 of \$3.6 million in the Fire/EMS Fund was \$0.6 million more than the previous year. Transfers from the General Fund provided \$.3 million of the increase and will be used to provide funding for salary increases to personnel in this fund in the same manner as described above. Also, three new positions were added and a part-time position was upgraded to full-time. \$.2 million of the increased revenue is budgeted to come from service districts outside of Town but that are served by the Town. These funds will be used to purchase a tanker for use in the service districts without water service.

The following are highlights for the 2015 budgets for the business-type activities:

The budget for the Water and Sewer Fund decreased \$0.1 million. A 6% rate increase was budgeted to be effective midway through the fiscal year and is projected to provide \$.4 million more from water and sewer charges than the previous year. The rate increase is one in a series of increases that Council endorsed to provide a rate structure that will support current and upcoming debt service on major capital projects undertaken by the Town in recent years. Revenue from the rate increase will offset a \$.5 million reduction in the appropriation of fund balance from the amount needed to balance the budget in the prior year. And, congruent with the governmental funds, Water and Sewer Fund employees participate in the new pay plan and will realize increases in the same manner. A 4.1 million increase in operating expenditures is offset by a \$.2 million reduction in transfers to water and sewer capital project funds.

The initial 2014-2015 budget for the Solid Waste Fund increased \$.2 million over the prior year. The increase is from a combination of grant funds of \$75,000 and appropriated fund balance of \$137,000 and will be used to purchase larger, roll out recycling containers. This move will allow the Town to reduce collections from weekly to biweekly and will reduce future collection costs. The operating revenue and expenditures were essentially flat compared to the preceding year. This fund has only one full-time and one part-time employee. They also participate in the new pay plan. However, because of the limited number of personnel, the dollar impact on this fund is minimal.

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.

Town of Morehead City, North Carolina

Statement of Net Position

June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,650,196	\$ 8,358,102	\$ 14,008,298
Restricted cash and investments	580,101	-	580,101
Receivables:			
Due from governmental agencies	792,995	846,436	1,639,431
Local option sales tax receivable	578,829	-	578,829
Taxes receivable, net	79,277	-	79,277
Accrued interest on taxes receivable	19,116	-	19,116
Customer receivables, net	150,226	1,080,436	1,230,662
Notes receivable	-	243,143	243,143
Inventories	3,810	192,696	196,506
Prepaid expense	593	-	593
Capital assets:			
Land and construction in process	10,484,688	8,908,463	19,393,151
Other capital assets, net of depreciation	27,656,393	42,877,376	70,533,769
Total assets	45,996,224	62,506,652	108,502,876
Liabilities			
Accounts payable and accrued expenses	872,064	1,996,679	2,868,743
Accrued interest payable	72,834	82,744	155,578
Customer deposits	-	525,732	525,732
Noncurrent liabilities:			
Due within one year	650,540	6,444,342	7,094,882
Due in more than one year	8,965,896	14,421,451	23,387,347
Total liabilities	10,561,334	23,470,948	34,032,282
Deferred Inflows of Resources	83,241	-	83,241
Net Position			
Net investment in capital assets	29,797,242	31,102,147	60,899,389
Restricted:			
Stablization by State Statute	1,522,048	-	1,522,048
General government	173,901	-	173,901
Streets	377,675	-	377,675
Public safety	166,974	-	166,974
Recreation	85,071	-	85,071
Library	27,119	-	27,119
Unrestricted	3,201,619	7,933,557	11,135,176
Total net position	\$ 35,351,649	\$ 39,035,704	\$ 74,387,353

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,787,898	\$ 66,419	\$ 39,286	\$ 150,000
Public safety	7,315,678	1,187,605	537,708	-
Highways and streets	1,019,054	-	-	271,051
Cultural and recreation	1,159,643	138,247	-	-
Library	158,508	5,070	53,075	-
Interest on long-term debt	314,150	-	-	-
Total governmental activities	11,754,931	1,397,341	630,069	421,051
Business-type activities:				
Water and sewer	5,028,282	5,486,373	13,241	2,447,316
Solid waste	899,208	927,360	1,612	-
Total business-type activities	5,927,490	6,413,733	14,853	2,447,316
Total primary government	\$ 17,682,421	\$ 7,811,074	\$ 644,922	\$ 2,868,367

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**

Governmental Activities	Business-type Activities	Total
\$ (1,532,193)	\$ -	\$ (1,532,193)
(5,590,365)	-	(5,590,365)
(748,003)	-	(748,003)
(1,021,396)	-	(1,021,396)
(100,363)	-	(100,363)
(314,150)	-	(314,150)
(9,306,470)	-	(9,306,470)
-	2,918,648	2,918,648
-	29,764	29,764
-	2,948,412	2,948,412
(9,306,470)	2,948,412	(6,358,058)
6,110,807	-	6,110,807
1,963,754	-	1,963,754
93,306	-	93,306
1,118,241	-	1,118,241
8,939	23,066	32,005
250,752	333,089	583,841
9,545,799	356,155	9,901,954
239,329	3,304,567	3,543,896
35,112,320	35,731,137	70,843,457
\$ 35,351,649	\$ 39,035,704	\$ 74,387,353

Town of Morehead City, North Carolina

Balance Sheet-Governmental Funds

June 30, 2014

	General Fund	Fire/EMS District Fund	School Property Acquisition/Improvements Capital Project Fund	Non-Major Governmental Funds	Totals
Assets:					
Cash and cash equivalents	\$ 4,620,100	\$ 646,655	\$ 187,749	\$ 195,692	\$ 5,650,196
Restricted cash equivalents	549,465	30,636	-	-	580,101
Receivables	1,451,101	150,226	-	-	1,601,327
Inventories	3,810	-	-	-	3,810
Prepaid items	593	-	-	-	593
Total assets	\$ 6,625,069	\$ 827,517	\$ 187,749	\$ 195,692	\$ 7,836,027
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 351,908	\$ 33,860	\$ 7,349	\$ 197,891	\$ 591,008
Accrued salaries	200,681	80,375	-	-	281,056
Total liabilities	552,589	114,235	7,349	197,891	872,064
Deferred Inflows of Resources	162,518	-	-	-	162,518
Fund Balances:					
Non Spendable:					
Inventories	3,810	-	-	-	3,810
Prepaid items	593	-	-	-	593
Restricted:					
Stablization by State Statute	1,371,822	150,226	-	-	1,522,048
General government	8,026	-	165,875	-	173,901
Streets	363,150	-	14,525	-	377,675
Public safety	127,531	30,636	-	8,807	166,974
Recreation	23,639	-	-	61,432	85,071
Library	27,119	-	-	-	27,119
Committed:					
Sidewalk construction	109,630	-	-	-	109,630
Recreation facilities development	23,349	-	-	-	23,349
Assigned:					
Public safety	-	281,881	-	-	281,881
Streets	-	-	-	45,513	45,513
Subsequent year's expenditures	571,850	250,539	-	-	822,389
Unassigned	3,279,443	-	-	(117,951)	3,161,492
Total fund balances	5,909,962	713,282	180,400	(2,199)	6,801,445
Total liabilities, deferred inflows of resources and fund balances	\$ 6,625,069	\$ 827,517	\$ 187,749	\$ 195,692	\$ 7,836,027

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, 2014**

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

Total fund balances for governmental funds	\$ 6,801,445
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	38,141,081
Other long-term assets are not available to pay for current-period expenditures and therefore are:	
Property taxes receivable	79,277
Accrued interest on property taxes	19,116
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(9,616,436)
Accrued interest payable on long-term liabilities not recorded in the fund statements	<u>(72,834)</u>
Net position of governmental activities	<u>\$ 35,351,649</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2014

	General Fund	Fire/EMS District Fund	School Property Acquisitions/ Improvements Capital Project Fund	Non-Major Governmental Funds	Totals
Revenue					
Ad valorem taxes	\$ 6,106,245	\$ -	\$ -	\$ -	\$ 6,106,245
Other taxes and licenses	93,306	-	-	-	93,306
Unrestricted intergovernmental	3,081,995	-	-	-	3,081,995
Restricted intergovernmental	901,120	-	-	150,000	1,051,120
Permits and fees	263,773	-	-	-	263,773
Sales and services	241,699	986,616	-	-	1,228,315
Investment earnings	7,626	650	279	384	8,939
Miscellaneous	122,225	13,074	21,587	93,866	250,752
Total revenue	10,817,989	1,000,340	21,866	244,250	12,084,445
Expenditures					
Current:					
General government	1,495,104	-	77,022	612,174	2,184,300
Public safety	4,090,504	2,682,652	15,574	130,000	6,918,730
Highways and streets	933,577	-	-	-	933,577
Library	192,587	-	-	-	192,587
Recreation	531,854	-	-	8,194	540,048
Parks	332,577	-	-	-	332,577
Debt service:					
Principal	214,754	24,299	-	-	239,053
Interest	250,722	77,813	-	-	328,535
Total expenditures	8,041,679	2,784,764	92,596	750,368	11,669,407
Revenue over (under) expenditures	2,776,310	(1,784,424)	(70,730)	(506,118)	415,038
Other financing sources (uses)					
Transfers in	-	1,978,150	-	85,697	2,063,847
Transfers out	(2,048,197)	(15,650)	-	-	(2,063,847)
Total other financing sources (uses)	(2,048,197)	1,962,500	-	85,697	-
Net changes in fund balances	728,113	178,076	(70,730)	(420,421)	415,038
Fund balances, beginning	5,181,849	535,206	251,130	418,222	6,386,407
Fund balance, ending	\$ 5,909,962	\$ 713,282	\$ 180,400	\$ (2,199)	\$ 6,801,445

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, 2014**

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

Net changes in fund balances - total governmental funds **\$ 415,038**

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

Increase in purchased capital assets, net of decrease in construction in progress **1,122,716**
Depreciation expense **(1,249,589)**

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 **(29,620)**

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 **(3,089)**
Increase in deferred property taxes **4,609**
Decrease in deferred grant revenues **(91,658)**
Decrease in accrued interest receivable **(47)**
Decrease in contracted services receivable **-**

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 **(521,443)**
Retirement of long-term liabilities **578,027**

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

Decrease in accrued interest payable **14,385**

Total changes in net position of governmental activities **\$ 239,329**

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, 2014

	General Fund			
	Budget, Original	Budget, Final	Actual	Variance with Final Budget
Revenue				
Ad valorem taxes	\$ 5,954,525	\$ 5,954,525	\$ 6,106,245	\$ 151,720
Other taxes	89,000	89,000	93,306	4,306
Unrestricted intergovernmental	2,913,700	2,913,700	3,081,995	168,295
Restricted intergovernmental	536,225	900,013	901,120	1,107
Permits and fees	205,300	205,300	263,773	58,473
Sales and services	207,700	224,700	241,699	16,999
Investment earnings	9,000	9,000	7,626	(1,374)
Miscellaneous	15,275	28,550	122,225	93,675
Total revenue	9,930,725	10,324,788	10,817,989	493,201
Expenditures				
Current:				
General government	1,569,051	1,670,601	1,495,104	175,497
Public safety	3,858,097	4,241,585	4,090,504	151,081
Highways and streets	1,373,725	1,390,075	933,577	456,498
Recreation and parks	914,725	983,750	864,431	119,319
Library	163,750	236,650	192,587	44,063
Debt service	465,476	465,476	465,476	-
Total expenditures	8,344,824	8,988,137	8,041,679	946,458
Revenue over (under) expenditures	1,585,901	1,336,651	2,776,310	1,439,659
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(1,855,330)	(2,241,179)	(2,048,197)	192,982
Contingency	(304,146)	(57,451)	-	57,451
Fund balance appropriated	573,575	961,979	-	(961,979)
Total other financing sources (uses)	(1,585,901)	(1,336,651)	(2,048,197)	(711,546)
Revenue and other financing sources over expenditures and other financing uses	\$ -	\$ -	728,113	\$ 728,113
Fund balance, beginning			5,181,849	
Fund balance, ending			<u><u>\$ 5,909,962</u></u>	

See Notes to Financial Statements.

Fire/EMS District Fund

Budget, Original	Budget, Final	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
1,064,820	942,000	986,616	44,616
1,000	1,000	650	(350)
3,000	8,200	13,074	4,874
<u>1,068,820</u>	<u>951,200</u>	<u>1,000,340</u>	<u>49,140</u>
-	-	-	-
2,805,075	2,810,275	2,682,652	127,623
-	-	-	-
-	-	-	-
-	-	-	-
102,112	102,112	102,112	-
<u>2,907,187</u>	<u>2,912,387</u>	<u>2,784,764</u>	<u>127,623</u>
<u>(1,838,367)</u>	<u>(1,961,187)</u>	<u>(1,784,424)</u>	<u>176,763</u>
1,855,330	1,978,150	1,978,150	-
-	(15,650)	(15,650)	-
(76,113)	(60,463)	-	60,463
59,150	59,150	-	(59,150)
<u>1,838,367</u>	<u>1,961,187</u>	<u>1,962,500</u>	<u>1,313</u>
<u>\$ -</u>	<u>\$ -</u>	178,076	<u>\$ 178,076</u>
		535,206	
		<u>\$ 713,282</u>	

Town of Morehead City, North Carolina

Statement of Net Position

Proprietary Funds

June 30, 2014

	Water and Sewer Fund	Solid Waste Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 8,033,068	\$ 325,034	\$ 8,358,102
Receivables	1,770,947	155,925	1,926,872
Inventories	192,696	-	192,696
Total current assets	9,996,711	480,959	10,477,670
Noncurrent assets			
Notes receivable	243,143	-	243,143
Capital assets, net	51,732,038	53,801	51,785,839
Total noncurrent assets	51,975,181	53,801	52,028,982
Total assets	61,971,892	534,760	62,506,652
Liabilities and Deferred Inflows of Resources			
Current liabilities			
Accounts payable and accrued liabilities	1,888,299	55,882	1,944,181
Current maturities of long-term debt	6,382,221	-	6,382,221
Customer deposits	525,732	-	525,732
Accrued salaries	50,218	2,280	52,498
Accrued compensated absences-current portion	61,422	699	62,121
Accrued interest payable	82,744	-	82,744
Total current liabilities	8,990,636	58,861	9,049,497
Noncurrent liabilities			
Installment notes	14,301,471	-	14,301,471
Net other post employment benefits obligation	114,816	5,164	119,980
Total noncurrent liabilities	14,416,287	5,164	14,421,451
Total liabilities	23,406,923	64,025	23,470,948
Net Position			
Net investment in capital assets	31,048,346	53,801	31,102,147
Unrestricted	7,516,623	416,934	7,933,557
Total net position	\$ 38,564,969	\$ 470,735	\$ 39,035,704

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
Operating revenue			
Charges for sales and services	\$ 5,486,373	\$ 927,360	\$ 6,413,733
Miscellaneous	332,366	723	333,089
Total operating revenue	5,818,739	928,083	6,746,822
Operating expenses			
Cost of sales and services	3,216,875	882,755	4,099,630
Depreciation	1,450,527	16,453	1,466,980
Total operating expenses	4,667,402	899,208	5,566,610
Operating income	1,151,337	28,875	1,180,212
Nonoperating revenue (expense)			
Interest revenue	22,708	358	23,066
Restricted intergovernmental	2,158,572	1,612	2,160,184
Interest expense and fiscal charges	(360,880)	-	(360,880)
Total nonoperating revenue	1,820,400	1,970	1,822,370
Contributed capital assets	(1,060)	-	(1,060)
Contributions - capital project funds	303,045	-	303,045
Change in net position	3,273,722	30,845	3,304,567
Net position, beginning	35,291,247	439,890	35,731,137
Net Position, ending	\$ 38,564,969	\$ 470,735	\$ 39,035,704

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2014

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 5,823,676	\$ 929,166	\$ 6,752,842
Cash paid to suppliers for goods and services	(275,126)	(835,659)	(1,110,785)
Cash paid to employees	(1,340,432)	(42,605)	(1,383,037)
Customer deposits	15,298	-	15,298
Net cash provided by operating activities	4,223,416	50,902	4,274,318
Cash Flows from Non-Capital and Related Financing Activities:			
Contributions-capital project funds	303,045	-	303,045
Restricted intergovernmental	1,332,655	1,612	1,334,267
Net cash provided by non-capital and related financing activities	1,635,700	1,612	1,637,312
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(6,750,911)	-	(6,750,911)
Debt issued	-	-	-
Principal paid on long-term debt	(1,439,030)	-	(1,439,030)
Interest paid on long-term debt	(368,099)	-	(368,099)
Net cash provided by capital and related financing activities	(8,558,040)	-	(8,558,040)
Cash Flows from Investing Activities:			
Interest on investments	22,708	358	23,066
Net increase in cash and cash equivalents	(2,676,216)	52,872	(2,623,344)
Cash and cash equivalents, beginning	10,709,284	272,162	10,981,446
Cash and cash equivalents, ending	\$ 8,033,068	\$ 325,034	\$ 8,358,102

(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
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:			
Operating income	\$ 1,151,337	\$ 28,875	\$ 1,180,212
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,450,526	16,453	1,466,979
Change in assets and liabilities:			
Notes receivable	61,677	-	61,677
Receivables	(56,740)	1,083	(55,657)
Inventory	29,927	-	29,927
Accounts payable and accrued liabilities	1,539,632	(1,842)	1,537,790
Customer deposits	15,298	-	15,298
Accrued salaries	5,889	194	6,083
Accrued other postemployment benefits	26,631	6,376	33,007
Accrued compensated absences	(761)	(237)	(998)
Net cash provided by operating activities	\$ 4,223,416	\$ 50,902	\$ 4,274,318
 Supplemental Disclosure of Non-cash Transactions:			
Accounts payable for constructed capital assets	\$ 1,611,327	\$ -	\$ 1,611,327

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2014

	Special Separation Allowance Pension Trust Fund	Other Postemployment Benefits Trust Fund	Totals
Assets			
Cash and cash equivalents	\$ 160,109	\$ 257,403	\$ 417,512
Total assets	<u>160,109</u>	<u>257,403</u>	<u>417,512</u>
Net Position			
Assets held in trust for pension benefits	160,109	257,403	417,512
Total net position	<u>\$ 160,109</u>	<u>\$ 257,403</u>	<u>\$ 417,512</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Fiscal Year Ended June 30, 2014

	Special Separation Allowance Pension Trust Fund	Other Postemployment Benefits Trust Fund	Totals
Additions			
Contributions	\$ 56,600	\$ 138,348	\$ 194,948
Interest	231	338	569
Total additions	56,831	138,686	195,517
Deductions			
Benefits paid	73,492	85,490	158,982
Total deductions	73,492	85,490	158,982
Net increase (decrease)	(16,661)	53,196	36,535
Net position reserved for employees' pension benefits			
Beginning of year	176,770	204,207	380,977
End of year	\$ 160,109	\$ 257,403	\$ 417,512

See Notes to Financial Statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

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

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.

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. The General Fund accounts 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.

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. 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 five 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 four Capital Project Funds and two Capital Reserve Funds which are consolidated with the Water and Sewer Enterprise Fund (the operating fund) for financial reporting purposes.

Solid Waste Enterprise Fund – The Solid Waste Enterprise Fund accounts for the solid waste disposal activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for collection and disposal of solid waste for the Town's customers.

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

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.

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

Sales taxes and certain intergovernmental revenue, such as the 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

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	Water/Sewer Extensions Capital Project Fund*
Capital Reserve Fund*	WaterTreatment Capital Project Fund*
	Water Reuse Capital Project 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, 2014 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

Restricted cash for the governmental activities is: Powell Bill \$363,150, USDA debt reserves \$152,807, Donations \$36,645, other restricted grants \$8,871, and federal restricted police funds \$18,628.

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 balance in an equal amount. Inventories of Enterprise Funds are reported at the lower of cost or market, using the FIFO method.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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.

Notes to Financial Statements

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 General Fund is the only fund that reports a positive unassigned fund balance. In governmental funds other than the General Fund, fund balances are restricted, committed, or assigned generally by revenue sources.

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

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

Deficit in Fund Balance of Individual Funds

For the fiscal year ended June 30, 2014, the Jib Waterfront Access Capital Project Fund had a deficit of \$117,951. This deficit is expected to be funded by grant revenues and other financing sources.

Noncompliance with North Carolina General Statute

In accordance with General Statute 159-28(a), all governmental units must include a pre-audit certification on all purchase orders. There is a separate control deficiency letter dated November 24, 2014 regarding this matter.

Note 3. Cash and Cash Equivalents

Petty cash: At June 30, 2014, the Town had petty cash funds on hand totaling \$2,050.

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

Notes to Financial Statements

Note 3. Cash and Cash Equivalents (Continued)

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 \$9,938,095 and bank balance of \$9,953,211. Of the bank balance, \$2,408,626 was covered by federal depository insurance, and \$7,544,585 was covered by collateral held under the Pooling Method.

Investments: At June 30, 2014, 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 \$40,871 in the cash fund and \$5,024,895 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, 2014, consist of the following:

	Major General	Major Fire & EMS District	Major Water & Sewer Fund	Major Solid Waste Fund	Total
Receivables					
Local option sales tax	\$ 578,829	\$ -	\$ -	\$ -	\$ 578,829
Property tax	109,318	-	-	-	109,318
Allowance for uncollectibles	(30,041)	-	-	-	(30,041)
	<u>79,277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,277</u>
Accounts receivable:					
Services	-	150,226	946,719	134,346	1,231,291
Allowance for uncollectibles	-	-	(629)	-	(629)
	<u>-</u>	<u>150,226</u>	<u>946,090</u>	<u>134,346</u>	<u>1,230,662</u>
Due from governmental agencies	792,995	-	824,857	21,579	1,639,431
Net total receivables	<u>\$ 1,451,101</u>	<u>\$ 150,226</u>	<u>\$ 1,770,947</u>	<u>\$ 155,925</u>	<u>\$ 3,528,199</u>

Note 5. Interfund Transactions and Balances

Interfund transfers schedule at June 30, 2014 consist of the following:

	From	To	Purpose
General Fund	\$ 1,978,150	\$ -	Portion of operations
Major Fire/EMS District Fund	-	1,978,150	
General Fund	70,047	-	
Jib Waterfront Access Capital Project Fund	-	70,047	Portion of construction
Major Fire/EMS District Fund	15,650	-	
Fire/EMS Station #2 Capital Project Fund	-	15,650	Portion of construction
Total	<u>\$ 2,063,847</u>	<u>\$ 2,063,847</u>	

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,812,519	\$ -	\$ -	\$ 9,812,519
Intangible assets	506,253	56,578	-	562,831
Construction in progress	416,692	690,690	(998,044)	109,338
Total capital assets not being depreciated	<u>10,735,464</u>	<u>747,268</u>	<u>(998,044)</u>	<u>10,484,688</u>
Capital assets being depreciated:				
Buildings and other improvements	22,119,898	1,129,865	-	23,249,763
Infrastructure	6,069,354	-	-	6,069,354
Equipment and vehicles	6,592,539	243,627	(404,018)	6,432,148
Total capital assets being depreciated	<u>34,781,791</u>	<u>1,373,492</u>	<u>(404,018)</u>	<u>35,751,265</u>
Less accumulated depreciation for:				
Buildings and other improvements	(3,145,483)	(707,844)	(13,321)	(3,866,648)
Infrastructure	(667,642)	(121,387)	-	(789,029)
Equipment and vehicles	(3,406,556)	(420,358)	387,719	(3,439,195)
Total accumulated depreciation	<u>(7,219,681)</u>	<u>(1,249,589)</u>	<u>374,398</u>	<u>(8,094,872)</u>
Total capital assets being depreciated, net	<u>27,562,110</u>			<u>27,656,393</u>
Governmental activity capital assets, net	<u>\$ 38,297,574</u>			<u>\$ 38,141,081</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	\$ 913,775	\$ -	\$ -	\$ 913,775
Intangible assets	91,667	49,949	-	141,616
Construction in progress	1,391,835	6,549,902	(88,665)	7,853,072
Total capital assets not being depreciated	<u>2,397,277</u>	<u>6,599,851</u>	<u>(88,665)</u>	<u>8,908,463</u>
Capital assets being depreciated:				
Buildings and other improvements	2,319,569	38,920	-	2,358,489
Equipment and vehicles	1,706,013	151,060	(38,841)	1,818,232
Operating plant	55,751,753	49,745	-	55,801,498
Total capital assets being depreciated	<u>59,777,335</u>	<u>239,725</u>	<u>(38,841)</u>	<u>59,978,219</u>
Less accumulated depreciation for:				
Buildings and other improvements	(232,853)	(47,126)	-	(279,979)
Equipment and vehicles	(1,146,905)	(141,551)	38,841	(1,249,615)
Operating plant	(14,363,200)	(1,261,850)	-	(15,625,050)
Total accumulated depreciation	<u>(15,742,958)</u>	<u>(1,450,527)</u>	<u>38,841</u>	<u>(17,154,644)</u>
Total capital assets being depreciated, net	<u>44,034,377</u>			<u>42,823,575</u>
Water and Sewer Fund capital assets, net	<u>46,431,654</u>			<u>51,732,038</u>
Solid Waste Fund				
Capital assets being depreciated:				
Equipment and vehicles	202,117	-	-	202,117
Less accumulated depreciation for:				
Equipment and vehicles	(131,863)	(16,453)	-	(148,316)
Total capital assets being depreciated, net	<u>70,254</u>			<u>53,801</u>
Solid Waste Fund capital assets, net	<u>70,254</u>			<u>53,801</u>
Business-type activity capital assets, net	<u>\$ 46,501,908</u>			<u>\$ 51,785,839</u>

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

Governmental activities:	
General government	\$ 73,225
Public safety	630,271
Highway and streets	152,843
Parks and recreation	363,179
Library	30,071
	<u>\$ 1,249,589</u>
Business-type activities:	
Water and Sewer Fund	\$ 1,450,527
Solid Waste Fund	16,453
	<u>\$ 1,466,980</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets (Continued)

Construction Commitments

As of June 30, 2014, the Town has active construction projects. The Town's commitments with contractors at June 30, 2014, are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2014 Street/Drainage Project	\$ 110,454	\$ 230,677
Sewer Repair/9th & Bay Streets	17,047	73,498
Flow Meters/Lift St. 16 & 17	11,305	54,795
Pump St. #8 Renovation	166,056	72,244
Elevated Water Storage Tank - Country Club Road	1,530,500	34,500
Water Well - Country Club Road	141,810	-
Water Treatment Plants - Country Club Road and Arthur Farm Road	4,761,446	910,716
	<u>\$ 6,738,618</u>	<u>\$ 1,376,430</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

The Town has unearned revenue which are prepaid taxes for the year ending June 30, 2015, since they are unearned they are reported as an deferred inflow of resources. Property taxes receivable are not collected within ninety days of year end and are reported as unavailable revenue on the modified accrual basis and as revenue on the full accrual basis. Deferred inflows of resources at June 30, 2014 is comprised of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
General Fund		
Prepaid taxes not yet earned	\$ -	\$ 83,241
Property taxes receivable	79,277	-
	<u>\$ 79,277</u>	<u>\$ 83,241</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

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, 2014, is as follows:

	Beginning		Ending		Current
	Balance	Additions	Reductions	Balance	Portion of
					Balance
*Accrued compensated absences	\$ 364,276	\$ 377,550	\$ 328,528	\$ 413,298	\$ 326,505
Net pension obligation	210,403	-	10,446	199,957	-
Other postemployment benefits	515,449	143,893	-	659,342	-
Installment notes payable	324,771	-	8,742	316,029	9,103
Installment purchase contracts	8,258,121	-	230,311	8,027,810	314,932
Total	<u>\$ 9,673,020</u>	<u>\$ 521,443</u>	<u>\$ 578,027</u>	<u>\$ 9,616,436</u>	<u>\$ 650,540</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, 2014, the remaining obligation due under this agreement totaled \$560,000.

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, 2014, \$10,688 remains in a restricted account and the remaining obligation due under this agreement totaled \$152,681.

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, 2014, \$11,451 remains in a restricted account and the remaining obligation due under this agreement totaled \$163,348.

The Town has a \$1,050,000 installment purchase 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, 2014, the remaining obligation due under this agreement totaled \$770,000.

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, 2014, \$100,033 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,647,108.

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, 2014, \$30,636 remains in a restricted account and the remaining obligation due under this agreement totaled \$2,050,702.

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, 2014, is as follows:

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	Portion of
					Balance
Bond anticipation note	\$ 4,932,000	\$ -	\$ -	\$ 4,932,000	\$ 4,932,000
Notes payable	15,954,144	-	1,042,741	14,911,403	1,042,741
Installment purchase contracts	1,236,578	-	396,289	840,289	407,480
*Accrued compensated absences	63,119	67,092	68,090	62,121	62,121
Other postemployment benefits	86,974	33,006	-	119,980	-
Total	\$ 22,272,815	\$ 100,098	\$ 1,507,120	\$ 20,865,793	\$ 6,444,342

*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, 2014, the remaining obligation due under this agreement totaled \$435,186.

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, 2014, the remaining obligation due under this agreement totaled \$405,103.

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, 2014, the remaining obligation due under this agreement totaled \$765,000.

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, 2014, the remaining obligation due under this agreement totaled \$555,403.

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, 2014, the remaining obligation due under this agreement totaled \$550,000.

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, 2014, the remaining obligation due under this agreement totaled \$11,250,000.

Notes to Financial Statements

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, 2014, the obligation due is \$516,000.

The Town has a \$1,500,000 installment note payable to the State of North Carolina over a 20-year term to finance water treatment improvements. The note is payable from water revenue or sales tax distributions to the Town and is interest free. As of June 30, 2014, the obligation due is \$1,275,000.

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		
2014-2015	\$ 242,635	\$ 320,586
2015-2016	246,362	312,495
2016-2017	250,239	304,253
2017-2018	254,272	295,855
2018-2019	258,468	287,294
2020-2024	1,121,436	1,309,368
2025-2029	814,813	1,128,297
2030-2034	907,342	963,988
2035-2039	1,035,891	768,738
2040-2044	1,211,007	549,628
2045-2049	1,474,788	285,847
2050-2054	526,586	32,638
	<u>8,343,839</u>	<u>6,558,987</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

	Principal	Interest
Business-type activities, Water and Sewer Fund		
2014-2015	6,382,221	381,291
2015-2016	1,324,081	300,529
2016-2017	1,194,226	270,274
2017-2018	1,042,741	242,788
2018-2019	1,042,741	220,381
2020-2024	5,128,706	765,795
2025-2029	4,386,741	258,022
2030-2034	182,235	-
	20,683,692	2,439,080
	\$ 29,027,531	\$ 8,998,067

Interest paid on the above obligations during 2014 totaled \$744,471. 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, 2014 amounts to \$155,861,337.

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 7.07% and 7.28%, 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, 2014, 2013 and 2012 were \$418,844, \$374,446, and \$365,684, 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

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, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>41</u>
Total	<u><u>47</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 \$56,600, or 3.4% 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, 2013 actuarial valuation using the projected unit credit actuarial cost method and level dollar closed amortization method (remaining period 17 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, 2014 are as follows:

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

Employer annual required contribution	\$ 52,776
Interest on net pension obligation	10,520
Adjustment to annual required contribution	<u>(17,142)</u>
Annual pension cost	46,154
Employer contributions made for fiscal year	<u>56,600</u>
Increase in net pension obligation	(10,446)
Net pension obligation beginning of fiscal year	<u>210,403</u>
Net pension obligation end of fiscal year	<u><u>\$ 199,957</u></u>

Fiscal Year Ended	Three-Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation End of Year
06/30/2012	\$ 54,050	115.08%	\$ 212,598
06/30/2013	54,005	104.06%	210,403
06/30/2014	46,154	122.63%	199,957

4. *Funded Status and Funding Progress.*

As of December 31, 2013, the most recent actuarial valuation date, the plan was 25.87 percent funded. The actuarial accrued liability for benefits was \$761,067, and the actuarial value of assets was \$196,863, resulting in an unfunded actuarial accrued liability (UAAL) of \$564,204. The covered payroll (annual payroll of active employees covered by the plan) was \$1,659,607, and the ratio of the UAAL to the covered payroll was 34.00 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

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, 2014:

Statement of Net Position	
Assets	
Cash and cash equivalents	\$ 160,109
Total assets	160,109
Net Position	
Assets held in trust for pension benefits	160,109
Total net position	\$ 160,109

Statement of Changes in Net Position	
Additions	
Contributions	\$ 56,600
Interest	231
Total additions	56,831
Deductions	
Benefits paid	73,492
Total deductions	73,492
Net decrease	(16,661)
Net position reserved for employees' pension benefits	
Beginning of year	176,770
End of year	\$ 160,109

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, 2014 were \$103,914, which consisted of \$82,751 from the Town and \$21,163 from the law enforcement officers.

Firefighter's and Rescue Squad Workers' Pension Fund

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

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

Pension is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

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 with the Town of Morehead immediately prior to retirement and who meet one of the following:

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

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

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

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

Membership of the HCB Plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	13	5
Active plan members	120	41
	<u>133</u>	<u>46</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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 10. Other Postemployment Benefits (Continued)

The current ARC rate is 4.44% of annual covered payroll. For the current year, the Town contributed \$116,931 or 2.0% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees, and none of the retirees elected to participate in the dependent care coverage benefit. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council.

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

Annual OPEB Cost and Net OPEB Obligation. The Town's annual 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	\$ 292,753
Interest on net OPEB obligation	24,097
Adjustment on annual required contribution	<u>(23,020)</u>
Annual OPEB cost (expense)	293,830
Contributions made	<u>(116,931)</u>
Increase in net OPEB obligation	176,899
Net OPEB obligation, beginning of year	<u>602,423</u>
Net OPEB obligation, end of year	<u><u>\$ 779,322</u></u>

For Year Ended	Three-Year Trend Information		Net OPEB
	Annual	Percentage of Annual	
June 30,	OPEB Cost	OPEB Cost Contributed	Obligation
2012	\$ 267,511	44.10%	\$ 450,403
2013	286,328	46.90%	602,423
2014	293,830	39.80%	779,322

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,602,002. The covered payroll (annual payroll of active employees covered by the plan) was \$5,856,023, and the ratio of the UAAL to the covered payroll was 44.4 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 and adjustment 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

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, 2013 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 7.75 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, 2013 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, 2014:

Statement of Net Position

Assets	
Cash and cash equivalents	\$ 257,403
Total assets	<u>257,403</u>
Net Position	
Assets held in trust for pension benefits	257,403
Total net position	<u>\$ 257,403</u>

Statement of Changes in Net Position

Additions	
Contributions	\$ 138,348
Interest	338
Total additions	<u>138,686</u>
Deductions	
Benefits paid	85,490
Total deductions	<u>85,490</u>
Net decrease	53,196
Net position reserved for employees' pension benefits	
Beginning of year	204,207
End of year	<u>\$ 257,403</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 (\$1,914,740), vehicles (\$3,242,514) and property (\$68,774,657). 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 \$101,800 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, 2014, 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 \$3,110 to the Council during the fiscal year ended June 30, 2014.

Note 15. Subsequent Events

The Town has evaluated its subsequent events (events occurring after June 30, 2014) through November 24, 2014 which represents the date the financial statements were available to be issued.

The Town of Morehead entered into a loan agreement with Carteret County on July 14, 2014. The Town received \$407,000 for economic development purposes (to partially fund the Jib Waterfront capital project) for 59 months, level annual payments due to the County with 0% interest. The source of these funds was the NC Eastern Region revolving loan fund for economic development. Carteret County extended the Town the same terms that was provisioned by NC Eastern Region to Carteret County.

In September 2014 the Town Council entered into a contract with Carteret County whereby the Town would provide fire and EMS services to an unincorporated area in the County that had previously been serviced by a private, nonprofit fire department. Concurrently, the Town entered into an agreement with the aforementioned fire department to absorb their personnel and needed facilities and equipment into the Morehead City Fire/EMS Department. The contract and agreement became effective October 1, 2014.

Note 16. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2014 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 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, 2015.
- GASB Statement Number 71 – "Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement Number 68)" will be effective for the Town beginning with its year ending June 30, 2015.

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REQUIRED SUPPLEMENTAL FINANCIAL DATA

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)
12/31/07	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%
12/31/13	196,863	761,067	564,204	25.87%	1,659,607	34.00%

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%
2014	52,776	107.25%

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	12/31/2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17
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%
12/31/13	-	2,602,002	2,602,002	0.00%	5,856,023	44.40%

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
2011	\$ 256,251	43.56%
2012	265,860	44.33%
2013	265,860	50.52%
2014	292,753	39.94%

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	12/31/2013
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%
Pre-medicare trend rate	Ranging from 7.75% - 5.00%
*includes inflation at	3.00%
Cost of living adjustments	None

MAJOR GOVERNMENTAL FUNDS

- **General Fund**
 - **Fire/EMS District Fund**
 - **School Property Acquisition/Improvements Capital Project Fund**
-

GENERAL FUND

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

Town of Morehead City, North Carolina

General Fund
 Schedule of Revenue, Expenditures and Changes in Fund Balance –
 Budget and Actual (Non-GAAP)
 Year Ended June 30, 2014
 With Comparative Actual Amounts for Year Ended June 30, 2013

(Page 1 of 5)

	2014		Variance, with Final Budget	2013
	Final Budget	Actual		Actual
Revenue				
Ad valorem taxes:				
Current year	\$ 5,883,025	\$ 6,010,047	\$ 127,022	\$ 5,316,050
Prior years	55,000	67,317	12,317	65,057
Interest and penalties	16,500	28,881	12,381	24,707
Total ad valorem taxes	5,954,525	6,106,245	151,720	5,405,814
Other taxes:				
Privilege licenses	67,000	67,256	256	67,965
Motor vehicle lease tax	22,000	26,050	4,050	25,499
Total other taxes	89,000	93,306	4,306	93,464
Unrestricted intergovernmental:				
Local option sales tax	1,860,000	1,963,754	103,754	1,852,922
Franchise tax fees	538,000	564,415	26,415	534,477
Beer and wine tax	39,600	40,082	482	35,570
Carteret County ABC revenue	135,000	160,584	25,584	162,620
Video programming sales tax	114,900	128,496	13,596	125,771
Telecommunications tax	149,000	141,389	(7,611)	149,436
Piped natural gas tax	20,300	24,756	4,456	22,518
Payment in lieu of taxes	56,900	58,519	1,619	59,123
Total unrestricted intergovernmental	2,913,700	3,081,995	168,295	2,942,437
Restricted intergovernmental:				
Powell Bill	271,050	271,051	1	261,007
COPS grant	33,750	37,910	4,160	22,883
NCDOT sidewalk grants	25,000	-	(25,000)	78,601
School resource officer	47,600	54,195	6,595	62,575
Governor's highway safety program grant	11,250	8,825	(2,425)	9,022
Bullet proof vest grant	3,000	-	(3,000)	-
Controlled substance tax	2,000	2,975	975	2,488
Restitution funds	-	1,108	1,108	1,395
Federal drug forfeit funds	-	2,924	2,924	33,984
CAMA	3,500	4,285	785	4,525

(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, 2014

With Comparative Actual Amounts for Year Ended June 30, 2013

(Page 2 of 5)

	2014			2013
	Final Budget	Actual	Variance, with Final Budget	Actual
Mosquito control grant	\$ 1,100	\$ 1,058	\$ (42)	\$ -
Teen Court grant	52,000	53,364	1,364	57,647
Webb Library funding	53,075	53,075	-	53,075
Housing Authority grant	38,000	35,001	(2,999)	35,000
FEMA reimbursements	-	4,442	4,442	-
Miscellaneous police grants	358,688	370,907	12,219	28,725
Total restricted governmental	900,013	901,120	1,107	650,927
Permits and fees:				
Building permits and inspection fees	200,000	235,180	35,180	189,003
Planning/Zoning fees and charges	5,000	27,218	22,218	4,236
Sidewalk extension fees	-	1,000	1,000	-
Franchise fees	300	375	75	175
Total permits and fees	205,300	263,773	58,473	193,414
Sales and services:				
Court cost and fees	4,000	3,605	(395)	4,286
Lot cleaning fees	500	455	(45)	293
Cemetery fees	1,000	1,205	205	2,660
Recreation concessions	3,000	2,300	(700)	3,340
Sale of cemetery lots	5,000	3,785	(1,215)	6,400
Mail box rent and mail fees	3,500	3,398	(102)	3,727
Library fees and charges	6,000	5,070	(930)	6,856
Leases	66,200	63,375	(2,825)	65,772
E 911 cost sharing	23,000	22,559	(441)	23,976
Recreation fees and charges	112,500	135,947	23,447	111,432
Total sales and services	224,700	241,699	16,999	228,742
Investment earnings	9,000	7,626	(1,374)	9,429
Miscellaneous revenue:				
Restricted donations	275	10,253	9,978	4,573
Insurance reimbursements/refunds	13,275	44,975	31,700	10,128
Sale of surplus property	-	30,592	30,592	2,803
Miscellaneous	15,000	36,405	21,405	27,431
Total miscellaneous revenue	28,550	122,225	93,675	44,935
Total revenue	10,324,788	10,817,989	493,201	9,569,162

(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, 2014
 With Comparative Actual Amounts for Year Ended June 30, 2013

(Page 3 of 5)

	2014			2013
	Final Budget	Actual	Variance, with Final Budget	Actual
Expenditures				
General government:				
Mayor - town council				
Salaries and benefits		\$ 23,080		\$ 24,848
Other		8,616		7,511
	\$ 44,418	31,696	\$ 12,722	32,359
Administration:				
Salaries, wages and benefits		177,390		164,579
Other		10,438		14,733
	191,576	187,828	3,748	179,312
Finance:				
Salaries, wages and benefits		193,474		181,562
Other		24,621		12,444
	258,522	218,095	40,427	194,006
Central services:				
Employee benefits		102,271		68,759
Professional services		180,724		115,724
Capital outlay		-		57,014
Other		290,650		256,880
	588,440	573,645	14,795	498,377
Community projects	58,293	55,032	3,261	60,301
Cemetery, buildings and grounds:				
Salaries, wages and benefits		236,387		190,943
Capital outlay		15,640		26,248
Other		131,996		125,073
	475,600	384,023	91,577	342,264
Garage:				
Salaries, wages and benefits		39,433		40,562
Capital outlay		-		2,627
Other		5,352		6,261
	53,752	44,785	8,967	49,450
Total general government	1,670,601	1,495,104	175,497	1,356,069

(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, 2014
 With Comparative Actual Amounts for Year Ended June 30, 2013

(Page 4 of 5)

	2014		Variance, with Final Budget	2013
	Final Budget	Actual		Actual
Public safety:				
Police:				
Salaries, wages and benefits		\$ 2,676,057		\$ 2,606,970
Capital outlay		156,307		160,999
Other		808,396		514,180
	\$ 3,738,235	3,640,760	\$ 97,475	3,282,149
Inspections:				
Salaries, wages and benefits		410,432		397,503
Other		37,743		25,106
	486,075	448,175	37,900	422,609
Federal drug forfeit funds:				
Capital outlay		-		13,104
Other		1,569		3,646
	17,275	1,569	15,706	16,750
Total public safety	4,241,585	4,090,504	151,081	3,721,508
Highways and streets:				
Transportation:				
Salaries, wages and benefits		393,253		360,892
Capital outlay		-		65,363
Other		266,683		345,346
	722,825	659,936	62,889	771,601
Powell Bill funds	667,250	273,641	393,609	134,343
Total highways and streets	1,390,075	933,577	456,498	905,944
Recreation:				
Salaries, wages and benefits		302,248		284,414
Capital outlay		-		-
Other		229,606		154,429
Total recreation	617,300	531,854	85,446	438,843
Parks:				
Salaries, wages and benefits		97,520		96,949
Capital outlay		74,343		1,711
Other		160,714		149,882
Total parks	366,450	332,577	33,873	248,542

(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, 2014
 With Comparative Actual Amounts for Year Ended June 30, 2013

(Page 5 of 5)

	2014		Variance, with Final Budget	2013
	Final Budget	Actual		Actual
Library:				
Salaries, wages and benefits		\$ 81,124		\$ 73,028
Capital outlay		64,150		54,174
Other		47,313		39,291
Total library	\$ 236,650	192,587	\$ 44,063	166,493
Debt service:				
Principal retirement		214,754		212,189
Interest fees		250,722		260,227
Total debt service	465,476	465,476	-	472,416
Contingency	-	-	-	-
Total expenditures	8,988,137	8,041,679	946,458	7,309,815
Revenue over expenditures	1,336,651	2,776,310	1,439,659	2,259,347
Other financing sources (uses)				
Fund balance appropriated	961,979	-	(961,979)	-
Transfers out:				
Fire/EMS District Fund	(1,978,150)	(1,978,150)	-	(1,634,540)
Baseball Park Capital Project Fund	-	-	-	(322,950)
Jib Waterfront Access Capital Project Fund	(263,029)	(70,047)	192,982	(595,643)
Contingency	(57,451)	-	57,451	-
Total other financing uses	(1,336,651)	(2,048,197)	(711,546)	(2,553,133)
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	728,113	\$ 728,113	(293,786)
Fund balance, beginning		<u>5,181,849</u>		<u>5,475,635</u>
Fund balance, ending		<u>\$ 5,909,962</u>		<u>\$ 5,181,849</u>

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FIRE/EMS DISTRICT FUND

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

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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, 2014
 With Comparative Actual Amounts for Year Ended June 30, 2013

(Page 1 of 2)

	2014			2013
	Budget	Actual	Variance with Final Budget	Actual
Revenue				
Operating revenue				
Unrestricted intergovernmental-sales tax	\$ -	\$ -	\$ -	\$ 153,757
Restricted - intergovernmental				
Federal grants	-	-	-	45,361
Charges for services	942,000	986,616	44,616	941,737
Total operating revenue	942,000	986,616	44,616	1,140,855
Investment earnings	1,000	650	(350)	1,294
Miscellaneous revenue				
Donations	5,200	8,680	3,480	-
Sale of surplus property	3,000	210	(2,790)	-
Insurance reimbursements	-	4,169	4,169	-
Miscellaneous	-	15	15	28,395
Total miscellaneous revenue	8,200	13,074	4,874	28,395
Total revenue	951,200	1,000,340	49,140	1,170,544
Expenditures				
Public safety:				
Salaries, wages, and benefits		2,049,272		1,795,042
Other		577,148		614,443
Capital outlay		56,232		807,028
	2,810,275	2,682,652	127,623	3,216,513

(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, 2014
 With Comparative Actual Amounts for Year Ended June 30, 2013

(Page 2 of 2)

	2014			2013
	Budget	Actual	Variance with Final Budget	Actual
Debt service:				
Principal retirement		\$ 24,299		\$ 69,627
Interest fees		77,813		32,740
	<u>\$ 102,112</u>	<u>102,112</u>	<u>\$ -</u>	<u>102,367</u>
Total expenditures	2,912,387	2,784,764	127,623	3,318,880
Revenue over (under) expenditures	(1,961,187)	(1,784,424)	176,763	(2,148,336)
Other financing sources (uses):				
Fund balance appropriated	59,150	-	(59,150)	-
Contingency	(60,463)	-	60,463	-
Operating transfer in:				
General fund	1,978,150	1,978,150	-	1,634,540
Operating transfer out:				
Fire/EMS Station #2	(15,650)	(15,650)	-	-
Total other financing sources	1,961,187	1,962,500	1,313	1,634,540
Revenue and other financing sources over (under) expenditures	\$ -	178,076	\$ 178,076	(513,796)
Fund balance, beginning, as previously reported		535,206		1,572,097
Restatement for write off of receivable		-		(515,906)
Beginning of year as restated		<u>535,206</u>		<u>1,056,191</u>
Fund balance, ending		<u>713,282</u>		<u>542,395</u>
Reconciliation:				
Amortization of prepaid costs reported as prepaid expense on GAAP basis		-		(7,189)
Revenues and other financing sources over (under) expenditures, GAAP		<u>\$ 713,282</u>		<u>\$ 535,206</u>

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.

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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, 2014

	Project	Actual		
	Authorization	Prior	Current	Project
		Years	Year	To Date
Revenue				
Restricted intergovernmental				
Carteret County	\$ 996,754	\$ 996,754	\$ -	\$ 996,754
Interest revenue	8,923	9,591	279	9,870
Interest revenue, Build America Bonds	33,633	33,633	-	33,633
Miscellaneous revenue-rent	309,700	291,363	21,587	312,950
Miscellaneous revenue-insurance reimbursement	41,101	41,088	-	41,088
Total revenue	1,390,111	1,372,429	21,866	1,394,295
Expenditures				
General government		241,690	77,022	318,712
Capital outlay				
General government		1,003,409	-	1,003,409
Public safety		5,845,831	15,574	5,861,405
	7,357,036	7,090,930	92,596	7,183,526
Debt service:				
Principal retirement	5,000,000	5,000,000	-	5,000,000
Interest fees	96,100	96,094	-	96,094
	5,096,100	5,096,094	-	5,096,094
Total expenditures	12,453,136	12,187,024	92,596	12,279,620
Revenue under expenditures	(11,063,025)	(10,814,595)	(70,730)	(10,885,325)
Other financing sources (uses)				
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
Total other financing sources	11,063,025	11,065,725	-	11,065,725
Revenue and other financing sources over (under) expenditures	\$ -	\$ 251,130	(70,730)	\$ 180,400
Fund balance, beginning			<u>251,130</u>	
Fund balance, ending			<u><u>\$ 180,400</u></u>	

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NON-MAJOR GOVERNMENTAL FUNDS

Non-Major Capital Project Funds – Capital Project Funds account for all resources used for current and future acquisition and/or construction of major capital facilities by the Town except for those financed by proprietary funds. The Town has 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.
 - **Jib Waterfront Access Capital Project Fund** – This fund is used to account for funds accumulated for the acquisition and development of the Jib Waterfront property.
 - **Fire/EMS Station #2 Replacement Capital Project Fund** – This fund is used to account for funds accumulated for the acquisition and replacement of the Fire/EMS Station #2
-

Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2014

With Comparative Totals as of June 30, 2013

	MATS Capital Project Fund	Baseball Park Capital Project Fund	Newport River Water Access Capital Project Fund
Assets:			
Cash and cash equivalents	\$ 45,513	\$ 50,949	\$ 12,640
Accounts receivable	-	-	-
Due from other non-major funds	-	-	-
Total assets	\$ 45,513	\$ 50,949	\$ 12,640
Liabilities and fund balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 140	\$ 2,017
Due to other non-major funds	-	-	-
Total liabilities	-	140	2,017
Fund balances:			
Restricted			
Recreation	-	50,809	10,623
General government	-	-	-
Public safety	-	-	-
Assigned			
Streets	45,513	-	-
Unassigned	-	-	-
Total fund balances	45,513	50,809	10,623
Total liabilities and fund balances	\$ 45,513	\$ 50,949	\$ 12,640

Jib Waterfront Access Capital Project Fund	Fire/EMS Station #2 Replacement Capital Project Fund	Totals	
		2014	2013
\$ 77,783	\$ 8,807	\$ 195,692	\$ 387,280
-	-	-	150,653
-	-	-	135,865
\$ 77,783	\$ 8,807	\$ 195,692	\$ 673,798
\$ 195,734	\$ -	\$ 197,891	\$ 48,731
-	-	-	135,865
195,734	-	197,891	184,596
-	-	61,432	69,555
-	-	-	221,053
-	8,807	8,807	153,137
-	-	-	-
-	-	45,513	45,457
(117,951)	-	(117,951)	-
(117,951)	8,807	(2,199)	489,202
\$ 77,783	\$ 8,807	\$ 195,692	\$ 673,798

Town of Morehead City, North Carolina

Non-Major Governmental Funds
 Combining Statement of Revenue, Expenditures and
 Changes in Fund Balance
 Year Ended June 30, 2014
 With Comparative Totals For Year Ended June 30, 2013

	MATS Capital Project Fund	Baseball Park Capital Project Fund	Newport River Water Access Capital Project Fund
Revenue			
Restricted intergovernmental	\$ -	\$ -	\$ -
Miscellaneous	-	-	-
Investment earnings	56	71	-
Total revenue	56	71	-
Expenditures			
Capital outlay	-	4,664	3,530
Interest expense	-	-	-
Total expenditures	-	4,664	3,530
Revenue over (under) expenditures	56	(4,593)	(3,530)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Revenue and other financing sources over (under) expenditures and other financing uses	56	(4,593)	(3,530)
Fund balance, beginning	45,457	55,402	14,153
Fund balance (deficit), ending	\$ 45,513	\$ 50,809	\$ 10,623

Jib Waterfront Access Capital Project Fund	Fire/EMS Station #2 Replacement Capital Project Fund	2014 Totals	2013 Totals
\$ 150,000	\$ -	\$ 150,000	\$ 356,781
93,866	-	93,866	59,912
160	97	384	695
244,026	97	244,250	417,388
612,174	130,000	750,368	1,327,624
-	-	-	7,677
612,174	130,000	750,368	1,335,301
(368,148)	(129,903)	(506,118)	(917,913)
70,047	15,650	85,697	322,950
-	-	-	(2,191)
70,047	15,650	85,697	320,759
(298,101)	(114,253)	(420,421)	(597,154)
180,150	123,060	418,222	1,086,356
\$ (117,951)	\$ 8,807	\$ (2,199)	\$ 489,202

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, 2014

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental				
NCDOT Grant	\$ 287,909	\$ 287,909	\$ -	\$ 287,909
Carteret County Grant	35,989	35,989	-	35,989
Interest earnings	4,500	7,740	56	7,796
Total revenue	328,398	331,638	56	331,694
Expenditures				
Trail improvements	914,697	871,965	-	871,965
Total expenditures	914,697	871,965	-	871,965
Revenue over (under) expenditures	(586,299)	(540,327)	56	(540,271)
Other financing sources				
Transfers in				
Street Improvements Fund	128,000	127,485	-	127,485
General Fund	458,299	458,299	-	458,299
Total other financing sources	586,299	585,784	-	585,784
Revenue and other financing sources over expenditures	\$ -	\$ 45,457	56	\$ 45,513
Fund balance, beginning			<u>45,457</u>	
Fund balance, ending			<u>\$ 45,513</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, 2014

	Project	Actual		Project
	Authorization	Prior	Current	To Date
		Years	Year	
Revenue				
Restricted intergovernmental				
LWCF grant	\$ 250,000	\$ 250,000	\$ -	\$ 250,000
PARTF grant	150,000	150,000	-	150,000
Interest revenue	33,043	33,247	71	33,318
Miscellaneous revenue - donations	264,500	264,500	-	264,500
Total revenue	697,543	697,747	71	697,818
Expenditures				
Baseball park construction	2,931,750	2,876,552	4,664	2,881,216
Total expenditures	2,931,750	2,876,552	4,664	2,881,216
Revenue under expenditures	(2,234,207)	(2,178,805)	(4,593)	(2,183,398)
Other financing sources				
Transfer from General Fund	2,227,950	2,227,950	-	2,227,950
Transfer from Mayberry/20th Street	6,257	6,257	-	6,257
Total other financing sources	2,234,207	2,234,207	-	2,234,207
Revenue and other financing sources over (under) expenditures	\$ -	\$ 55,402	(4,593)	\$ 50,809
Fund balance, beginning			55,402	
Fund balance, ending			\$ 50,809	

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, 2014

	Project Authorization	Actual		Project To Date
		Prior Years	Current Year	
Revenue				
Restricted intergovernmental				
CAMA Public Access grant	\$ 600,000	\$ 600,000	\$ -	\$ 600,000
Carteret County Water Access funds	500,000	500,000	-	500,000
WAMI grant	1,240,820	1,150,000	-	1,150,000
Coastal Rec. Fishing License grant	49,430	-	-	-
DENR/DWR Dredging grant	26,500	26,516	-	26,516
NC Marine Resources grant	156,780	156,780.00	-	156,780
Investment earnings	2,000	1,913	-	1,913
Total revenue	2,575,530	2,435,209	-	2,435,209
Expenditures				
Water access improvements	2,725,530	2,571,056	3,530	2,574,586
Total expenditures	2,725,530	2,571,056	3,530	2,574,586
Revenue under expenditures	(150,000)	(135,847)	(3,530)	(139,377)
Other financing sources				
Transfer from General Fund	150,000	150,000	-	150,000
Total other financing sources	150,000	150,000	-	150,000
Revenue under other financing sources over (under) expenditures	\$ -	\$ 14,153	(3,530)	\$ 10,623
Fund balance, beginning			14,153	
Fund balance, ending			\$ 10,623	

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

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and for the Year Ended June 30, 2014**

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental				
CAMA grant	\$ 400,000	\$ 200,000	\$ -	\$ 200,000
Division of Water Resources grant	300,000	300,000	-	300,000
Waterfront access	150,000	-	150,000	150,000
Interest revenue	-	(322)	160	(162)
Miscellaneous revenue - donations	134,424	-	93,866	93,866
Total revenue	984,424	499,678	244,026	743,704
Expenditures				
Jib waterfront access expenditures	3,101,250	1,779,733	612,174	2,391,907
Interest expense on interfund loan	10,000	4,836	-	4,836
Total expenditures	3,111,250	1,784,569	612,174	2,396,743
Revenue under expenditures	(2,126,826)	(1,284,891)	(368,148)	(1,653,039)
Other financing sources (uses)				
Contingency	(13,522)	-	-	-
Issuance of debt	407,000	-	-	-
Transfer from General Fund	1,731,143	1,462,850	70,047	1,532,897
Transfer from Shepard Street Boat Ramp	2,205	2,191	-	2,191
Transfer from Water/Sewer Fund	650,000	650,000	-	650,000
Transfer to Water/Sewer Fund	(650,000)	(650,000)	-	(650,000)
Total other financing sources (uses)	2,126,826	1,465,041	70,047	1,535,088
Revenue and other financing sources over (under) expenditures	\$ -	\$ 180,150	(298,101)	\$ (117,951)
Fund balance, beginning			<u>180,150</u>	
Fund balance (deficit), ending			<u>\$ (117,951)</u>	

**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, 2014**

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental-USDA grant	\$ 200,000	\$ 200,000	\$ -	\$ 200,000
Interest revenue	-	(6,299)	97	(6,202)
Miscellaneous revenue - donations	-	400	-	400
Total revenue	200,000	194,101	97	194,198
Expenditures				
Capital outlay - Fire/EMS St. #2 replacement	2,821,100	2,682,364	130,000	2,812,364
Interest expense on Fire/EMS St. #2 replacement	13,550	7,677	-	7,677
Total expenditures	2,834,650	2,690,041	130,000	2,820,041
Revenue under expenditures	(2,634,650)	(2,495,940)	(129,903)	(2,625,843)
Other financing sources				
Issuance of debt	2,075,000	2,075,000	-	2,075,000
Transfer from Fire/EMS Fund	559,650	544,000	15,650	559,650
Total other financing sources	2,634,650	2,619,000	15,650	2,634,650
Revenue and other financing sources over (under) expenditures	\$ -	\$ 123,060	(114,253)	\$ 8,807
Fund balance, beginning			<u>123,060</u>	
Fund balance, ending			<u>\$ 8,807</u>	

ENTERPRISE FUNDS

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

The Town maintains two enterprise funds.

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

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

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Town of Morehead City, North Carolina

Water and Sewer Fund

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

Year Ended June 30, 2014

With Comparative Actual Amounts For The Year Ended June 30, 2013

(Page 1 of 3)

	2014		Variance with Final Budget	2013
	Budget	Actual		Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 2,570,000	\$ 2,599,303	\$ 29,303	\$ 2,472,207
Water charges	2,775,000	2,868,882	93,882	2,668,088
Tap fees	14,000	18,188	4,188	19,988
Total charges for sales and services	<u>5,359,000</u>	<u>5,486,373</u>	<u>127,373</u>	<u>5,160,283</u>
Miscellaneous	272,000	332,366	60,366	290,858
Total operating revenue	<u>5,631,000</u>	<u>5,818,739</u>	<u>187,739</u>	<u>5,451,141</u>
Operating expenditures				
Cost of sales and services -				
Water, wells and pumping stations:				
Salaries, wages and employee benefits		103,470		48,483
Other		136,350		131,146
Repairs and maintenance		130,105		82,727
Capital Outlay		18,559		16,760
Total cost of sales and services - water, wells and pumping stations	<u>536,725</u>	<u>388,484</u>	<u>148,241</u>	<u>279,116</u>
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits		667,751		682,647
Other		840,603		710,934
Repairs and maintenance		40,309		39,770
Capital outlay		55,682		35,621
Total cost of sales and services - water distribution and sewer collection	<u>1,723,007</u>	<u>1,604,345</u>	<u>118,662</u>	<u>1,468,972</u>
Cost of sales and services -				
Lift stations and sewer mains:				
Other		78,818		74,178
Repairs and maintenance		47,782		69,192
Capital outlay		17,935		22,972
Total cost of sales and services - lift stations and sewer mains	<u>241,500</u>	<u>144,535</u>	<u>96,965</u>	<u>166,342</u>

(Continued)

Town of Morehead City, North Carolina

Water and Sewer Fund

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

Year Ended June 30, 2014

With Comparative Actual Amounts For The Year Ended June 30, 2013

(Page 2 of 3)

	2014		Variance with Final Budget	2013
	Budget	Actual		Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits		\$ 438,293		\$ 426,698
Other		299,646		311,880
Repairs and maintenance		121,479		69,130
Capital outlay		105,815		32,849
Total cost of sales and services - wastewater treatment plant	\$ 1,062,050	965,233	\$ 96,817	840,557
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits		158,811		153,486
Other		58,437		61,608
Total cost of sales and services - water billing and collection	243,643	217,248	26,395	215,094
Total operating expenditures	3,806,925	3,319,845	487,080	2,970,081
Operating revenue over operating expenditures	1,824,075	2,498,894	674,819	2,481,060
Nonoperating revenue (expenditures)				
Interest revenue	20,050	20,570	520	24,414
Restricted intergovernmental	-	13,241	13,241	-
Interest and fiscal charges	(368,098)	(360,880)	7,218	(416,082)
Bond and installment agreement principal payments	(1,439,031)	(1,439,031)	-	(1,426,591)
Total nonoperating expenditures	(1,787,079)	(1,766,100)	20,979	(1,818,259)
Revenue over expenditures	36,996	732,794	695,798	662,801

(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, 2014

With Comparative Actual Amounts For The Year Ended June 30, 2013

(Page 3 of 3)

	2014			2013
	Budget	Actual	Variance with Final Budget	Actual
Other financing sources (uses)				
Capital contributions	\$ 60,600	\$ 60,617	\$ 17	\$ 58,286
Interfund loan repayment	-	-	-	-
Transfers in	-	-	-	-
Transfers out:				
Water and Sewer Capital Project Funds	(759,275)	(359,050)	400,225	(190,999)
Water Treatment Capital Project Fund	-	-	-	-
Contingency	(103,946)	-	103,946	-
Fund balance appropriated	765,625	-	(765,625)	-
Total other financing sources (uses)	(36,996)	(298,433)	(261,437)	(132,713)
Revenue and other sources over expenditures and other financing uses	\$ -	\$ 434,361	\$ 434,361	\$ 530,088

Reconciliation of modified accrual basis to full accrual basis:

Revenue and other financing sources over expenditures and other financing uses	\$ 434,361	\$ 530,088
Depreciation	(1,450,527)	(1,498,918)
Note and installment agreement principal payment	1,439,031	1,426,591
Capitalized expenditures included in capital outlay and other expenditures	188,398	102,843
Transfer to Water and Sewer Capital Project Funds	359,050	190,999
Contributed capital from notes receivable	(61,677)	(59,326)
Repairs and maintenance expense from capital project funds	(58,798)	(104,624)
Contributed capital assets	-	90,917
Contributions-capital project funds	303,045	102,975
Interest expense in capital project funds	(66)	(122)
Intergovernmental revenue from capital projects	2,156,665	134,883
Interest earned from capital project funds	2,204	2,907
Loss on disposal of capital assets	-	(184)
Change in deferred revenue	(11,334)	
Net other post employment benefit obligation	(26,630)	(19,431)
Net income, full accrual basis	\$ 3,273,722	\$ 899,598

Town of Morehead City, North Carolina
Solid Waste Fund

Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
Year Ended June 30, 2014
With Comparative Actual Amounts for Year Ended June 30, 2013

	2014			2013
	Budget	Actual	Variance, with Final Budget	Actual
Revenue:				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 920,000	\$ 927,360	\$ 7,360	\$ 920,217
Miscellaneous	100	723	623	1,459
Total operating revenue	920,100	928,083	7,983	921,676
Operating expenditures:				
Contracted Services		655,349		634,792
Salaries, wages and employee benefits		49,087		48,938
Operating		171,943		172,574
Total operating expenditures	900,615	876,379	24,236	856,304
Operating revenue over (under) operating expenditures	19,485	51,704	32,219	65,372
Nonoperating revenue:				
Interest revenue	200	358	158	368
Restricted intergovernmental	6,000	25,916	19,916	5,010
Total nonoperating revenue	6,200	26,274	20,074	5,378
Revenue over expenditures	25,685	77,978	52,293	70,750
Other financing sources (uses)				
Contingency	(25,685)		25,685	-
Total other financing uses	(25,685)	-	25,685	-
Revenue and other financing sources over expenditures	\$ -	\$ 77,978	77,978	\$ 70,750
Reconciliation of modified accrual basis with full accrual basis:				
Revenue and other financing sources over expenditures		\$ 77,978		\$ 70,750
Net other postemployment benefit obligation		(6,376)		350
Depreciation		(16,453)		(16,453)
Change in deferred revenue		(24,304)		-
Net income, full accrual basis		\$ 30,845		\$ 54,647

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, 2014
 With Comparative Actual Amounts For The Year Ended June 30, 2013

	2014			2013
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Impact fees	\$ 95,000	\$ 299,111	\$ 204,111	\$ 98,891
Interest	1,000	1,377	377	1,549
Total revenue	96,000	300,488	204,488	100,440
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(80,000)	(14,509)	65,491	(15,989)
Reserved for future appropriation	(16,000)	-	16,000	-
Total other financing sources (uses)	(96,000)	(14,509)	81,491	(15,989)
Revenue and other financing sources over other financing sources	\$ -	\$ 285,979	\$ 285,979	\$ 84,451

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, 2014
 With Comparative Actual Amounts For The Year Ended June 30, 2013

	2014			2013
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Interest	\$ -	\$ (66)	\$ (66)	\$ 7
Total revenue	-	(66)	(66)	7
Expenditures				
Repair and extension	210,000	30,248	179,752	-
Engineering	10,000	10,000	-	-
Contracted services-mapping	50,000	49,949	51	50,000
Improvements	30,000	3,500	26,500	-
Sewer rehab pilot	40,000	4,509	35,491	15,989
Land purchase	30,000	-	30,000	-
Other equipment	59,275	43,759	15,516	5,985
Slip lining/I & I reduction	100,000	-	100,000	70,000
Lift station & force main repair	300,000	188,262	111,738	112,522
Well relining repair	40,000	14,597	25,403	16,000
Supervisory Control and Data Acquisition/ Well control system	50,000	33,481	16,519	29,942
Total expenditures	919,275	378,305	540,970	300,438
Revenue over (under) expenditures	(919,275)	(378,371)	540,904	(300,431)
Other financing sources				
Transfers in:				
Water and sewer fund	759,275	359,050	(400,225)	190,999
Water and sewer capital reserve fund	80,000	14,509	(65,491)	15,989
Water and sewer rebatable capital reserve fund	80,000	4,747	(75,253)	-
WWTP capital project fund	-	-	-	14,070
Lift station improvements grant project fund	-	-	-	79,381
Total other financing sources and (uses)	919,275	378,306	(540,969)	300,439
Revenue and other financing sources over (under) expenditures	\$ -	\$ (65)	\$ (65)	\$ 8

Town of Morehead City, North Carolina

Water and Sewer Rebatable Capital Reserve Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 Year Ended June 30, 2014
 With Comparative Actual Amounts For The Year Ended June 30, 2013

	2014			2013
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Contributed capital	\$ 5,000	\$ 3,934	\$ (1,066)	\$ 5,056
Interest	300	288	(12)	362
Total revenue	5,300	4,222	(1,078)	5,418
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(80,000)	(4,747)	75,253	-
Fund balance appropriated	74,700	-	(74,700)	-
Total other financing uses	(5,300)	(4,747)	553	-
Revenue over other financing uses	\$ -	\$ (525)	\$ (525)	\$ 5,418

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, 2014

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
ARRA funds (PWS)-debt forgiveness	\$ 1,500,000	\$ 1,500,000	\$ -	\$ 1,500,000
ARRA funds/USDA-RDA grant	4,869,000	-	2,156,665	2,156,665
Interest	-	1,328	358	1,686
Total revenue	6,369,000	1,501,328	2,157,023	3,658,351
Expenditures				
Water treatment improvements	13,100,000	4,649,500	6,242,536	10,892,036
Total expenditures	13,100,000	4,649,500	6,242,536	10,892,036
Revenue under expenditures	(6,731,000)	(3,148,172)	(4,085,513)	(7,233,685)
Other financing sources				
Issuance of debt-ARRA funds (PWS)	1,500,000	1,500,000	-	1,500,000
Issuance of debt ARRA funds (USDA-RDA)	4,932,000	-	-	-
Issuance of bond anticipation notes	-	4,932,000	-	4,932,000
Transfer from water/sewer fund	299,000	299,000	-	299,000
Total other financing sources	6,731,000	6,731,000	-	6,731,000
Revenue and other financing sources over (under) expenditures	\$ -	\$ 3,582,828	\$ (4,085,513)	\$ (502,685)

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, 2014

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
CWMTF Reuse Grant	\$ 81,900	\$ 81,899	\$ -	\$ 81,899
Interest	-	4,086	78	4,164
Total revenue	81,900	85,985	78	86,063
Expenditures				
Water and sewer improvements	279,350	279,165	-	279,165
Total expenditures	279,350	279,165	-	279,165
Revenue over (under) expenditures	(197,450)	(193,180)	78	(193,102)
Other financing sources				
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)	-	-	-
Total other financing sources	197,450	256,800	-	256,800
Revenue and other financing sources over expenditures	\$ -	\$ 63,620	\$ 78	\$ 63,698

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, 2014

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
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	341,241	-	341,241
Interest earned	73,709	76,793	103	76,896
Total revenue	2,635,121	2,609,824	103	2,609,927
Expenditures				
Water and sewer improvements	2,991,055	2,997,001	468	2,997,469
Total expenditures	2,991,055	2,997,001	468	2,997,469
Revenue under expenditures	(355,934)	(387,177)	(365)	(387,542)
Other financing sources (uses)				
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)	-	-	-
Total other financing sources	355,934	463,581	-	463,581
Revenue and other financing sources over (under) expenditures	\$ -	\$ 76,404	\$ (365)	\$ 76,039

OTHER FINANCIAL INFORMATION

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

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

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Town of Morehead City, North Carolina

**Schedule of Ad Valorem Taxes Receivable
June 30, 2014**

Year Ended June 30	Uncollected Balance June 30, 2013	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 6,142,889	\$ 6,078,874	\$ 64,015
2012-2013	80,953	(2,969)	59,144	18,840
2011-2012	16,294	(697)	7,329	8,268
2010-2011	5,988	(134)	677	5,177
2009-2010	1,757	(37)	107	1,613
2008-2009	5,889	(1)	144	5,744
2007-2008	1,712	-	-	1,712
2006-2007	1,266	-	-	1,266
2005-2006	1,004	-	-	1,004
2004-2005	1,657	-	-	1,657
2003-2004	22	-	-	22
	<u>\$ 116,542</u>	<u>\$ 6,139,051</u>	<u>\$ 6,146,275</u>	109,318
Less allowance for doubtful accounts				<u>(30,041)</u>
				<u>\$ 79,277</u>

Reconciliation with revenues:

Taxes - Ad valorem, General Fund	\$ 6,106,245
Net collection adjustments	135
Amounts adjusted for tax discount	68,776
Less penalties and interest collected, net	<u>(28,881)</u>
Total collections and credits	<u>\$ 6,146,275</u>

Town of Morehead City, North Carolina

**Analysis of Current Tax Levy
For the Year Ended June 30, 2014**

	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	\$ 1,907,753,156	0.315	\$ 6,009,423	\$ 5,731,951	\$ 277,472
Late listing penalties	-	-	9,019	9,019	-
Total	1,907,753,156		6,018,442	5,740,970	277,472
Discoveries:					
Current year taxes	36,723,802	0.315	115,680	115,680	-
Prior year taxes	9,265,016	0.285	26,405	26,405	-
Prior year taxes	146,389	0.220	322	322	-
Prior year taxes	3,624	0.380	14	14	-
Other adjustments	-	-	-	-	-
Total	46,138,831		142,421	142,421	-
Abatements					
Current year taxes	5,625,278	0.315	17,720	17,720	-
Prior year taxes	-	0.285	-	-	-
Prior year taxes	-	0.220	-	-	-
Prior year taxes	-	0.380	-	-	-
Other adjustments	-	-	254	254	-
Total	5,625,278		17,974	17,974	-
Total property valuation	<u>\$ 1,948,266,709</u>				
Net levy			6,142,889	5,865,417	277,472
Uncollected taxes at June 30, 2014			64,015	54,987	9,028
Current year's taxes collected			<u>\$ 6,078,874</u>	<u>\$ 5,810,430</u>	<u>\$ 268,444</u>
Current levy collection percentage			<u>98.96%</u>	<u>99.06%</u>	<u>96.75%</u>

**STATISTICAL SECTION
(Unaudited)**

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

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time	98
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	110
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.	114
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.	120
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.	124

Town of Morehead City, North Carolina

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

	2005	2006	2007	2008
Governmental activities:				
Net investment in capital assets	\$ 6,969,774	\$ 7,368,834	\$ 11,334,954	\$ 14,487,313
Restricted	59,502	67,442	17,982	44,853
Unrestricted	4,388,933	5,429,501	5,995,760	6,110,999
Total governmental activities net position	\$ 11,418,209	\$ 12,865,777	\$ 17,348,696	\$ 20,643,165
Business-type activities:				
Net investment in capital assets	\$ 16,859,995	\$ 18,392,723	\$ 21,246,564	\$ 22,276,242
Unrestricted	5,904,172	5,909,873	6,272,564	6,784,898
Total business-type activities net position	\$ 22,764,167	\$ 24,302,596	\$ 27,519,128	\$ 29,061,140
Primary government:				
Net investment in capital assets	\$ 23,829,769	\$ 25,761,557	\$ 32,581,518	\$ 36,763,555
Restricted	59,502	67,442	17,982	44,853
Unrestricted	10,293,105	11,339,374	12,268,324	12,895,897
Total primary government net position	\$ 34,182,376	\$ 37,168,373	\$ 44,867,824	\$ 49,704,305

2009	2010	2011	2012	2013	2014
\$ 20,038,930	\$ 27,397,697	\$ 28,415,541	\$ 28,409,590	\$ 29,832,269	\$ 29,797,242
49,870	49,870	2,604,295	3,029,403	2,236,110	2,328,152
5,319,695	3,541,078	2,902,265	3,318,508	3,043,941	3,226,255
\$ 25,408,495	\$ 30,988,645	\$ 33,922,101	\$ 34,757,501	\$ 35,112,320	\$ 35,351,649
\$ 23,703,651	\$ 25,608,344	\$ 27,669,652	\$ 28,868,465	\$ 28,439,320	\$ 31,102,147
6,663,538	5,696,777	6,339,091	5,908,427	7,291,817	7,933,557
\$ 30,367,189	\$ 31,305,121	\$ 34,008,743	\$ 34,776,892	\$ 35,731,137	\$ 39,035,704
\$ 43,742,581	\$ 53,006,041	\$ 56,085,193	\$ 57,278,055	\$ 58,271,589	\$ 60,899,389
49,870	49,870	2,604,295	3,029,403	2,236,110	2,328,152
11,983,233	9,237,855	9,241,356	9,226,935	10,335,758	11,159,812
\$ 55,775,684	\$ 62,293,766	\$ 67,930,844	\$ 69,534,393	\$ 70,843,457	\$ 74,387,353

Town of Morehead City, North Carolina

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

	2005	2006	2007	2008
Expenses:				
Governmental activities:				
General government	\$ 1,062,169	\$ 1,273,118	\$ 1,481,178	\$ 1,500,379
Public safety	4,481,960	4,683,022	5,070,021	5,685,970
Highways and streets	667,372	711,562	359,256	913,660
Economic and physical development	10,573	6,505	-	-
Cultural and recreation	702,866	719,270	408,615	935,483
Library	-	-	-	-
Interest on long-term debt	81,946	80,666	130,978	92,389
Total governmental activities expenses	7,006,886	7,474,143	7,450,048	9,127,881
Business-type activities:				
Water and sewer	2,720,098	3,342,171	3,586,411	4,317,521
Solid waste	677,425	848,223	774,657	798,825
Total business-type activities expenses	3,397,523	4,190,394	4,361,068	5,116,346
Total primary government expenses	10,404,409	11,664,537	11,811,116	14,244,227
Program revenue:				
Governmental activities:				
Charges for services:				
General government	315,251	339,861	86,862	63,521
Public safety	750,517	681,881	799,982	720,403
Highways and streets	27,390	-	46,515	10,472
Cultural and recreation	97,370	91,559	151,042	118,773
Library	-	-	-	-
Operating grants and contributions:				
General government	-	-	45,615	2,135
Public safety	423,771	468,919	209,490	269,149
Highways and streets	476,981	247,417	425,220	337,333
Cultural and recreation	115,000	298	292,621	55,000
Library	-	-	-	-
Capital grants and contributions:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways and streets	107,360	21,484	-	-
Economic and physical development	10,557	-	-	-
Cultural and recreation	202,300	16,194	277,419	797,500
Library	-	-	-	-
Total governmental activities program revenue	2,526,497	1,867,613	2,334,766	2,374,286
Business-type activities:				
Charges for services:				
Water and sewer	3,101,515	3,406,037	3,846,383	4,187,986
Solid waste	702,697	729,613	747,112	757,122
Operating grants and contributions:				
-	-	125,663	-	-
Capital grants and contributions:				
-	461,574	1,243,927	2,593,703	1,388,956
Total business-type activities program revenue	4,265,786	5,505,240	7,187,198	6,334,064
Total primary government program revenue	6,792,283	7,372,853	9,521,964	8,708,350

(Continued)

2009	2010	2011	2012	2013	2014
\$ 1,435,315	\$ 1,374,988	\$ 1,439,277	\$ 1,608,076	\$ 1,805,015	\$ 1,787,898
5,797,619	5,877,638	5,924,665	5,941,696	7,074,479	7,315,678
922,125	861,275	960,596	932,790	231,503	1,019,054
-	-	-	-	-	-
791,320	719,211	1,266,613	1,066,750	763,721	1,159,643
138,631	138,268	141,726	135,880	140,368	158,508
72,241	70,524	208,152	340,508	297,958	314,150
9,157,251	9,041,904	9,941,029	10,025,700	10,313,044	11,754,931
4,405,690	4,521,842	4,667,772	4,933,504	4,907,070	5,028,282
803,220	857,002	895,433	966,224	872,407	899,208
5,208,910	5,378,844	5,563,205	5,899,728	5,779,477	5,927,490
14,366,161	14,420,748	15,504,234	15,925,428	16,092,521	17,682,421
78,207	72,296	144,243	91,956	87,547	66,419
772,663	904,846	816,709	115,574	621,344	1,187,605
61,406	-	-	-	-	-
80,794	124,142	103,932	103,211	114,772	138,247
31,336	7,759	7,818	7,947	6,858	5,070
33,871	2,381	-	47,863	39,525	39,286
247,953	291,185	180,140	304,801	263,607	537,708
275,479	250,052	249,100	252,306	-	-
18,979	133,991	-	-	-	-
55,000	53,075	53,075	53,075	53,075	53,075
107,028	-	-	-	-	150,000
53,253	935,555	537,023	179,812	200,000	-
1,866,084	127,876	-	498,563	339,608	271,051
-	-	-	-	-	-
1,347,082	3,049,718	2,003,391	100,000	195,251	-
30,806	-	-	-	-	-
5,059,941	5,952,876	4,095,431	1,755,108	1,921,587	2,448,461
4,249,027	4,356,093	4,707,662	4,758,541	5,160,283	5,486,373
810,719	821,547	846,708	927,927	920,217	927,360
-	9,431	5,985	127,767	255,525	14,853
1,294,674	806,506	2,374,606	522,823	77,691	2,447,316
6,354,420	5,993,577	7,934,961	6,337,058	6,413,716	8,875,902
11,414,361	11,946,453	12,030,392	8,092,166	8,335,303	11,324,363

Town of Morehead City, North Carolina

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

	2005	2006	2007	2008
Net (expense) revenue:				
Governmental activities	(4,480,389)	(5,606,530)	(5,115,282)	(6,753,595)
Business-type activities	868,263	1,314,846	2,826,130	1,217,718
Total primary government net expense	(3,612,126)	(4,291,684)	(2,289,152)	(5,535,877)
General revenue and other changes in net position:				
Governmental activities:				
Taxes:				
Property taxes, levied for general purpose	4,093,114	4,398,749	4,581,817	5,514,458
Local option sales tax	1,456,317	1,586,576	1,779,655	1,897,449
Other taxes	207,783	238,514	277,341	87,954
Unrestricted intergovernmental	544,198	561,558	819,157	998,888
Investment earnings, unrestricted	105,248	268,701	372,072	257,686
Miscellaneous income, unrestricted	-	-	1,768,159	1,291,629
Total governmental activities	6,406,660	7,054,098	9,598,201	10,048,064
Business-type activities:				
Investment earnings	134,028	223,583	390,402	324,294
Miscellaneous income	-	-	-	-
Total business-type activities	134,028	223,583	390,402	324,294
Total primary government	6,540,688	7,277,681	9,988,603	10,372,358
Changes in net position:				
Governmental activities	1,926,271	1,447,568	4,482,919	3,294,469
Business-type activities	1,002,291	1,538,429	3,216,532	1,542,012
Total primary government	\$ 2,928,562	\$ 2,985,997	\$ 7,699,451	\$ 4,836,481

2009	2010	2011	2012	2013	2014
(4,097,310)	(3,089,028)	(5,845,598)	(8,270,592)	(8,391,457)	(9,306,470)
1,145,510	614,733	2,371,756	437,330	634,239	2,948,412
(2,951,800)	(2,474,295)	(3,473,842)	(7,833,262)	(7,757,218)	(6,358,058)
5,769,140	5,785,183	5,775,012	5,953,304	5,411,825	6,110,807
1,717,304	1,485,898	1,511,872	1,842,063	2,006,679	1,963,754
90,484	255,550	254,620	263,509	93,464	93,306
1,100,858	1,054,303	1,121,557	902,888	1,089,515	1,118,241
108,206	36,910	56,951	21,560	11,551	8,939
76,648	51,334	59,042	122,668	133,242	250,752
8,862,640	8,669,178	8,779,054	9,105,992	8,746,276	9,545,799
160,539	60,010	44,917	36,205	27,689	23,066
-	263,189	286,949	294,614	292,317	333,089
160,539	323,199	331,866	330,819	320,006	356,155
9,023,179	8,992,377	9,110,920	9,436,811	9,066,282	9,901,954
4,765,330	5,580,150	2,933,456	835,400	354,819	239,329
1,306,049	937,932	2,703,622	768,149	954,245	3,304,567
\$ 6,071,379	\$ 6,518,082	\$ 5,637,078	\$ 1,603,549	\$ 1,309,064	\$ 3,543,896

Town of Morehead City, North Carolina

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

	2005	2006	2007	2008
General Fund:				
Reserved	\$ 852,185	\$ 1,009,261	\$ 1,369,881	\$ 1,295,931
Unreserved	3,714,260	4,189,048	3,976,579	3,036,393
Total General Fund	\$ 4,566,445	\$ 5,198,309	\$ 5,346,460	\$ 4,332,324
All Other Governmental Funds:				
Reserved	\$ 635,137	\$ 855,428	\$ 536,360	\$ 424,139
Unreserved, reported in:				
Special revenue funds	(58,476)	529,141	49,027	433,635
Capital projects funds	(348,065)	413,970	633,262	1,255,086
Total all other Government Funds	\$ 228,596	\$ 1,798,539	\$ 1,218,649	\$ 2,112,860

Fiscal Year	
2009	2010
\$ 1,058,644	\$ 1,356,068
3,297,549	3,760,096
<u>\$ 4,356,193</u>	<u>\$ 5,116,164</u>
\$ 338,140	\$ 4,525,157
849,191	63,131
225,666	(2,253,538)
<u>\$ 1,412,997</u>	<u>\$ 2,334,750</u>

Town of Morehead City, North Carolina

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

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

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)

	2005	2006	2007	2008
Revenue:				
Taxes	\$ 4,110,172	\$ 4,395,523	\$ 4,583,518	\$ 5,510,995
Other taxes and licenses	1,664,100	1,825,090	277,341	87,954
Intergovernmental	1,885,328	1,340,960	3,498,663	4,115,879
Permits and fees	498,911	419,236	497,046	296,788
Sales and services	455,927	527,171	538,688	566,135
Investment earnings	105,248	268,701	372,072	257,686
Miscellaneous	286,031	177,799	1,872,278	380,096
Total revenue	9,005,717	8,954,480	11,639,606	11,215,533
Expenditures:				
General government	1,059,147	1,195,511	1,364,735	1,493,602
Public safety	4,227,291	4,370,515	4,709,486	5,368,924
Highway and streets	686,881	707,944	775,807	814,348
Culture and recreation	524,676	568,144	649,516	813,027
Economic and physical development	10,573	(52)	-	-
Capital outlay	1,698,594	1,064,919	3,898,300	2,617,912
Debt service:				
Interest	86,257	76,668	123,669	97,371
Principal	289,602	388,603	549,832	460,274
Total expenditures	8,583,021	8,372,252	12,071,345	11,665,458
Excess of revenue (under) expenditures	422,696	582,228	(431,739)	(449,925)
Other financing sources (uses):				
Transfers in	1,270,354	1,117,104	3,068,632	2,270,721
Transfers out	(1,270,354)	(1,117,104)	(3,068,632)	(2,270,721)
Debt issued	-	1,619,579	-	330,000
Total other financing sources	-	1,619,579	-	330,000
Net changes in fund balance	\$ 422,696	\$ 2,201,807	\$ (431,739)	\$ (119,925)
Debt service as a percentage of noncapital expenditures	5.46%	6.37%	8.24%	6.16%

2009	2010	2011	2012	2013	2014
\$ 5,766,103	\$ 5,752,282	\$ 5,794,269	\$ 5,921,562	\$ 5,405,814	\$ 6,106,245
285,374	255,550	254,620	263,509	93,464	93,306
3,674,288	4,609,859	5,594,738	3,595,747	4,149,263	4,133,115
250,492	130,440	207,628	119,754	193,414	263,773
680,616	683,340	708,283	657,197	1,170,479	1,228,315
108,206	37,179	56,951	21,560	11,551	8,939
193,977	155,857	165,862	154,852	133,242	250,752
10,959,056	11,624,507	12,782,351	10,734,181	11,157,227	12,084,445
1,302,666	1,118,017	1,272,341	1,316,704	1,329,077	1,492,138
5,518,315	5,618,063	5,550,763	5,603,595	5,814,771	6,695,853
771,565	715,181	839,748	811,191	840,581	866,211
757,067	645,897	774,498	822,249	797,993	924,901
-	-	-	-	-	-
2,669,623	7,587,018	5,274,968	1,601,481	2,879,010	1,122,716
79,404	61,200	196,232	297,089	300,644	328,535
536,410	247,407	5,223,696	276,913	281,816	239,053
11,635,050	15,992,783	19,132,246	10,729,222	12,243,892	11,669,407
(675,994)	(4,368,276)	(6,349,895)	4,959	(1,086,665)	415,038
1,831,074	2,088,594	2,371,207	1,565,000	2,553,133	2,063,847
(1,831,074)	(2,088,594)	(2,371,207)	(1,565,000)	(2,553,133)	(2,063,847)
-	6,050,000	4,808,000	2,075,000	-	-
-	6,050,000	4,808,000	2,075,000	-	-
\$ (675,994)	\$ 1,681,724	\$ (1,541,895)	\$ 2,079,959	\$ (1,086,665)	\$ 415,038
5.59%	3.67%	38.10%	6.29%	6.22%	5.38%

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
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	0.0029	1,895,937,520	100.00%
2013	1,697,292,892	185,708,092	29,795,181	1,912,796,165	0.0029	1,767,526,766	109.36%
2014	1,706,716,318	211,826,554	29,723,837	1,948,266,709	0.0032	1,802,190,770	109.36%

Source: Carteret County Tax Scrolls

Notes:

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

* Excludes tax exempt property

Includes registered motor vehicles billed and collected by Carteret County

Town of Morehead City, North Carolina

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

Fiscal Year Ending <u>June 30,</u>	Direct Rate Morehead <u>City</u>	Overlapping Rate Carteret <u>County</u>
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
2013	0.285	0.290
2014	0.315	0.290

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, 2014			Fiscal Year Ending June 30, 2005		
	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	1.22			
US Portfolio Two LLC	15,079,895	2	0.81	12,375,792	1	1.27
Progress Energy Carolinas	13,250,681	3	0.71			
Morehead Plaza LLC ETAL	13,099,338	4	0.70			
Vinings at Morehead LLC	11,322,836	5	0.61			
Old Towne Yacht Club Inc	11,037,348	6	0.59			
Wal Mart Real Est Business Trust	10,936,264	7	0.59	11,815,034	2	1.21
Southstar Holding MHC LLC ETAL	10,151,061	8	0.55			
Carolina Telephone	9,015,451	9	0.48	8,747,902	4	0.90
Radio Island Marina Club Inc	8,846,000	10	0.48			
Carolina Power & Light Co				10,355,265	3	1.06
Southstar Holding MHC LLC				8,424,749	5	0.86
Harborview Enterprises				5,865,039	6	0.60
Maritime Hotel LTD Partnership				5,068,997	7	0.52
Carteret Investment Association				4,277,833	8	0.44
RBI Properties Inc.				3,833,140	9	0.39
Morehead Plaza LLC				3,793,610	10	0.39
	<u>\$ 125,471,385</u>		<u>6.74</u>	<u>\$ 74,557,361</u>		<u>7.64</u>

NOTES:

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

Town of Morehead City, North Carolina

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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%	19,363	4,976,160	99.80%
2010	5,014,647	4,970,086	99.11%	40,315	5,010,401	99.92%
2011	5,015,615	4,982,951	99.35%	30,535	5,013,486	99.96%
2012	5,240,988	5,181,661	98.87%	53,923	5,235,584	99.90%
2013	5,260,008	5,205,324	98.96%	39,378	5,244,702	99.71%
2014	5,865,417	5,810,430	99.06%	-	5,810,430	99.06%

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
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	-
2013	-	8,258,121	324,771	-
2014	-	8,027,810	316,029	-

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
\$ -	\$ 4,569,789	\$ 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	0.95%
-	1,236,578	20,886,144	30,705,614	9,163	3,351	N/A
-	840,289	19,843,403	29,027,531	9,331	3,111	N/A

Town of Morehead City, North Carolina

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

Fiscal Year	General Bonded Debt Outstanding	Estimated Actual Taxable Value	Percentage of Actual Taxable Value of Property	Population Estimate	Total debt Per Capita
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	-
2013	-	1,912,796,165	0.00%	9,163	-
2014	-	1,948,266,709	0.00%	9,331	-

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, 2014
(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	\$ 36,545,000	13.51%	\$ 4,935,469
Subtotal, overlapping debt	<u>\$ 36,545,000</u>		<u>4,935,469</u>
Town direct debt	-	100.00%	8,343,838
Total direct and overlapping debt			<u><u>\$ 13,279,307</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)**

	2005	2006	2007	2008
Debt limit	\$ 76,180,442	\$ 85,090,760	\$ 87,871,351	\$ 176,350,885
Total net debt applicable to limit	-	-	-	-
Legal debt margin	<u>\$ 76,180,442</u>	<u>\$ 85,090,760</u>	<u>\$ 87,871,351</u>	<u>\$ 176,350,885</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 2014

Total assessed valuation	1,948,266,709
Debt limit (8% of assessed value)	<u>155,861,337</u>
Legal debt margin	<u>\$ 155,861,337</u>

2009	2010	2011	2012	2013	2014
\$ 186,156,521	\$ 186,792,225	\$ 187,144,678	\$ 151,675,002	\$ 153,023,693	\$ 155,861,337
-	-	-	-	-	-
<u>\$ 186,156,521</u>	<u>\$ 186,792,225</u>	<u>\$ 187,144,678</u>	<u>\$ 186,156,521</u>	<u>\$ 153,023,693</u>	<u>\$ 155,861,337</u>
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Town of Morehead City, North Carolina

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

Fiscal Year Ending June 30,	Population (1)	Carteret County Public School Enrollment (2)	Morehead City Public School Enrollment (2)	Average Annual Unemployment Rate (3)	Per Capita Personal Income (4)	Personal Income (4)
2005	8,092	8,237	N/A	5.0%	\$ 30,961	\$ 1,945,862
2006	8,209	8,056	N/A	4.6%	32,086	2,029,585
2007	8,390	8,185	N/A	4.5%	34,241	2,162,444
2008	8,691	8,371	2,514	4.3%	37,796	2,401,852
2009	8,763	8,295	2,528	7.4%	38,455	2,477,362
2010	8,830	8,353	2,565	8.4%	38,728	2,583,758
2011	8,693	8,491	2,608	8.5%	39,174	2,639,299
2012	8,810	8,540	2,585	9.3%	41,761	2,824,360
2013	9,163	8,307	2,588	8.5%	N/A	N/A
2014	9,331	8,615	2,599	6.5%	N/A	N/A

Notes:

- 1 Population and median age provided by NC Office of Planning-State Demographer
 - 2 Public school enrollment provided by the Carteret County Board of Education
 - 3 Unemployment provided by the NC Dept. of Commerce and is presented at the County level
 - 4 Per capita personal income and personal income provided by the U S Bureau of Economic Analysis. Information is available at the county level and presented on that basis. (In thousands)
- N/A - information not yet available for the year listed.

Town of Morehead City, North Carolina

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

Employer	2014		2006*	
	Employees	Rank	Employees	Rank
Carteret County General Hospital	500-999	1	1000-1499	1
Carteret Community College	250-499	2	250-499	3
Walmart Associates, Inc.	250-499	2	499-999	2
Carteret County Board of Education	250-499	2	250-499	4
Refrigerated Boxes, Inc.	100-249	2	100-249	5
NC Department of Natural Resources	100-249	3		
Town of Morehead City	100-249	3	100-249	7
Lowe's Home Improvement	100-249	3	100-249	6
Big Rock Sports, LLC	100-249	3		
Belks, Inc.	100-249	3	100-249	9
Creative Outlet			100-249	8
Harborview Nursing Services			0-99	10

Notes:

- 1 Information for number of employees only available in ranges.
- 2 Source of information is NC Department of Commerce
- 3 N/A = Information not available.
- * 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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Government:										
Administration	5	5	5	5	5	4	4	4	4	4
Finance	7	7	6	6	6	6	6	6	6	6
Building & Grounds	5	5	5	7	7	7	8	6	6	6
Garage	2	2	2	1	1	1	1	1	1	1
Public Safety:										
Police	48	47	45	45	53	51	51	48	48	47
Fire/EMS	38	35	34	34	34	33	33	27	21	21
Planning & Inspections	7	7	6	6	7	7	7	7	7	6
Transportation:										
Streets	9	9	9	9	9	10	10	9	9	9
Recreation & Culture:										
Recreation	7	7	6	8	8	8	8	7	7	7
Parks	3	3	3	1	1	1	0	0	0	0
Library	3	5	4	4	4	4	4	4	2	2
Water & Sewer:										
Billing & collections	4	4	4	4	4	4	4	4	3	3
Wells & water treatment	2	1	-	-	-	-	-	-	-	-
Water Distbr. & sewer collect.	14	14	15	15	14	14	14	14	13	13
Wastewater treatment	8	8	7	7	7	6	6	5	5	5
Solid Waste:										
Operations	1	1	1	1	1	1	1	1	1	1
TOTAL	163	160	152	153	161	157	157	143	133	131

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Town of Morehead City, North Carolina

Operating Indicators By Function/Program

Last Ten Fiscal Years

(Unaudited)

Function/Program	Calendar Year			
	2005	2006	2007	2008
Function/Program				
Public Safety				
Police calls dispatched ##	92,714	97,205	98,801	96,127
Number of building permits issued ##	1,030	1,137	1,000	953
Construction value of building permits issued \$	63,685,536	\$ 85,272,028	\$ 94,425,714	\$ 48,035,938
Fire/EMS area served in square miles ##	12.47	12.51	14.17	N/A
Fire calls answered ##	855	1,156	814	772
EMS calls answered ##	1,979	2,378	1,433	1,619
Highways and Streets				
Miles of streets maintained **	43.30	44.11	44.11	47.15
Water/Sewer				
Number of customers served **	4,588	5,052	5,218	5,299
Daily avg. gallons water consumption ##	1,301,000	1,284,000	1,289,000	1,254,000
Daily avg. gallons waste water treated ##	1,544,903	1,358,846	1,416,000	1,321,000
Sanitation				
Solid waste collected annually (tons) **	3,565	3,611	3,733	3,392
Recyclables collected annually (tons) **	325	366	321	369

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

2009	2010	2011	2012	2013	2014
98,291	84,586	81,015	72,351	72,194	75,004
890	813	943	1,050	1,256	985
\$ 27,011,019	\$ 25,341,471	\$ 24,851,031	\$ 38,126,292	\$ 21,528,398	\$ 26,764,940
14.20	14.20	14.20	15.73	15.73	15.73
807	727	966	1,015	762	707
1,665	1,893	1,801	2,058	2,261	2,505
49.38	49.56	49.82	50.27	50.27	50.27
5,322	5,299	5,323	5,375	5,419	5,454
1,212,000	1,244,000	1,209,000	1,208,000	1,163,000	1,165,000
1,156,000	1,329,000	1,199,000	1,169,000	1,121,000	1,144,000
3,293	3,246	3,235	3,204	3,077	3,080
434	398	397	398	366	365

Town of Morehead City, North Carolina

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

Function/Program	Calendar Year			
	2005	2006	2007	2008
General Government				
Number of cemeteries	3	3	3	3
Public Safety				
Number of police stations/substations	4	4	3	3
Number of patrol units	46	44	44	44
Number of police boats	0	1	1	1
Number of Fire/EMS stations	2	2	3	4
Number of engines	3	4	5	6
Number of ambulances	2	3	3	3
Number of Fire/EMS boats	1	1	1	1
Highways and Streets				
Miles of streets	43.30	44.11	44.11	47.15
Culture and Recreation				
Number of parks	9	9	10	13
Number of public water accesses	7	10	9	19
Park acreage	87.0	87.00	87.00	74.00
Tennis and multipurpose courts	8	8	8	7
Playgrounds	4	4	4	4
Ballfields	9	9	9	8
Number of libraries	1	1	1	1
Water/Sewer				
Miles of water mains	70.00	71.00	76.00	78.82
Miles of sanitary sewers	73.10	73.80	74.00	76.95
Number of water treatment plants	0	0	0	0
Number of treatment plants	2	2	2	2
Sanitation				
Number of yard waste trucks	2	2	2	2

Notes:

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

2009	2010	2011	2012	2013	2014
3	3	3	3	3	3
3	4	4	4	2	2
44	52	52	50	46	46
1	1	1	1	1	1
4	4	4	4	3	3
5	5	5	5	5	5
3	3	3	4	5	5
1	1	1	1	1	1
49.38	49.56	49.82	50.27	50.27	50.27
13	16	16	16	16	16
19	22	22	22	22	23
74.00	76.00	76.00	76.00	77.50	77.50
7	7	7	7	7	7
4	4	4	5	6	6
10	11	11	11	10	10
1	1	1	1	1	1
82.04	83.25	83.25	83.25	83.25	83.25
79.14	79.50	79.50	79.50	79.50	79.50
0	0	0	1	1	1
2	2	2	2	2	2
2	2	2	2	2	2

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COMPLIANCE SECTION

The Compliance Section contains various schedules and Auditor opinions reflecting 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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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with 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, 2014, 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 November 24, 2014.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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
November 24, 2014



**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**

Independent Auditor's Report

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, 2014. 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, 2014.

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
November 24, 2014



**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**

Independent Auditor's Report

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 program for the year ended June 30, 2014. Town of Morehead City's major State program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with 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 program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 the 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 its major State program for the year ended June 30, 2014.

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 its major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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.



Morehead City, North Carolina
November 24, 2014

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014**

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? _____ yes X 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:

CFDA #	Program Name
10.760	USDA Water and Waste Disposal Systems for Rural Communities
10.781	USDA Water and Waste Disposal Systems for Rural Communities – ARRA
97.067	Department of Homeland Security – Port Security Grant

(Continued)

Town of Morehead City, North Carolina

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2014**

Dollar threshold used to distinguish between Type A and
Type B Programs

\$300,000

Auditee qualified as low-risk auditee?

No

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)

Section 2. Financial Statement Findings

None

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, 2014**

Section 2. Financial Statement Findings

No corrective action plan is required in the current year.

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, 2014**

Finding 13-1

Internal Control – Prior Period Adjustment

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.

Status: Corrected.

Town of Morehead City, North Carolina

**Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2014**

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
Federal Awards:					
US Department of Housing and Urban Development Pass through East Carolina Regional Housing Authority Public Housing Drug Elimination Program	14.854		\$ 35,000	\$ -	\$ 1
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	1,569 54,195 <u>55,764</u>	- - <u>-</u>	- - <u>-</u>
US Department of Labor Pass through NC Department of Commerce Division of Workforce Development Carteret Community College Workforce On-Job-Training Grant	17.258	N/A	\$ 2,150	\$ -	\$ 717
US Department of Agriculture Direct Programs: USDA Water and Waste Disposal Systems Cluster USDA Water and Waste Disposal Systems for Rural Communities - ARRA (Water Treatment Plants) USDA Water and Waste Disposal Systems for Rural Communities (Water Treatment Plants) Total US Department of Agriculture Cluster	10.781 10.760	N/A N/A	M 6,004,318 M 238,220 <u>6,242,538</u>	- - <u>-</u>	- - <u>-</u>
US Department of Transportation Pass through NC Department of Transportation Enhancement Grant - Sidewalk Safety Belt Performance Grants Total US Department of Transportation	20.205 20.609	NA NA	- 8,825 <u>8,825</u>	- - <u>-</u>	41 2,942 <u>2,983</u>

(Continued)

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards (Continued)
For the Fiscal Year Ended June 30, 2014

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
Federal Awards (Continued):					
US Department of Homeland Security					
Pass through Dept of Crime Control and Public Safety					
Port Security Grant	97.067		M \$ 351,058	\$ -	\$ -
COPS Universal Hiring Grant	97.710		37,910	-	-
Total US Department of Homeland Security			<u>388,968</u>	-	-
State Awards:					
NC Department of Environment and Natural Resources					
NC Public Beach & Coastal Waterfront Access		N/A	-	150,000	53,175
Division of Marine Fisheries					
Mosquito Control Grant		N/A	-	1,058	-
Total NC Department of Environment and Natural Resources			<u>-</u>	<u>151,058</u>	<u>53,175</u>
NC Department of Transportation					
Nonstate System Street Aid Allocation		N/A	M -	321,607	-
Total NC Department of Transportation			<u>-</u>	<u>321,607</u>	<u>-</u>
NC Department of Health and Human Services					
Division of Child Development					
Pass through Carteret County:					
Teen Court Grant		N/A	-	53,364	-
Total federal expenditures			<u>\$6,731,095</u>		
Total state expenditures				<u>\$526,029</u>	
Total local expenditures					<u>\$56,159</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, 2014**

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, 2014 were \$765,000, \$555,403, \$550,000, \$11,250,000, \$516,000, and \$1,275,000, respectively. The outstanding balances of the USDA train depot loan, the 911 Building loan, and Fire/EMS Station #2 at June 30, 2014 were \$316,029, \$4,647,108, and \$2,050,702, respectively.

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