

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Prepared by:

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

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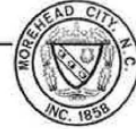
INTRODUCTORY SECTION

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

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MOREHEAD CITY NORTH CAROLINA

Gerald A. Jones, Jr., Mayor



David S. Whitlow
City Manager

COUNCIL

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

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

December 21, 2016

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, 2016. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report complies with these requirements.

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

RSM US LLP, a firm of independent licensed certified public accountants has audited the Town's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2016 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, 2016. The independent auditor's report is presented as the first component of the financial 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 9,360 it is the largest incorporated town in Carteret County. Founded in 1858, this picturesque community is located on the Intercoastal Waterway and is separated from the Atlantic Ocean by a sound and a protective barrier island.

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

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

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

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

The estimated 2016 population for the Town of 9,362 was nearly flat compared to the 2015 estimate of 9,319. The Town encompasses approximately seven square miles and employs 173 full-time equivalent staff. Like many other locations, the Town was negatively impacted by the recession of December 2007 through June 2009, and growth slowed during that period. However, economic indicators including building permits, number of utility customers, and sales tax revenue point to a rebounding local economy.

Economic Conditions and Outlook

The information in the financial statements may be best understood when considered in the context of the environment in which the Town operates. Morehead City is located in a rural coastal county. The major industries are tourism and fishing. The main attractions are the area's beaches and water related activities. The county also enjoys a number of historical sites that serve as destinations for individuals and groups. The county's economy, while seasonal, is stabilized by being in close proximity to two Marine Corp bases and air stations at Cherry Point and Camp Lejeune, which provide substantial employment for the county. Both Carteret County and Morehead City play host to a vibrant marine science community. The NC State University Marine Sciences and Technology Center, UNC-Chapel Hill Institute of Marine Sciences, and the NC Division of Marine Fisheries are located in Morehead City. The Duke University Marine Laboratory and the NOAA National Marine Fisheries Service are located just outside of the city limits of the Town. The lack of dependence on manufacturing and high tech jobs has somewhat mitigated the impact of the negative economic situations that have faced other communities for the past several years. Carteret County had a 4.8% unemployment rate in June 2016 compared to 5.1% statewide and 5.1% nationally (not seasonally adjusted).

All indications are that the Town and the county will experience continued growth. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the Town limits for 2015-2016 was \$36.4 million. This growth expands our tax base and property taxes, one of our largest revenue sources.

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

Major Initiatives

An ongoing goal of the Council has been to develop programs and pursue projects that upgrade facilities and enhance the quality of life for citizens and visitors through the cooperative efforts of governmental units, the business community, nonprofit organizations, and individual citizens. 2015-2016 major initiatives undertaken in the governmental funds to meet this goal include improvements to water access for citizens and visitors. The second phase of the "Jib" area, so named because of the likeness of the shape of the property to a jib sail, on the downtown waterfront was completed in 2014-2015. The second phase included construction of a platform/deck over the water as well as construction of a weigh station for the Big Rock Blue Marlin Tournament and was funded by a combination of local funds, state grants, a non-interest bearing loan and a contribution from the Big Rock Foundation. This phase continued improvements completed in the prior fiscal year that included a plaza and fountain along with a scenic overlook which was also funded by the Town, grant funds from the State of North Carolina, and the Big Rock Foundation. During 2015-2016 the third phase of the project was completed. The third phase included adding a finger pier and floating docks connecting to the existing deck. 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. Additional Paving was completed at the Newport River Beach Access, a popular public water access that provides boat ramps and a fishing pier.

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

Other capital improvements in the governmental funds included the purchase of a new Freightliner tanker for the Fire Department. Other vehicles and equipment replacements were acquired to some replace older items.

Rehabilitation was completed on Lift Station#11 in the Water and Sewer Fund. Designs and plans were started for the Rehabilitation of Lift Station #5 during 2015-2016.

For the Future

The Town Council adopted the fiscal year 2016-2017 budget in June 2016. Property taxes provide approximately 56% of the revenues for the General Fund. There was no increase the property tax rate, which remains at \$.35 per \$100 of valuation. Revenue from sales tax, permits and fees, and sales and services were all projected to increase. Rate increases to become effective at midyear were budgeted for water and sewer charges. These increases were necessary to pay operating costs associated with these services and to provide adequate funds to repay Water and Sewer Fund debt. Rates in the Solid Waste Fund remained flat.

On the spending side, funds were budgeted to purchase three lots adjacent to the Bayview Cemetery, replace the existing garage structure, renovate the Tennis Courts at Shevans Park, renovate the west restrooms at the Recreation Center and to upgrade the financial enterprise resource planning software. Funds were also budgeted for an initiative to repair sections of two streets that are maintained by the Town. One part-time position was added in the Human Resources Department and in the Information Technology Department to continue the level of support for Town employees and technological equipment and/or software. One full time position was added in the Planning & Inspections Department in order to remain responsive to Town citizens in regards to permits, inspections, etc. Benefit plans were continued largely unchanged. A part-time position was reclassified to full time in the Recreation Department in order to

provide adequate staffing in the recreation department to keep up with the increased amount of users. An additional dock master position was funded in anticipation of the purchase of the waterfront property and the related docks in the downtown area. Three additional positions were funded in the Fire & EMS fund dependent upon receipt of a grant that would pay for those positions 100% for the first two years. Funds were budgeted for replacement vehicles and equipment as well as for debt service related to the long sought after purchase of property in the downtown waterfront area. In the Water & Sewer fund the final payment on the BB&T Automated Meter Reading System loan was made.

Independent Audit

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

Award and Acknowledgments

The Governmental Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Morehead City for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the twenty sixth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,

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

Jewel A. Lasater, Finance Director

Town of Morehead City, North Carolina

**List of Principal Officials
June 30, 2016**

Town Council

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

Diane C. Warrender

George W. Ballou

William F. Taylor
Mayor Pro Tem

Harvey N. Walker, Jr.

Demus L. Thompson

Administration

David S. Whitlow
City Manager

Jeanne M. Giblin
City Clerk

Jewel A Lasater
Finance Officer

Daniel K. Williams
Public Services Director

Jamie E. Fulk
Chief, Fire & EMS Department

Bernette Morris
Chief, Police Department

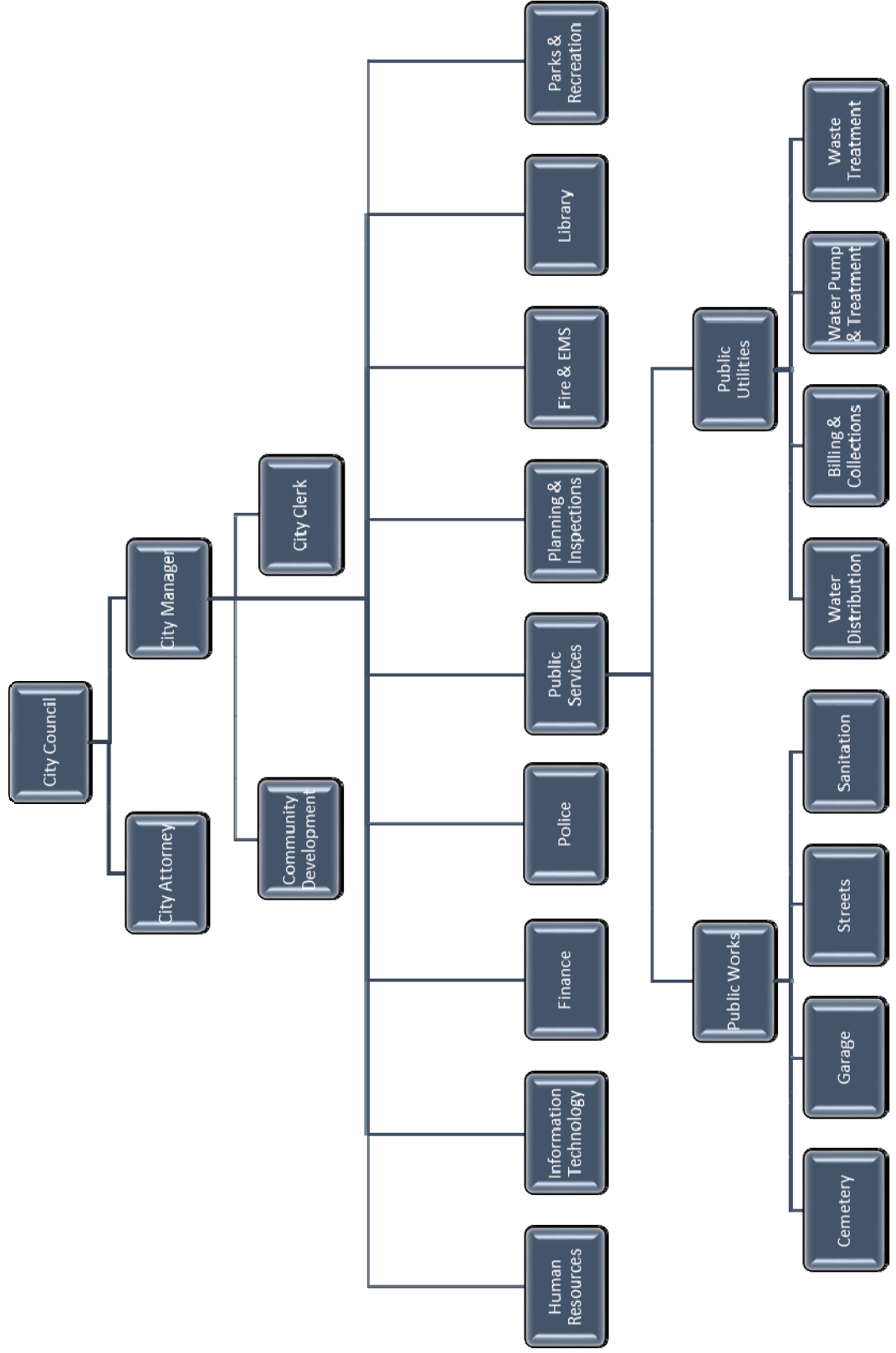
James Swann
Acting Library Director

S. Craig Lands
Parks and Recreation Director

Linda V. Staab
Planning & Inspection Director

Shirl F. Meadows
Tax Collector

Susan Nixon
Human Resources Director





Government Finance Officers Association

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

Presented to

**Town of Morehead City
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

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
Town of Morehead City, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina (the Town), as of and for the year ended June 30, 2016, 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 Town of Morehead City, North Carolina as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general and fire/EMS district funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, in the year ended June 30, 2016, the Town adopted new accounting guidance provided in Governmental Accounting Standards Board Statement Number 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 12 through 20, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress, the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on pages 67 through 72 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's basic financial statements. The combining and individual fund financial statements and schedules and other schedules listed in the table of contents as "Other Supplementary Financial Data" and the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The "Other Supplemental Financial Data" 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 non-major fund financial statements and other schedules listed as other supplemental financial data are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of Town of Morehead City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Morehead City's internal control over financial reporting and compliance.

RSM US LLP

Morehead City, North Carolina
December 21, 2016

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Town of Morehead City, North Carolina

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2016

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, 2016. 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.

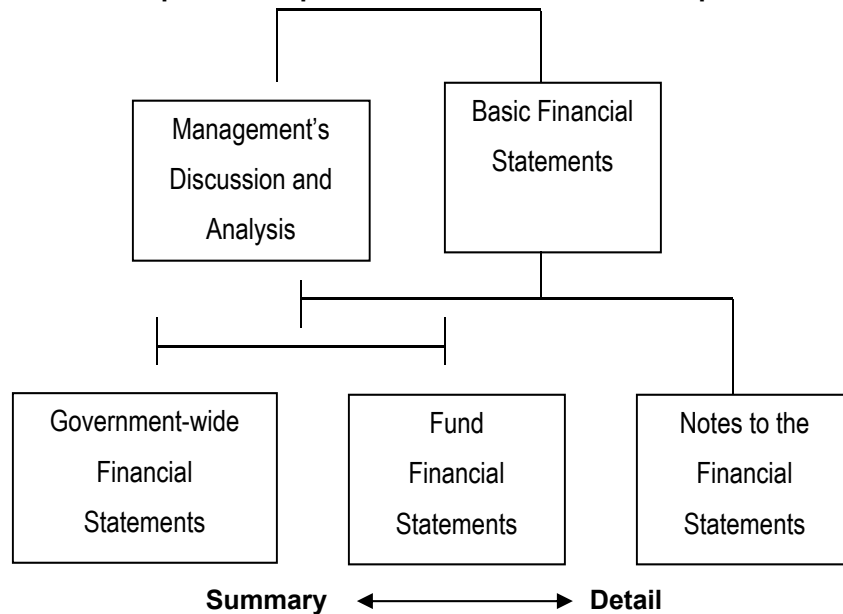
Financial Highlights

- The overall financial position of the Town improved in 2016 as evidenced by an increase in total net position of \$2.2 million. This increase was from both governmental (\$0.8 million) and business-type (\$1.4 million) activities. The increase for the governmental activities was due to increased property and sales and other state shared taxes as well as increased revenue from permits for construction and conservative spending by Town departments and the restatement of fund balance for implementation of GASB 73. The increase for business-type activities was primarily the result of charges for services and conservative spending of the business-type departments.
- The assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$82.7 million (net position). Of this amount, \$16.2 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 \$9.5 million, an increase of \$1.4 million in comparison with the prior year. Approximately 58.5% or \$5.5 million is nonspendable, restricted, committed, or assigned.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$4.1 million or approximately 37.3% of General Fund expenditures and transfers out for the fiscal year, and is available for spending at the government's discretion.
- Governmental net capital assets decreased \$0.8 million primarily due to disposal of equipment and vehicles. Business-type net capital assets decreased \$1.4 million primarily as a result of depreciation over additions to capital assets.
- The Town's total debt decreased by \$1.7 million during the current fiscal year. Debt in the governmental activities decreased \$.3 million due to principal repayments. Principal repayments in the governmental activities totaled \$0.3 million. For business-type activities principal repayments totaled \$1.4 million.

Overview of the Financial Statements

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

Required Components of Annual Financial Report



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

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

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

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

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

The fund financial statements are on pages 24 – 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.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Morehead City's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found beginning on page 67 of this report.

Interdependence with Other Entities

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

Financial Analysis of the Town as a Whole

Net Position: For the Town, assets and deferred outflows exceeded liabilities and deferred inflows by \$82.7 million at the close of the most recent fiscal year. A summary of the Town's net position at June 30, 2016 and 2015 is presented below:

Town of Morehead City's Net Position

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current and other assets | \$ 10,587,909 | \$ 9,964,795 | \$ 12,353,728 | \$ 11,325,508 | \$ 22,941,637 | \$ 21,290,303 |
| Capital assets | 38,652,826 | 39,423,550 | 51,397,750 | 52,768,572 | 90,050,576 | 92,192,122 |
| Deferred outflows of resources | 461,303 | 452,494 | 88,870 | 83,382 | 550,173 | 535,876 |
| Total assets and deferred outflows of resources | 49,702,038 | 49,840,839 | 63,840,348 | 64,177,462 | 113,542,386 | 114,018,301 |
| Long-term liabilities outstanding | 9,681,208 | 9,859,467 | 18,145,708 | 19,445,530 | 27,826,916 | 29,304,997 |
| Other liabilities | 1,528,251 | 1,139,781 | 1,048,495 | 1,265,487 | 2,576,746 | 2,405,268 |
| Deferred inflows of resources | 332,786 | 1,570,002 | 58,163 | 286,593 | 390,949 | 1,856,595 |
| Total liabilities and deferred inflows of resources | 11,542,245 | 12,569,250 | 19,252,366 | 20,997,610 | 30,794,611 | 33,566,860 |
| Net position: | | | | | | |
| Net investment in capital assets | 30,553,783 | 30,996,748 | 33,488,345 | 33,535,086 | 64,042,128 | 64,531,834 |
| Restricted | 2,512,603 | 2,251,305 | - | - | 2,512,603 | 2,251,305 |
| Unrestricted | 5,093,407 | 4,023,536 | 11,099,637 | 9,644,766 | 16,193,044 | 13,668,302 |
| Total net position | \$ 38,159,793 | \$ 37,271,589 | \$ 44,587,982 | \$ 43,179,852 | \$ 82,747,775 | \$ 80,451,441 |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town's net position increased by \$2.2 million for the fiscal year ended June 30, 2016. Additionally, the net position increased another \$0.1 million due to the Town's implementation of a portion of GASB Statement Number 73. However, the largest portion (77.4%) 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 (3.0%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$16.2 million (19.6%) is unrestricted.

Net position of the governmental activities increased \$.8 million, or 2.3 percent, to \$38.2 million. \$33.1 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.). \$5.1million is unrestricted. The unrestricted net position is available primarily to support operations and to provide for payment of long-term debt.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of above 99%. The statewide average in fiscal year 2015 was 98.87%.
- Increased sales tax revenues of approximately \$130,000 and increased Ad valorem tax revenue of approximately \$460,000 due to economic growth in the City.

The net position of the business-type activities increased by \$1.4 million, or 3.3 percent, to \$44.6 million. This net position will be used to finance the operations and expansion of the water, sewer, and solid waste operations.

Also, in accordance with GASB Statement Number 73, the Town reclassified the Law Enforcement Officer's Special Separation Allowance trust fund to the General Fund. A restatement to record the effects of the reclassification increased beginning net position by \$.1 million.

Changes in Net Position: The following table presents the Town's changes in net position for the fiscal years ended June 30, 2016 and 2015:

Town of Morehead City's Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenue: | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 2,395,464 | \$ 2,300,461 | \$ 7,434,659 | \$ 6,985,770 | \$ 9,830,123 | \$ 9,286,231 |
| Operating grants and contributions | 245,249 | 255,871 | 6,096 | 81,053 | 251,345 | 336,924 |
| Capital grants and contributions | 479,041 | 1,943,818 | 300,785 | 3,171,344 | 779,826 | 5,115,162 |
| General revenue: | | | | | | |
| Property taxes | 6,785,757 | 6,322,041 | - | - | 6,785,757 | 6,322,041 |
| Other taxes | 2,513,891 | 2,382,125 | - | - | 2,513,891 | 2,382,125 |
| Grants and contributions not restricted to specific programs | 1,402,712 | 1,353,173 | - | - | 1,402,712 | 1,353,173 |
| Other | 175,245 | 181,327 | 341,538 | 338,192 | 516,783 | 519,519 |
| Total revenue | 13,997,359 | 14,738,816 | 8,083,078 | 10,576,359 | 22,080,437 | 25,315,175 |
| Expenses: | | | | | | |
| General government | 1,667,275 | 1,797,065 | - | - | 1,667,275 | 1,797,065 |
| Public safety | 8,629,216 | 7,663,099 | - | - | 8,629,216 | 7,663,099 |
| Highways and streets | 999,423 | 939,536 | - | - | 999,423 | 939,536 |
| Culture and recreation | 1,425,224 | 1,139,113 | - | - | 1,425,224 | 1,139,113 |
| Library | 205,802 | 170,326 | - | - | 205,802 | 170,326 |
| Interest on long-term debt | 311,099 | 319,016 | - | - | 311,099 | 319,016 |
| Water and sewer | - | - | 5,786,961 | 5,382,993 | 5,786,961 | 5,382,993 |
| Solid waste | - | - | 887,987 | 906,383 | 887,987 | 906,383 |
| Total expenses | 13,238,039 | 12,028,155 | 6,674,948 | 6,289,376 | 19,912,987 | 18,317,531 |
| Increase in net position before transfers | 759,320 | 2,710,661 | 1,408,130 | 4,286,983 | 2,167,450 | 6,997,644 |
| Transfers | - | (2,427) | - | 2,427 | - | - |
| Increase in net position | 759,320 | 2,708,234 | 1,408,130 | 4,289,410 | 2,167,450 | 6,997,644 |
| Net position, July 1 | 37,271,589 | 35,351,649 | 43,179,852 | 39,035,704 | 80,451,441 | 74,387,353 |
| Restatement | 128,884 | (788,294) | - | (145,262) | 128,884 | (933,556) |
| Net position, July 1 as restated | 37,400,473 | 34,563,355 | 43,179,852 | 38,890,442 | 80,580,325 | 73,453,797 |
| Net position, June 30 | \$ 38,159,793 | \$ 37,271,589 | \$ 44,587,982 | \$ 43,179,852 | \$ 82,747,775 | \$ 80,451,441 |

Total government-wide revenue of \$22.2 million was primarily derived from charges for services (44.3%), property taxes (31.0%) and other taxes (11.3%). The total expenses of all programs were \$20 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 43.1% and water and sewer for 28.9%.

Governmental Activities

Governmental activities increased the Town's net position by \$0.8 million, and accounted for 38.7% of the total growth in the net position of the Town of Morehead City. Key elements related to governmental activities are as follows:

- Property taxes increased \$.5 million over the preceding year, primarily as a result of an increase in the amount of assessed valuations.
- Charges for services increased \$95,000, the majority of which related to increase in collections of ambulance fees.
- Other taxes increased \$132,000 primarily due to sales tax increases
- Expenses increased approximately \$1.3 million (11.1%) compared to the prior period. Public Safety increased \$1.0 million. Public Safety (fire/EMS, police and building inspections) comprise more than 50% of the Town's employees. Fiscal year ended June 30, 2016 was the final year of a 3 year implementation to bring employee salaries to market rates. The final year of this plan had the largest impact on salaries, wages and benefits. Ten new full-time positions were added during the fiscal year ended June 30, 2015 in Fire/EMS for nine months. During the fiscal year ended June 30, 2016 these positions were filled for the entire twelve month period.

Business-type Activities

Business-type activities increased the Town of Morehead City's net position by \$1.4 million, accounting for 61.3% of the total growth in the government's net position. Key elements of these activities are as follows:

- Charges for services in the Water and Sewer and Solid Waste Funds increased by approximately \$449,000 or a 6.4% increase over the previous year. Water and sewer rates increased midway through the year and accounted for all but a negligible amount of the increase.
- The Water and Sewer Fund expenses increased \$404,000 or 7.5% from the preceding year. The majority of this relates to an increase in salaries, wages and benefits. Fiscal year ended June 30, 2016 was the final year of a 3 year implementation to bring employee salaries to market rates. The final year of this plan had the largest impact on salaries, wages and benefits.
- Solid Waste fund revenue and expenses were essentially flat.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Morehead City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4.1 million, while total fund balance was \$8.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 37.3% of total General Fund expenditures and transfers out of \$10.9 million, while total fund balance represents 75.0% of that same amount. The Town Council of Morehead City has determined that the General Fund should maintain a minimum of between \$2.5 and \$2.75 million of unassigned fund balance in order to meet unforeseen needs and opportunities.

At June 30, 2016, the governmental funds of the Town of Morehead City reported a combined fund balance of \$9.5 million, up from \$7.9 million the previous year. The General Fund fund balance increased \$1.1 million. Additionally, the fund balance increased another \$0.1 million due to the Town's implementation of a portion of GASB Statement Number 73. This increase is mainly attributable to increases in property tax and other state shared tax revenue. This was coupled with minimal growth in expenditures as departments closely monitored their budgets. Revenue and expenditures increased \$.7 million and \$0.03 million, respectively. The increase in transfers of \$.6 million were the result of the increase in the Fire/EMS expenditures relating to salaries, wages and benefits. The fund balance in the Fire/EMS Fund increased \$0.3 million. As noted earlier, there was increased revenue from ambulance fees, however, expenditures also increased as a result of the final year of implementation to increase salaries & wages to market. The fund balance in the Major and Non-Major Capital Project Funds increased \$0.05 million due to completion of a project in prior year and receipt of funding in this fiscal year.

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

Total revenue exceeded the final budget by approximately \$720,000 in the General Fund. The most significant favorable variances were in ad valorem taxes and other state shared taxes included in unrestricted intergovernmental revenue. Expenditures were tightly controlled, and the Town was able to comply with its budgetary requirements in all categories.

Proprietary Funds. Proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year totaled \$10.6 million in the Water and Sewer fund and \$0.5 million in the Solid Waste fund. Unrestricted net position in the Water and Sewer Fund increased approximately \$1.4 million. Unrestricted net position in the Solid Waste Fund increased approximately \$0.1 million. Other factors concerning the finances of these funds were addressed in the discussion of the business-type activities.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2016, 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 decrease of \$2.3 million, or 2.5%, over last year and is result of depreciation over the addition of capital assets. The summary of capital assets at June 30, 2016 and 2015 is presented below:

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

| | Governmental Activities | | Business-type Activities | | Totals | |
|-------------------------------------|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land | \$ 10,128,842 | \$ 10,128,842 | \$ 913,775 | \$ 913,775 | \$ 11,042,617 | \$ 11,042,617 |
| Intangible assets | 562,831 | 562,831 | 255,589 | 205,589 | 818,420 | 768,420 |
| Infrastructure | 5,561,444 | 5,693,630 | | | 5,561,444 | 5,693,630 |
| Buildings and other improvements | 18,841,220 | 19,707,565 | 5,876,087 | 6,013,542 | 24,717,307 | 25,721,107 |
| Equipment and vehicles | 3,549,896 | 3,238,619 | 769,999 | 857,368 | 4,319,895 | 4,095,987 |
| Operating plant | | | 43,521,844 | 44,739,090 | 43,521,844 | 44,739,090 |
| Construction in progress | 8,593 | 92,063 | 60,456 | 39,208 | 69,049 | 131,271 |
| Total | \$ 38,652,826 | \$ 39,423,550 | \$ 51,397,750 | \$ 52,768,572 | \$ 90,050,576 | \$ 92,192,122 |

This year's major capital asset changes included:

- Increase in equipment and vehicles - \$0.3 million
- Decreases in buildings and other improvements and infrastructure as depreciation exceeded asset additions in these categories:

More detailed information about the Town's capital assets is presented in Note 5 of the basic financial statements.

Long-term Debt. At June 30, 2016, the City had \$26.0 million of debt outstanding in installment purchases, loans from the State of North Carolina and US Department of Agriculture (USDA), and a revenue bond. Details by type of debt are presented in the following table:

Town of Morehead City's Outstanding Debt

| | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------|----------------------------|---------------------|-----------------------------|----------------------|-------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Installment contracts | \$ 7,801,593 | \$ 8,119,877 | \$ 151,484 | \$ 432,824 | \$ 7,953,077 | \$ 8,552,701 |
| Revenue bond | - | - | 4,932,000 | 4,932,000 | 4,932,000 | 4,932,000 |
| Notes payable | 297,447 | 306,925 | 12,825,921 | 13,868,662 | 13,123,368 | 14,175,587 |
| Total | \$ 8,099,040 | \$ 8,426,802 | \$ 17,909,405 | \$ 19,233,486 | 26,008,445 | 27,660,288 |

The Town of Morehead City's total long-term debt decreased by \$1.65 million (6.0%) during the past fiscal year. Principal payments of \$0.3 million and \$1.3 million were made on outstanding debt in the governmental activities and business-type activities, respectively. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Morehead City is \$156,307,610.

More detailed information about the Town's long-term obligations is presented in Note 7 of the basic financial statements.

Economic Factors and Next Year's Budget and Rates

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

- During fiscal year ended June 30, 2016 1,271 permits were issued with a value of \$41.8 million compared to 1,384 permits with a value of \$37.8 million for fiscal year ended June 30, 2015.
- The June 2016 unemployment rate for Carteret County (unadjusted) was 4.8 percent compared to 5.1 percent for the state and 5.1 percent for the nation.

The following are highlights for the 2017 budgets for the governmental activities:

The General Fund initial budget for 2016-2017 increased 13.6% from \$11.8 million to \$13.4 million. The Town Council adopted a tax rate of \$.35 per \$100 of valuation, which was the same from the prior year. Projected increases in sales tax revenue is expected to fund an increased transfer to the Fire/EMS Fund. The Town Council opted to appropriate \$1.7 million of unassigned fund balance to acquire needed capital items and to pay debt service on the projected purchase of property that the Town has leased since the 1970s. It was projected that this would still leave the General Fund with an adequate amount to meet Council's minimum fund balance requirement of in the range of \$2.5 to \$2.75 million.

The initial budget for 2016-2017 of \$4.7 million in the Fire/EMS Fund was flat compared to the previous year. The 2016-2017 budget includes three additional positions to be filled dependent upon grant award. Transfers from the General Fund provided \$3.0 million before any reduction dependent upon grant award. The combination of a grant award and General Fund transfers will allow the department to meet the goal of increasing staff to better meet standards and to enhance service to citizens in both Town and the service district.

The following are highlights for the 2016-17 budgets for the business-type activities:

The budget for the Water and Sewer Fund increased \$0.3 million. A 4% rate increase was budgeted to be effective midway through the fiscal year and is projected to provide \$.22 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 \$.25 million reduction in the appropriation of fund balance from the amount needed to balance the budget in the prior year as well as fund additional needed capital expenditures.

The initial 2016-2017 budget for the Solid Waste Fund increased \$.16 million (1.7%) from the prior year. The increase is related to contracted services for residential pickup and recycling pickup.

Contacting the Town's Financial Management

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

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Town of Morehead City, North Carolina

Statement of Net Position

June 30, 2016

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 8,493,185 | \$ 10,678,330 | \$ 19,171,515 |
| Restricted cash and investments | 719,293 | 42,747 | 762,040 |
| Receivables: | | | |
| Due from governmental agencies | 461,058 | 1,496 | 462,554 |
| Local option sales tax receivable | 738,550 | - | 738,550 |
| Taxes receivable, net | 73,641 | - | 73,641 |
| Accrued interest on taxes receivable | 11,680 | - | 11,680 |
| Customer receivables, net | 87,121 | 1,261,632 | 1,348,753 |
| Notes receivable | - | 127,761 | 127,761 |
| Inventories | 1,533 | 241,762 | 243,295 |
| Prepaid expense | 1,848 | - | 1,848 |
| Capital assets: | | | |
| Land and construction in process | 10,700,266 | 1,229,820 | 11,930,086 |
| Other capital assets, net of depreciation | 27,952,560 | 50,167,930 | 78,120,490 |
| Total assets | 49,240,735 | 63,751,478 | 112,992,213 |
| Deferred Outflows of Resources | | | |
| Contributions to pension plan in current fiscal year | 461,303 | 88,870 | 550,173 |
| Liabilities | | | |
| Accounts payable and accrued expenses | 954,388 | 387,835 | 1,342,223 |
| Accrued interest payable | 69,871 | 14,348 | 84,219 |
| Customer deposits | - | 550,670 | 550,670 |
| Net pension liability | 503,992 | 95,642 | 599,634 |
| Noncurrent liabilities: | | | |
| Due within one year | 710,593 | 1,341,919 | 2,052,512 |
| Due in more than one year | 8,970,615 | 16,803,789 | 25,774,404 |
| Total liabilities | 11,209,459 | 19,194,203 | 30,403,662 |
| Deferred Inflows of Resources | | | |
| Prepaid taxes and fees | 70,868 | 8,459 | 79,327 |
| Pension deferrals | 261,918 | 49,704 | 311,622 |
| Total deferred inflows of resources | 332,786 | 58,163 | 390,949 |
| Net Position | | | |
| Net investment in capital assets | 30,553,783 | 33,488,345 | 64,042,128 |
| Restricted: | | | |
| Stablization by State Statute | 1,286,729 | - | 1,286,729 |
| General government | 222,917 | - | 222,917 |
| Streets | 539,900 | - | 539,900 |
| Public safety | 207,828 | - | 207,828 |
| Recreation | 231,494 | - | 231,494 |
| Library | 23,735 | - | 23,735 |
| Unrestricted | 5,093,407 | 11,099,637 | 16,193,044 |
| Total net position | \$ 38,159,793 | \$ 44,587,982 | \$ 82,747,775 |

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities
For the Year Ended June 30, 2016

| Functions/Programs | Expenses | Program Revenue | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 1,667,275 | \$ 109,376 | \$ 86,000 | \$ - |
| Public safety | 8,629,216 | 2,134,520 | 106,174 | - |
| Highways and streets | 999,423 | - | - | 272,445 |
| Cultural and recreation | 1,425,224 | 149,198 | - | 206,596 |
| Library | 205,802 | 2,370 | 53,075 | - |
| Interest on long-term debt | 311,099 | - | - | - |
| Total governmental activities | 13,238,039 | 2,395,464 | 245,249 | 479,041 |
| Business-type activities: | | | | |
| Water and sewer | 5,786,961 | 6,490,182 | - | 300,785 |
| Solid waste | 887,987 | 944,477 | 6,096 | - |
| Total business-type activities | 6,674,948 | 7,434,659 | 6,096 | 300,785 |
| Total primary government | \$ 19,912,987 | \$ 9,830,123 | \$ 251,345 | \$ 779,826 |

General revenue:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Loss on disposal of assets

Miscellaneous income, unrestricted

Total general revenue

Change in net position

Net position, beginning as previously reported

Restatement for accounting change (Note 15)

Net position, beginning as restated

Net position, ending

See Notes to Financial Statements.

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

| Governmental Activities | Business-type Activities | Total |
|------------------------------------|-------------------------------------|----------------------|
| \$ (1,471,899) | \$ - | \$ (1,471,899) |
| (6,388,522) | - | (6,388,522) |
| (726,978) | - | (726,978) |
| (1,069,430) | - | (1,069,430) |
| (150,357) | - | (150,357) |
| (311,099) | - | (311,099) |
| (10,118,285) | - | (10,118,285) |
| - | 1,004,006 | 1,004,006 |
| - | 62,586 | 62,586 |
| - | 1,066,592 | 1,066,592 |
| (10,118,285) | 1,066,592 | (9,051,693) |
| 6,785,757 | - | 6,785,757 |
| 2,484,746 | - | 2,484,746 |
| 29,145 | - | 29,145 |
| 1,402,712 | - | 1,402,712 |
| 19,089 | 28,221 | 47,310 |
| (47,026) | - | (47,026) |
| 203,182 | 313,317 | 516,499 |
| 10,877,605 | 341,538 | 11,219,143 |
| 759,320 | 1,408,130 | 2,167,450 |
| 37,271,589 | 43,179,852 | 80,451,441 |
| 128,884 | - | 128,884 |
| 37,400,473 | 43,179,852 | 80,580,325 |
| \$ 38,159,793 | \$ 44,587,982 | \$ 82,747,775 |

Town of Morehead City, North Carolina

Balance Sheet-Governmental Funds

June 30, 2016

| | General Fund | Fire/EMS District Fund | Morehead Municipal Campus Capital Project Fund | Non-Major Governmental Funds | Totals |
|---|---------------------|------------------------------|---|------------------------------------|----------------------|
| Assets: | | | | | |
| Cash and cash equivalents | \$ 6,900,882 | \$ 1,137,439 | \$ 66,069 | \$ 388,795 | \$ 8,493,185 |
| Restricted cash equivalents | 668,226 | 51,067 | - | - | 719,293 |
| Receivables | 1,273,462 | 86,908 | - | - | 1,360,370 |
| Inventories | 1,533 | - | - | - | 1,533 |
| Prepaid items | 1,848 | - | - | - | 1,848 |
| Total assets | \$ 8,845,951 | \$ 1,275,414 | \$ 66,069 | \$ 388,795 | \$ 10,576,229 |
| Liabilities, Deferred Inflows of Resources, and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 273,305 | \$ 25,091 | \$ 388 | \$ 247,258 | \$ 546,042 |
| Accrued salaries | 262,634 | 145,712 | - | - | 408,346 |
| Total liabilities | 535,939 | 170,803 | 388 | 247,258 | 954,388 |
| Deferred Inflows of Resources | 144,509 | - | - | - | 144,509 |
| Fund Balances: | | | | | |
| Non Spendable: | | | | | |
| Inventories | 1,533 | - | - | - | 1,533 |
| Prepaid items | 1,848 | - | - | - | 1,848 |
| Restricted: | | | | | |
| Stabilization by State Statute | 1,199,821 | 86,908 | - | - | 1,286,729 |
| General government | 8,407 | - | 142,220 | 72,290 | 222,917 |
| Streets | 494,257 | - | - | 45,643 | 539,900 |
| Public safety | 133,539 | 65,457 | - | 8,832 | 207,828 |
| Recreation | 216,722 | - | - | 14,772 | 231,494 |
| Library | 23,735 | - | - | - | 23,735 |
| Committed: | | | | | |
| Sidewalk construction | 130,194 | - | - | - | 130,194 |
| Recreation facilities development | 23,349 | - | - | - | 23,349 |
| LEO Special Separation Allowance | 128,884 | - | - | - | 128,884 |
| Assigned: | | | | | |
| Public safety | - | 938,246 | - | - | 938,246 |
| Streets | - | - | - | - | - |
| Subsequent year's expenditures | 1,742,091 | 14,000 | - | - | 1,756,091 |
| Unassigned | 4,061,123 | - | (76,539) | - | 3,984,584 |
| Total fund balances | 8,165,503 | 1,104,611 | 65,681 | 141,537 | 9,477,332 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 8,845,951 | \$ 1,275,414 | \$ 66,069 | \$ 388,795 | \$ 10,576,229 |

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, 2016**

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

| | |
|--|------------------------------------|
| Total fund balances for governmental funds | \$ 9,477,332 |
| Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds. | 38,652,826 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are: | |
| Property taxes receivable | 73,641 |
| Accrued interest on property taxes | 11,680 |
| Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position | 461,303 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (9,681,208) |
| Net pension liability | (503,992) |
| Accrued interest payable on long-term liabilities not recorded in the fund statements | (69,871) |
| Pension related deferrals | <u>(261,918)</u> |
| Net position of governmental activities | <u><u>\$ 38,159,793</u></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, 2016

| | General Fund | Fire/EMS District Fund | Morehead Municipal Campus Capital Project Fund | Non-Major Governmental Funds | Totals |
|---|--------------------|------------------------------|---|------------------------------------|-------------------|
| Revenue | | | | | |
| Ad valorem taxes | \$ 6,785,716 | \$ - | \$ - | \$ - | \$ 6,785,716 |
| Other taxes and licenses | 29,145 | - | - | - | 29,145 |
| Unrestricted intergovernmental | 3,887,458 | - | - | - | 3,887,458 |
| Restricted intergovernmental | 522,510 | - | - | 200,026 | 722,536 |
| Permits and fees | 345,461 | - | - | - | 345,461 |
| Sales and services | 255,209 | 1,794,794 | - | - | 2,050,003 |
| Investment earnings | 16,539 | 1,725 | 133 | 692 | 19,089 |
| Miscellaneous | 157,927 | 45,014 | 241 | - | 203,182 |
| Total revenue | 11,999,965 | 1,841,533 | 374 | 200,718 | 14,042,590 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 1,703,970 | - | 12,089 | - | 1,716,059 |
| Public safety | 3,880,902 | 4,294,121 | 8,892 | - | 8,183,915 |
| Highways and streets | 887,729 | - | - | - | 887,729 |
| Library | 173,821 | - | - | - | 173,821 |
| Recreation | 616,235 | - | - | 151,910 | 768,145 |
| Parks | 336,842 | - | - | - | 336,842 |
| Debt service: | | | | | |
| Principal | 301,607 | 26,155 | - | - | 327,762 |
| Interest | 236,539 | 75,956 | - | - | 312,495 |
| Total expenditures | 8,137,645 | 4,396,232 | 20,981 | 151,910 | 12,706,768 |
| Revenue over (under) expenditures | 3,862,320 | (2,554,699) | (20,607) | 48,808 | 1,335,822 |
| Other financing sources (uses) | | | | | |
| Sales of capital assets | 13,558 | 68,001 | - | - | 81,559 |
| Transfers in | - | 2,739,050 | - | 17,970 | 2,757,020 |
| Transfers out | (2,757,020) | - | - | - | (2,757,020) |
| Total other financing sources (uses) | (2,743,462) | 2,807,051 | - | 17,970 | 81,559 |
| Net changes in fund balances | 1,118,858 | 252,352 | (20,607) | 66,778 | 1,417,381 |
| Fund balances: | | | | | |
| Beginning, as previously reported | 6,917,761 | 852,259 | 86,288 | 74,759 | 7,931,067 |
| Restatement for accounting change | 128,884 | - | - | - | 128,884 |
| Beginning, as restated | 7,046,645 | 852,259 | 86,288 | 74,759 | 8,059,951 |
| Ending | \$ 8,165,503 | \$ 1,104,611 | \$ 65,681 | \$ 141,537 | \$ 9,477,332 |

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, 2016**

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

| | |
|---|--------------------------|
| Net changes in fund balances - total governmental funds | \$ 1,417,381 |
| 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 | 641,984 |
| Depreciation expense | (1,284,126) |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities | 461,303 |
| 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 | (128,585) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | |
| Increase in deferred property taxes | 3,452 |
| Decrease in accrued interest receivable | (3,411) |
| 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 | (1,042,041) |
| Retirement of long-term liabilities | 716,308 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: | |
| Pension expense | (24,341) |
| Decrease in accrued interest payable | 1,396 |
| Total changes in net position of governmental activities | <u>\$ 759,320</u> |

See Notes to Financial Statements.

Town of Morehead City, North Carolina

**General Fund and Fire/EMS District Fund Annually Budgeted Major Funds
Statement of Revenue, Expenditures and Changes in Fund Balance-Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2016**

| | General Fund | | | Variance with Final Budget |
|---|---------------------|--------------------|----------------------------|----------------------------------|
| | Budget, Original | Budget, Final | Actual | |
| Revenue | | | | |
| Ad valorem taxes | \$ 6,498,000 | \$ 6,498,000 | \$ 6,785,716 | \$ 287,716 |
| Other taxes | 25,000 | 25,000 | 29,145 | 4,145 |
| Unrestricted intergovernmental | 3,587,125 | 3,587,125 | 3,887,458 | 300,333 |
| Restricted intergovernmental | 478,725 | 468,531 | 522,510 | 53,979 |
| Permits and fees | 267,500 | 267,500 | 345,461 | 77,961 |
| Sales and services | 243,300 | 266,600 | 255,209 | (11,391) |
| Investment earnings | 6,000 | 6,000 | 16,539 | 10,539 |
| Miscellaneous | 17,750 | 176,805 | 157,927 | (18,878) |
| Total revenue | 11,123,400 | 11,295,561 | 11,999,965 | 704,404 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 1,815,975 | 1,955,365 | 1,703,970 | 251,395 |
| Public safety | 4,090,100 | 4,089,381 | 3,880,902 | 208,479 |
| Highways and streets | 1,144,350 | 1,182,350 | 887,729 | 294,621 |
| Recreation and parks | 955,075 | 1,018,575 | 953,077 | 65,498 |
| Library | 204,825 | 231,225 | 173,821 | 57,404 |
| Debt service | 713,097 | 702,097 | 538,146 | 163,951.00 |
| Total expenditures | 8,923,422 | 9,178,993 | 8,137,645 | 1,041,348 |
| Revenue over (under) expenditures | 2,199,978 | 2,116,568 | 3,862,320 | 1,745,752 |
| Other financing sources (uses) | | | | |
| Sale of capital assets | - | - | 13,558 | 13,558 |
| Transfers in | - | - | - | - |
| Transfers out | (2,739,050) | (2,757,020) | (2,757,020) | - |
| Contingency | (100,028) | (26,548) | - | 26,548 |
| Fund balance appropriated | 639,100 | 667,000 | - | (667,000) |
| Total other financing sources (uses) | (2,199,978) | (2,116,568) | (2,743,462) | (626,894) |
| Revenue and other financing sources over expenditures and other financing uses | \$ - | \$ - | 1,118,858 | \$ 1,118,858 |
| Fund balance, beginning, previously reported | | | 6,917,761 | |
| Restatement for accounting change (Note 15) | | | 128,884 | |
| Fund balance, beginning, as restated | | | <u>7,046,645</u> | |
| Fund balance, ending | | | <u><u>\$ 8,165,503</u></u> | |

See Notes to Financial Statements.

Fire/EMS District Fund

| Budget, Original | Budget, Final | Actual | Variance with Final Budget |
|---------------------|--------------------|---------------------|----------------------------------|
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 1,595,750 | 1,605,750 | 1,794,794 | 189,044 |
| 500 | 500 | 1,725 | 1,225 |
| 34,500 | 123,375 | 45,014 | (78,361) |
| <u>1,630,750</u> | <u>1,729,625</u> | <u>1,841,533</u> | <u>111,908</u> |
| - | - | - | - |
| 4,504,025 | 4,602,900 | 4,294,121 | 308,779 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 102,111 | 102,111 | 102,111 | - |
| <u>4,606,136</u> | <u>4,705,011</u> | <u>4,396,232</u> | <u>308,779</u> |
| <u>(2,975,386)</u> | <u>(2,975,386)</u> | <u>(2,554,699)</u> | <u>420,687</u> |
| - | - | 68,001 | 68,001 |
| 2,871,050 | 2,739,050 | 2,739,050 | - |
| - | - | - | - |
| (103,664) | (103,664) | - | 103,664 |
| 208,000 | 340,000 | - | (340,000) |
| <u>2,975,386</u> | <u>2,975,386</u> | <u>2,807,051</u> | <u>(168,335)</u> |
| <u>\$ -</u> | <u>\$ -</u> | 252,352 | <u>\$ 252,352</u> |
| | | 852,259 | |
| | | - | |
| | | <u>852,259</u> | |
| | | <u>\$ 1,104,611</u> | |

Town of Morehead City, North Carolina

Statement of Net Position
 Proprietary Funds
 June 30, 2016

| | Water and Sewer Fund | Solid Waste Fund | Totals |
|--|-------------------------|---------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 10,277,727 | \$ 400,603 | \$ 10,678,330 |
| Restricted cash and cash equivalents | 42,747 | - | 42,747 |
| Receivables | 1,112,535 | 150,593 | 1,263,128 |
| Inventories | 241,762 | - | 241,762 |
| Total current assets | 11,674,771 | 551,196 | 12,225,967 |
| Noncurrent assets | | | |
| Notes receivable | 127,761 | - | 127,761 |
| Capital assets, net | 51,231,863 | 165,887 | 51,397,750 |
| Total noncurrent assets | 51,359,624 | 165,887 | 51,525,511 |
| Total assets | 63,034,395 | 717,083 | 63,751,478 |
| Deferred Outflows of Resources | | | |
| Contributions to pension plan | 86,864 | 2,006 | 88,870 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 257,482 | 54,522 | 312,004 |
| Current maturities of long-term debt | 1,269,225 | - | 1,269,225 |
| Customer deposits | 550,670 | - | 550,670 |
| Accrued salaries | 72,779 | 3,052 | 75,831 |
| Accrued compensated absences-current portion | 72,109 | 585 | 72,694 |
| Accrued interest payable | 14,348 | - | 14,348 |
| Net pension liability | 93,483 | 2,159 | 95,642 |
| Total current liabilities | 2,330,096 | 60,318 | 2,390,414 |
| Noncurrent liabilities | | | |
| Accrued compensated absences-long-term portion | 8,985 | - | 8,985 |
| Installment notes | 16,640,180 | - | 16,640,180 |
| Net other post employment benefits obligation | 149,038 | 5,586 | 154,624 |
| Total noncurrent liabilities | 16,798,203 | 5,586 | 16,803,789 |
| Total liabilities | 19,128,299 | 65,904 | 19,194,203 |
| Deferred Inflows of Resources | | | |
| Unearned revenue | 8,459 | - | 8,459 |
| Pension deferrals | 48,582 | 1,122 | 49,704 |
| Total deferred inflows of resources | 57,041 | 1,122 | 58,163 |
| Net Position | | | |
| Net investment in capital assets | 33,322,458 | 165,887 | 33,488,345 |
| Unrestricted | 10,613,461 | 486,176 | 11,099,637 |
| Total net position | \$ 43,935,919 | \$ 652,063 | \$ 44,587,982 |

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, 2016**

| | Water and Sewer Fund | Solid Waste Fund | Totals |
|---------------------------------------|-------------------------|---------------------|----------------------|
| Operating revenue | | | |
| Charges for sales and services | \$ 6,490,182 | \$ 944,477 | \$ 7,434,659 |
| Miscellaneous | 312,531 | 786 | 313,317 |
| Total operating revenue | <u>6,802,713</u> | <u>945,263</u> | <u>7,747,976</u> |
| Operating expenses | | | |
| Cost of sales and services | 3,719,951 | 856,039 | 4,575,990 |
| Depreciation | 1,724,011 | 31,948 | 1,755,959 |
| Total operating expenses | <u>5,443,962</u> | <u>887,987</u> | <u>6,331,949</u> |
| Operating income | <u>1,358,751</u> | <u>57,276</u> | <u>1,416,027</u> |
| Nonoperating revenue (expense) | | | |
| Interest revenue | 27,526 | 695 | 28,221 |
| Restricted intergovernmental | 6,200 | 6,096 | 12,296 |
| Interest expense and fiscal charges | (342,999) | - | (342,999) |
| Total nonoperating revenue (expense) | <u>(309,273)</u> | <u>6,791</u> | <u>(302,482)</u> |
| Contributed capital assets | 14,273 | - | 14,273 |
| Contributions - capital project funds | 280,312 | - | 280,312 |
| Change in net position | 1,344,063 | 64,067 | 1,408,130 |
| Net position, beginning | <u>42,591,856</u> | <u>587,996</u> | <u>43,179,852</u> |
| Net position, ending | <u>\$ 43,935,919</u> | <u>\$ 652,063</u> | <u>\$ 44,587,982</u> |

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2016

Page 1 of 2

| | Enterprise Funds | | |
|--|----------------------|------------------|--------------------|
| | Water and Sewer Fund | Solid Waste Fund | Total |
| Cash Flows from Operating Activities: | | | |
| Cash received from customers | \$ 6,779,338 | \$ 941,272 | \$ 7,720,610 |
| Cash paid to suppliers for goods and services | (2,412,438) | (802,670) | (3,215,108) |
| Cash paid to employees | (1,589,702) | (52,935) | (1,642,637) |
| Customer deposits | 10,993 | - | 10,993 |
| Net cash provided by operating activities | 2,788,191 | 85,667 | 2,873,858 |
| Cash Flows from Non-Capital and Related Financing Activities: | | | |
| Restricted intergovernmental | 6,807 | 6,096 | 12,903 |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Acquisition and construction of capital assets | (370,865) | - | (370,865) |
| Contributions-capital project funds | 280,312 | - | 280,312 |
| Principal paid on long-term debt | (1,324,081) | - | (1,324,081) |
| Interest paid on long-term debt | (436,577) | - | (436,577) |
| Net cash used in capital and related financing activities | (1,851,211) | - | (1,851,211) |
| Cash Flows from Investing Activities: | | | |
| Interest on investments | 27,526 | 695 | 28,221 |
| Net increase in cash and cash equivalents | 971,313 | 92,458 | 1,063,771 |
| Cash and cash equivalents, beginning | 9,349,161 | 308,145 | 9,657,306 |
| Cash and cash equivalents, ending | \$ 10,320,474 | \$ 400,603 | \$ 10,721,077 |

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)
 Proprietary Funds
 For the Year Ended June 30, 2016

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 | \$ 1,358,751 | \$ 57,276 | \$ 1,416,027 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 1,724,011 | 31,948 | 1,755,959 |
| Change in assets, deferred outflows of resources, and liabilities: | | | |
| Notes receivable | 51,255 | - | 51,255 |
| Receivables | (74,630) | (3,991) | (78,621) |
| Inventory | (51,808) | - | (51,808) |
| Decrease in net pension asset | 111,331 | 2,787 | 114,118 |
| Increase in deferred outflows of resources - pensions | (5,518) | (186) | (5,704) |
| Increase in net pension liability | 93,483 | 2,159 | 95,642 |
| Decrease in deferred inflows of resources - pensions | (222,760) | (5,444) | (228,204) |
| Accounts payable and accrued liabilities | (248,821) | 247 | (248,574) |
| Customer deposits | 10,993 | - | 10,993 |
| Accrued salaries | 17,949 | 568 | 18,517 |
| Accrued other postemployment benefits | 16,992 | 214 | 17,206 |
| Accrued compensated absences | 6,963 | 89 | 7,052 |
| Net cash provided by operating activities | \$ 2,788,191 | \$ 85,667 | \$ 2,873,858 |
| Supplemental Disclosure of Non-cash Transactions: | | | |
| Contributed capital assets | \$ 14,273 | \$ - | \$ 14,273 |

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2016

| | Other Postemployment Benefits Fund |
|----------------------------------|---|
| <hr/> | |
| Assets | |
| Cash and cash equivalents | <u>\$ 370,837</u> |
| Total Assets | <u>370,837</u> |
| | |
| Net Position | |
| Restricted for employee benefits | <u>370,837</u> |
| Total net position | <u><u>\$ 370,837</u></u> |

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

| | Other Postemployment Benefits Fund |
|--|---|
| <hr/> | |
| Additions | |
| Contributions | \$ 138,355 |
| Interest | 773 |
| Total additions | <u>139,128</u> |
| | |
| Deductions | |
| Benefits paid | <u>81,567</u> |
| Total deductions | <u>81,567</u> |
| | |
| Net increase | 57,561 |
| | |
| Net position restricted for employee benefits | |
| Beginning of year | <u>313,276</u> |
| | |
| End of year | <u>\$ 370,837</u> |

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 (as amended)*, have been considered and the Town has no component units or entities for which it is considered to be financially accountable, and is not itself a component unit of any other government.

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 charges for services, restricted monies from Carteret County for the Wildwood and Mitchell Village Districts, and General Fund transfers.

Morehead Municipal Campus Capital Project Fund – This fund is used to account for funds accumulated for the acquisition of the Charles Wallace School property and additional renovations to the property. Although this fund did not meet the criteria for a major fund, it is being treated as major for consistency with prior years.

The Town reports the following non-major governmental funds:

Capital Project Funds – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Town has six non-major capital project funds: MATS, Baseball Park, Newport River Water Access, Morehead Municipal Campus, Fire/EMS Station #2 Replacement, and the Katherine Davis Park Capital Project Fund.

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

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

Additionally, the Town reports the following fiduciary fund type:

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

Note 1. Summary of Significant Accounting Policies (Continued)

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. Sales taxes are considered a shared revenue for the Town of Morehead because the tax is levied by Carteret County and then remitted to and distributed by the State. 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 | Morehead Municipal Campus Capital Project Fund |
| Solid Waste Fund | Baseball Park Capital Project Fund |
| Water and Sewer Capital Project Fund* | Fire/EMS Station #2 Replacement Capital Project Fund |
| Water and Sewer Capital Reserve Fund* | Jib Waterfront Access Capital Project Fund |
| Water and Sewer Rebatable | Katherine Davis Park Capital Project Fund |
| Capital Reserve Fund* | Water/Sewer Extensions Capital Project Fund* |
| | WaterTreatment Capital Project Fund* |
| | Water Reuse Capital Project Fund* |
| | West End Force Main 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, 2016. 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. |

Town of Morehead City, North Carolina

Notes to Financial Statements

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). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

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

Restricted Assets

The USDA requires debt reserve accounts to be set up. The Town maintains these accounts as separate bank accounts or certificate of deposit. Powell Bill funds are also classified as restricted cash because they can be expended only for the purpose of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

| | | |
|-------------------------------|-------------------------|-------------------|
| Governmental Activities | | |
| General Fund | | |
| | Powell bill | \$ 468,257 |
| | USDA debt reserves | 147,193 |
| | Grant funds | 26,000 |
| | Employee FSA | 22,979 |
| | Drug enforcement assets | 3,797 |
| | | <u>668,226</u> |
| Fire and EMS Fund | | |
| | USDA debt reserves | <u>51,067</u> |
| Total governmental activities | | <u>719,293</u> |
| Business-Type Activities | | |
| Water and Sewer Fund | | |
| | USDA debt reserves | <u>42,747</u> |
| Total Restricted Cash | | <u>\$ 762,040</u> |

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)] 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, estimated net taxes receivable are delinquent and are not considered a resource to finance current year operations and are recorded as a deferred inflow 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. 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.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 and in the proprietary fund 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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The 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 a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion; contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 and discounts 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.

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 - Net position in government-wide and proprietary fund financial statements is 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.

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

The governmental fund types classify fund balances as follows:

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

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, drug law enforcement, and the USDA required loan reserve balance.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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.

Law Enforcement Separation Allowance – portion of fund balance that can only be used for law enforcement separation allowance payments.

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 in the range of \$2,500,000 to \$2,750,000.

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 financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. For the governmental funds financial statements, the Town records the liquidation of the liability in the fund in which the underlying salary is paid, primarily the General and Fire/EMS funds

The Town has 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.

Pensions

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

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

Note 2. Cash and Cash Equivalents

Petty cash: At June 30, 2016, 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

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 2. Cash and Cash Equivalents (Continued)

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 under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling Method depository. The Town has no formal policy regarding the custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the Town's deposits had a carrying amount of \$9,604,716 and bank balance of \$9,572,853. Of the bank balance, \$2,416,750 was covered by federal depository insurance, and \$7,156,103 was covered by collateral held under the Pooling Method.

Investments: At June 30, 2016, 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 \$153,028 in the cash fund and \$10,544,598 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 3. Receivables

Receivables at June 30, 2016, consist of the following:

| | Major General | Major Fire & EMS District | Major Water & Sewer Fund | Major Solid Waste Fund | Total |
|--------------------------------|---------------------|---------------------------------|--------------------------------|------------------------------|---------------------|
| Receivables | | | | | |
| Local option sales tax | \$ 738,550 | \$ - | \$ - | \$ - | \$ 738,550 |
| Property tax | 92,905 | - | - | - | 92,905 |
| Allowance for uncollectibles | (19,264) | - | - | - | (19,264) |
| | 73,641 | - | - | - | 73,641 |
| Accounts receivable: | | | | | |
| Services | 213 | 86,908 | 1,115,478 | 149,097 | 1,351,696 |
| Allowance for uncollectibles | - | - | (2,943) | - | (2,943) |
| | 213 | 86,908 | 1,112,535 | 149,097 | 1,348,753 |
| Due from governmental agencies | 461,058 | - | - | 1,496 | 462,554 |
| Net total receivables | \$ 1,273,462 | \$ 86,908 | \$ 1,112,535 | \$ 150,593 | \$ 2,623,498 |

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 4. Interfund Transactions and Balances

Interfund transfers schedule at June 30, 2016 consist of the following:

| | From | To | Purpose |
|------------------------------------|---------------------|---------------------|-------------------------|
| General Fund | \$ 2,739,050 | \$ - | Portion of operations |
| Major Fire/EMS District Fund | - | 2,739,050 | |
| General Fund | 17,970 | - | |
| Baseball Park Capital Project Fund | - | 17,970 | Portion of construction |
| Total | <u>\$ 2,757,020</u> | <u>\$ 2,757,020</u> | |

Note 5. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-----------------------|--------------------|--------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 10,128,842 | \$ - | \$ - | \$ 10,128,842 |
| Intangible assets | 562,831 | - | - | 562,831 |
| Construction in progress | 92,063 | 298,946 | (382,416) | 8,593 |
| Total capital assets not being depreciated | <u>10,783,736</u> | <u>298,946</u> | <u>(382,416)</u> | <u>10,700,266</u> |
| Capital assets being depreciated: | | | | |
| Buildings and other improvements | 24,094,292 | 113,638 | (388,461) | 23,819,469 |
| Infrastructure | 6,609,253 | - | - | 6,609,253 |
| Equipment and vehicles | 6,956,613 | 1,000,280 | (737,533) | 7,219,360 |
| Total capital assets being depreciated | <u>37,660,158</u> | <u>1,113,918</u> | <u>(1,125,994)</u> | <u>37,648,082</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and other improvements | (4,386,727) | (591,522) | - | (4,978,249) |
| Infrastructure | (915,623) | (132,186) | - | (1,047,809) |
| Equipment and vehicles | (3,717,994) | (560,418) | 608,948 | (3,669,464) |
| Total accumulated depreciation | <u>(9,020,344)</u> | <u>(1,284,126)</u> | <u>608,948</u> | <u>(9,695,522)</u> |
| Total capital assets being depreciated, net | <u>28,639,814</u> | | | <u>27,952,560</u> |
| Governmental activity capital assets, net | <u>\$ 39,423,550</u> | | | <u>\$ 38,652,826</u> |

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. 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 | 205,589 | 50,000 | - | 255,589 |
| Construction in progress | 39,208 | 21,248 | - | 60,456 |
| Total capital assets not being depreciated | <u>1,158,572</u> | <u>71,248</u> | <u>-</u> | <u>1,229,820</u> |
| Capital assets being depreciated: | | | | |
| Buildings and other improvements | 6,389,670 | - | - | 6,389,670 |
| Equipment and vehicles | 2,047,711 | 101,654 | - | 2,149,365 |
| Operating plant | 61,712,475 | 212,236 | - | 61,924,711 |
| Total capital assets being depreciated | <u>70,149,856</u> | <u>313,890</u> | <u>-</u> | <u>70,463,746</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and other improvements | (376,128) | (137,455) | - | (513,583) |
| Equipment and vehicles | (1,388,179) | (157,074) | - | (1,545,253) |
| Operating plant | (16,973,385) | (1,429,482) | - | (18,402,867) |
| Total accumulated depreciation | <u>(18,737,692)</u> | <u>(1,724,011)</u> | <u>-</u> | <u>(20,461,703)</u> |
| Total capital assets being depreciated, net | <u>51,412,164</u> | | | <u>50,002,043</u> |
| Water and Sewer Fund capital assets, net | <u>52,570,736</u> | | | <u>51,231,863</u> |
| Solid Waste Fund | | | | |
| Capital assets being depreciated: | | | | |
| Equipment and vehicles | 372,935 | - | - | 372,935 |
| Less accumulated depreciation for: | | | | |
| Equipment and vehicles | (175,100) | (31,948) | - | (207,048) |
| Total capital assets being depreciated, net | <u>197,835</u> | | | <u>165,887</u> |
| Solid Waste Fund capital assets, net | <u>197,835</u> | | | <u>165,887</u> |
| Business-type activity capital assets, net | <u>\$ 52,768,571</u> | | | <u>\$ 51,397,750</u> |

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

| | |
|---------------------------|---------------------|
| Governmental activities: | |
| General government | \$ 90,999 |
| Public safety | 605,177 |
| Highway and streets | 144,519 |
| Parks and recreation | 412,955 |
| Library | 30,476 |
| | <u>\$ 1,284,126</u> |
| Business-type activities: | |
| Water and Sewer Fund | \$ 1,724,011 |
| Solid Waste Fund | 31,948 |
| | <u>\$ 1,755,959</u> |

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 5. Capital Assets (Continued)

Construction Commitments

As of June 30, 2016, the Town has active construction projects. The Town's commitments with contractors at June 30, 2016, are as follows:

| <u>Project</u> | <u>Spent to Date</u> | <u>Remaining Commitment</u> |
|-----------------|----------------------|---------------------------------|
| Lift Station #5 | \$ - | \$ 123,200 |

Note 6. Deferred Outflows/Inflows of Resources

The Town has unearned revenue which are prepaid taxes for the year ending June 30, 2016, 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, 2016 is comprised of the following:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension deferrals | \$ - | \$ 311,622 |
| Contributions to pension plan in the 2016-2017 fiscal year | 550,173 | - |
| General Fund: | | |
| Prepaid taxes and fees | - | 70,868 |
| Water/Sewer Extensions Capital Project Fund: | | |
| Developer fees not yet earned. | - | 8,459 |
| | <u>550,173</u> | <u>390,949</u> |
| General Fund | | |
| Property taxes receivable | - | 73,641 |
| | <u>\$ 550,173</u> | <u>\$ 464,590</u> |

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 7. Long-Term Obligations (Continued)

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, 2016, is as follows:

| | Beginning | | | Ending | Current |
|--------------------------------|---------------------|---------------------|-------------------|----------------------|-------------------|
| | Balance | Additions | Reductions | Balance | Portion of |
| | | | | | Balance |
| *Accrued compensated absences | \$ 425,044 | \$ 404,965 | \$ 378,873 | \$ 451,136 | \$ 378,954 |
| Net pension liability (LGERS) | - | 503,992 | - | 503,992 | - |
| Net pension obligation (LEO) | 220,086 | - | 9,673 | 210,413 | - |
| Other postemployment benefits | 787,535 | 133,084 | - | 920,619 | - |
| Installment notes payable | 306,925 | - | 9,478 | 297,447 | 9,869 |
| Installment purchase contracts | 8,119,877 | - | 318,284 | 7,801,593 | 321,770 |
| Total | \$ 9,859,467 | \$ 1,042,041 | \$ 716,308 | \$ 10,185,200 | \$ 710,593 |

*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, 2016, the remaining obligation due under this agreement totaled \$400,000.

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, 2016, \$10,688 remains in a restricted account and the remaining obligation due under this agreement totaled \$143,720.

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, 2016, \$11,451 remains in a restricted account and the remaining obligation due under this agreement totaled \$153,727.

The Town has a \$1,050,000 installment purchase contract from Branch Banking & Trust to finance the Shepard Street property purchase. The agreement has a term of 15 years and is collateralized by the property. The note bears interest at a rate of 4.57% annually renegotiated to 3.39% effective May 2012. As of June 30, 2016, the remaining obligation due under this agreement totaled \$630,000.

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, 2016, \$125,054 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,528,057.

The Town has a \$2,075,000 installment purchase contract from USDA to finance the construction of the new Fire and EMS station. The agreement has a term of 40 years and is collateralized by the property. The note bears interest at a rate of 3.75% annually. As of June 30, 2016, \$51,067 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,999,336.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 7. Long-Term Obligations (Continued)

The Town has a \$407,000 installment purchase contract from Carteret County to finance the construction of the Jib Project – Phase II. The agreement has a term of 5 years and is collateralized by the assets financed through the loan. This is an interest free note as Carteret County obtained a loan in the same amount from North Carolina's Eastern Region and passed through those interest free funds to the Town. As of June 30, 2016, the remaining obligation due under this agreement totaled \$244,200.

Changes in Long-term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2016, is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion of Balance |
|--------------------------------|----------------------|-------------------|---------------------|----------------------|----------------------------------|
| Revenue bond | \$ 4,932,000 | \$ - | \$ - | \$ 4,932,000 | \$ 75,000 |
| Notes payable | 13,868,662 | - | 1,042,741 | 12,825,921 | 1,042,741 |
| Installment purchase contracts | 432,824 | - | 281,340 | 151,484 | 151,484 |
| *Accrued compensated absences | 74,628 | 79,719 | 72,668 | 81,679 | 72,694 |
| Net pension liability (LGERS) | - | 95,642 | - | 95,642 | - |
| Other postemployment benefits | 137,416 | 17,208 | - | 154,624 | - |
| Total | <u>\$ 19,445,530</u> | <u>\$ 192,569</u> | <u>\$ 1,396,749</u> | <u>\$ 18,241,350</u> | <u>\$ 1,341,919</u> |

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

The Town has a \$1,700,000 installment 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, 2016, the remaining obligation due under this agreement totaled \$151,484.

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, 2016, the remaining obligation due under this agreement totaled \$595,000.

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, 2016, the remaining obligation due under this agreement totaled \$454,421.

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, 2016, the remaining obligation due under this agreement totaled \$450,000.

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, 2016, the remaining obligation due under this agreement totaled \$9,750,000.

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, 2016, the obligation due is \$451,500.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 7. Long-Term Obligations (Continued)

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, 2016, the obligation due is \$1,125,000.

The Town issued \$4,932,000 in revenue bonds payable to USDA for improvements to the water treatment facilities consisting of a water tower, two water treatment plants and well. Bond terms consist of 40 annual payments beginning June 1, 2015 and bear an interest rate of 2.75%. As of June 30, 2016, \$42,747 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,932,000.

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 | | |
| 2016-2017 | \$ 331,639 | \$ 304,253 |
| 2017-2018 | 335,671 | 295,855 |
| 2018-2019 | 339,868 | 287,294 |
| 2019-2020 | 262,832 | 278,564 |
| 2020-2021 | 267,373 | 269,659 |
| 2022-2026 | 941,647 | 1,231,040 |
| 2027-2031 | 805,997 | 1,065,333 |
| 2032-2036 | 981,618 | 889,428 |
| 2037-2041 | 1,075,996 | 684,639 |
| 2042-2046 | 1,310,317 | 450,318 |
| 2047-2051 | 1,347,922 | 165,571 |
| 2052-2056 | 98,160 | 3,951 |
| | <u>8,099,040</u> | <u>5,925,905</u> |

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 7. Long-Term Obligations (Continued)

| | Principal | Interest |
|--|----------------------|----------------------|
| Business-type activities, Water and Sewer Fund | | |
| 2016-2017 | 1,269,225 | 405,904 |
| 2017-2018 | 1,119,742 | 376,355 |
| 2018-2019 | 1,121,741 | 351,831 |
| 2019-2020 | 1,124,741 | 327,251 |
| 2020-2021 | 1,126,741 | 302,589 |
| 2022-2026 | 5,312,215 | 1,147,632 |
| 2027-2031 | 3,275,000 | 635,178 |
| 2032-2036 | 597,000 | 457,573 |
| 2037-2041 | 683,000 | 370,865 |
| 2042-2046 | 782,000 | 271,673 |
| 2047-2051 | 896,000 | 158,015 |
| 2052-2056 | 602,000 | 33,495 |
| | <u>17,909,405</u> | <u>4,838,361</u> |
| | <u>\$ 26,008,445</u> | <u>\$ 10,764,266</u> |

Interest paid on the above obligations for the year ended June 30, 2016 totaled \$748,669. 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, 2016 amounts to \$156,307,610.

Note 8. Pension Plan and Postemployment Obligations

Local Governmental Employees' Retirement System

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

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

Notes to Financial Statements

Note 8. Pension Plan and Postemployment Obligations (Continued)

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Morehead City employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Morehead City's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs and benefits earned by employees during the year. Contributions to the pension plan from the Town of Morehead City were \$495,967 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Town reported a liability of \$599,634 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.13361%, which was an increase of 0.0093% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$291,206. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Pension Plan and Postemployment Obligations (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 140,948 |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 170,714 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions and measurement date | 54,206 | - |
| Employer contributions subsequent to measurement date | 495,967 | - |
| Total | \$ 550,173 | \$ 311,662 |

\$495,967 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|--------------|
| 2017 | \$ (181,475) |
| 2018 | (181,475) |
| 2019 | (181,409) |
| 2020 | 286,904 |
| 2021 | - |
| Thereafter | - |

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Salary increases | 4.25 to 8.55 percent, including inflation and productivity factor |
| Investment rate of return | 7.25 percent, net of pension plan investment expense, including inflation |

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated

Notes to Financial Statements

Note 8. Pension Plan and Postemployment Obligations (Continued)

for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed Income | 29.0% | 2.2% |
| Global Equity | 42.0% | 5.8% |
| Real Estate | 8.0% | 5.2% |
| Alternatives | 8.0% | 9.8% |
| Credit | 7.0% | 6.8% |
| Inflation Protection | 6.0% | 3.4% |
| Total | <u>100%</u> | |

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

| | 1% Decrease (6.25%) | Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|------------------------------------|--------------------------------------|------------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 4,181,332 | \$ 599,634 | \$ (2,417,867) |

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

Notes to Financial Statements

Note 8. Pension Plan and Postemployment Obligations (Continued)

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. 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; however, it does not meet the criteria for trust funds outlined in GASB Statement 67 and 68.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

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

2. *Summary of Significant Accounting Policies.*

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

3. *Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. 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, 2015 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Pension Plan and Postemployment Obligations (Continued)

increases ranging from 4.25% to 7.85% per year, and (c) inflation at 3%. The assumption did not include postemployment benefits increases or cost of living adjustments.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation for the Special Separation Allowance as of June 30, 2016 are as follows:

| | |
|---|--------------------------|
| Employer annual required contribution | \$ 90,548 |
| Interest on net pension obligation | 11,004 |
| Adjustment to annual required contribution | <u>(19,340)</u> |
| Annual pension cost | 82,212 |
| Benefits paid made for fiscal year | <u>91,885</u> |
| Increase in net pension obligation | (9,673) |
| Net pension obligation beginning of fiscal year | <u>220,086</u> |
| Net pension obligation end of fiscal year | <u><u>\$ 210,413</u></u> |

| Fiscal Year Ended | Three-Year Trend Information | | |
|-------------------|------------------------------|-------------------------------|------------------------------------|
| | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation End of Year |
| 6/30/2014 | \$ 46,154 | 122.63% | \$ 199,957 |
| 6/30/2015 | 72,904 | 72.39% | 220,086 |
| 6/30/2016 | 82,212 | 111.77% | 210,413 |

Assets reserved to pay benefits are reported as committed fund balance in the General Fund. Benefit payments reduce the net pension obligation.

4. *Funded Status and Funding Progress.*

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$1,166,289. The covered payroll (annual payroll of active employees covered by the plan) was \$2,052,052, and the ratio of the UAAL to the covered payroll was 56.84 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.

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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Pension Plan and Postemployment Obligations (Continued)

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, 2016 were \$136,920, which consisted of \$93,691 from the Town and \$43,229 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. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighter's and Rescue Squad Workers' Pension 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.

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

Contributions. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2015, the State contributed \$13,900,000 to the plan. The Town of Morehead City's proportionate share of the State's contribution is \$8,379.

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

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

At June 30, 2016, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$21,916. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2015 and at June 30, 2014 was 0%.

Notes to Financial Statements

Note 8. Pension Plan and Postemployment Obligations (Continued)

For the year ended June 30, 2016, the Town recognized pension expense of \$1,754 and revenue of \$1,754 for support provided by the State. At June 30, 2016, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Salary increases | Not applicable |
| Investment rate of return | 7.25 percent, net of pension plan investment expense, including inflation |

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

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

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

Note 9. 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.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Other Postemployment Benefits (Continued)

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, 2015, the date of the latest actuarial valuation:

| | <u>General Employees</u> | <u>Law Enforcement Officers</u> |
|--|------------------------------|---|
| Retirees and dependents receiving benefits | 14 | 5 |
| Active plan members | <u>117</u> | <u>38</u> |
| | <u>131</u> | <u>43</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. At June 30, 2016 prefunded benefits totaled \$370,837 and were accounted in a fiduciary fund.

The current annual required contribution (ARC) rate is 2.85% of annual covered payroll. For the current year, the Town contributed \$138,355 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 | \$ 267,610 |
| Interest on net OPEB obligation | 56,381 |
| Adjustment on annual required contribution | <u>(35,344)</u> |
| Annual OPEB cost (expense) | 288,647 |
| Contributions made | <u>(138,355)</u> |
| Increase in net OPEB obligation | 150,292 |
| Net OPEB obligation, beginning of year | 924,951 |
| Net OPEB obligation, end of year | <u>\$ 1,075,243</u> |

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Other Postemployment Benefits (Continued)

| For Year Ended | Three-Year Trend Information | | |
|----------------|------------------------------|-----------------------|------------|
| | Annual | Percentage of Annual | Net OPEB |
| June 30, | OPEB Cost | OPEB Cost Contributed | Obligation |
| 2014 | \$ 293,830 | 39.80% | \$ 779,322 |
| 2015 | 267,967 | 45.65% | 924,951 |
| 2016 | 288,647 | 47.93% | 1,075,243 |

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the plan was partially funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,247,810. The covered payroll (annual payroll of active employees covered by the plan) was \$6,870,756, and the ratio of the UAAL to the covered payroll was 32.7 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare 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.

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

In the December 31, 2015 actuarial valuation, the projected unit credit 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, 2015 was 30 years.

Note 10. 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 11. 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 (\$2,132,750), vehicles (\$2,811,501), property (\$75,126,639) and employee health coverage (\$1,000,000). The other pool (NCRIMA) provides workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence losses in excess of \$1,000,000 for general liability and \$500,000 for property damage, and single occurrence losses of \$500,000 for workers' compensation. The Town provides employee health insurance through Blue Cross Blue Shield up to an unlimited lifetime benefit. The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because certain properties owned by the Town are in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of up to \$500,000 per structure through the NFIP. The Town is also eligible to and has purchased commercial flood insurance for \$105,200 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 12. Claims, Judgments and Contingent Liabilities

At June 30, 2016, 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. No provision has been made in the accompanying financial statements for the

Note 13. 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 \$3,293 to the Council during the fiscal year ended June 30, 2016.

Note 14. Subsequent Events

The Town has evaluated its subsequent events (events occurring after June 30, 2016) through December 21, 2016 which represents the date the financial statements were available to be issued.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 14. Subsequent Events (Continued)

On July 2016 the Town purchased land, riparian rights and other related assets including paving, boardwalk and dockage through an Installment Purchase Contract with the NC Department of Administration for \$2,605,000. The Installment Purchase Contract will require 20 annual installments of \$175,907 with the first payment due on July 15, 2017.

In September 2016 the Town entered into a construction agreement with Herring Rivenbark, Inc. in the amount of \$227,080 for Pump Station #9 (Calico Creek Force Main Replacement).

In December 2016 the Town entered into a construction contract for the West End Pump Station & Force Main Capital Project Fund in the amount of \$2,690,734 to Ralph Hodge Construction Co.

Note 15. Change in Accounting Principles/Restatement

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 73, the Town reclassified the Law Enforcement Officers' Special Separation Allowance trust fund net position to the General Fund because it did not meet the definition of a trust. As a result, beginning net position for the governmental activities and beginning fund balance for the General Fund increased by \$128,884 and the pension trust fund's net position decreased by \$128,884.

Note 16. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2016 that have effective dates that may impact future financial presentations.

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

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68" - Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements.

GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" - This statement addresses reporting by OPEB plans that administer benefits on behalf of governments.

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" - This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

GASB Statements 74 and 75 parallel the pension standards issued in 2012—GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Together, the pension and OPEB standards provide consistent and comprehensive guidance for all postemployment benefits.

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepting accounting principles (GAAP).

GASB Statement No. 77, "Tax Abatement Disclosures" - This Statement requires governments to disclose certain information related to tax abatement agreements.

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

GASB Statement No. 78, "Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans." This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB Statement No. 79, "Certain External Investment Pools and Pool Participants." The objective of this Statement is to enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement.

GASB Statement No. 80, "Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14." The objective of this Statement is to enhance the comparability of financial statements among governments. Greater comparability improves the decision-usefulness of information reported in financial statements and enhances its value for assessing government accountability.

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

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

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 Funding Progress for the Other Postemployment Benefits**
 - **Schedule of Employer Contributions for the Other Postemployment Benefits**
 - **Notes to the Required Schedules for the Other Postemployment Benefits**
 - **Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System**
 - **Schedule of Contributions to Local Government Employees' Retirement System**
 - **Schedule of Proportions Share of Net Pension Liability for Firefighters' and Rescue Squad Workers' Pension Plan**
-

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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 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 | \$ 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% |
| 12/31/14 | 176,102 | 790,291 | 614,189 | 22.28% | 1,815,110 | 33.84% |
| 12/31/15 | - | 1,166,289 | 1,166,289 | 0.00% | 2,052,052 | 56.84% |

Notes to the Required Schedules:

| | |
|-------------------------------|----------------------------|
| Valuation Date | 12/31/2015 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level dollar closed |
| Remaining amortization period | 15 |
| Asset valuation method | Market Value |
| Actuarial assumptions | |
| Investment rate of return | 3.57% |
| Projected salary increases | Ranging from 3.5% to 7.35% |
| *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 Accrued Liability (AAL) Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as Percent of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 12/31/11 | - | \$ 3,024,100 | \$3,024,100 | 0.00% | \$ 5,374,692 | 56.30% |
| 12/31/13 | - | 2,602,002 | 2,602,002 | 0.00% | 5,856,023 | 44.40% |
| 12/31/15 | - | 2,247,810 | 2,247,810 | 0.00% | 6,870,756 | 32.70% |

Town of Morehead City, North Carolina

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

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

Notes to the Required Schedules:

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

| | |
|-------------------------------|----------------------------|
| Valuation Date | 12/31/2015 |
| Actuarial cost method | Projected unit credit |
| Amortization method | Level 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 |

Town of Morehead, North Carolina

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

Local Government Employees' Retirement System

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

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

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

Town of Morehead, North Carolina

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

Local Governmental Employees' Retirement System

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

Town of Morehead, North Carolina

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

Firefighters' and Rescue Squad Workers' Pension

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

* The amounts presented are for the prior fiscal year.

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

MAJOR GOVERNMENTAL FUNDS

- **General Fund**
 - **Fire/EMS District Fund**
 - **Morehead City Municipal Campus 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, 2016
With Comparative Actual Amounts for Year Ended June 30, 2015**

(Page 1 of 5)

| | 2016 | | Variance, with Final Budget | 2015 |
|---|------------------|------------------|-----------------------------------|------------------|
| | Final Budget | Actual | | Actual |
| Revenue | | | | |
| Ad valorem taxes: | | | | |
| Current year | \$ 6,430,000 | \$ 6,710,846 | \$ 280,846 | \$ 6,257,769 |
| Prior years | 43,000 | 44,834 | 1,834 | 52,280 |
| Interest and penalties | 25,000 | 30,036 | 5,036 | 21,080 |
| Total ad valorem taxes | 6,498,000 | 6,785,716 | 287,716 | 6,331,129 |
| Other taxes: | | | | |
| Privilege licenses | - | 72 | 72 | 46,942 |
| Motor vehicle lease tax | 25,000 | 29,073 | 4,073 | 27,247 |
| Total other taxes | 25,000 | 29,145 | 4,145 | 74,189 |
| Unrestricted intergovernmental: | | | | |
| Local option sales tax | 2,316,000 | 2,484,746 | 168,746 | 2,307,936 |
| Electric sales tax | 714,000 | 842,566 | 128,566 | 794,067 |
| Beer and wine tax | 43,000 | 40,994 | (2,006) | 44,503 |
| Carteret County ABC revenue | 175,000 | 201,106 | 26,106 | 174,901 |
| Video programming sales tax | 127,800 | 125,242 | (2,558) | 132,622 |
| Telecommunications tax | 135,000 | 114,294 | (20,706) | 135,765 |
| Piped natural gas tax | 15,700 | 12,750 | (2,950) | 9,821 |
| Payment in lieu of taxes | 60,625 | 65,760 | 5,135 | 61,494 |
| Total unrestricted intergovernmental | 3,587,125 | 3,887,458 | 300,333 | 3,661,109 |
| Restricted intergovernmental: | | | | |
| Powell Bill | 269,450 | 272,445 | 2,995 | 274,388 |
| COPS grant | - | 5,573 | 5,573 | 41,325 |
| School resource officer | 59,200 | 62,368 | 3,168 | 59,222 |
| Governor's highway safety program grant | - | - | - | 5,408 |
| Bullet proof vest grant | - | 2,073 | 2,073 | - |
| Controlled substance tax | 2,000 | 10,491 | 8,491 | 9,677 |
| Restitution funds | - | 3,609 | 3,609 | 2,206 |
| Federal drug forfeit funds | - | - | - | - |
| Dredging grant | 25,000 | 51,000 | 26,000 | - |
| CAMA | 3,500 | 6,570 | 3,070 | 4,700 |

(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, 2016

With Comparative Actual Amounts for Year Ended June 30, 2015

(Page 2 of 5)

| | 2016 | | | 2015 |
|--------------------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Final Budget | Actual | Variance, with Final Budget | Actual |
| Mosquito control grant | \$ 1,000 | \$ - | \$ (1,000) | \$ - |
| Teen Court grant | 20,306 | 20,306 | - | 49,958 |
| Webb Library funding | 53,075 | 53,075 | - | 53,075 |
| Housing Authority grant | 35,000 | 35,000 | - | 35,000 |
| FEMA reimbursements | - | - | - | - |
| Miscellaneous police grants | - | - | - | - |
| Total restricted governmental | 468,531 | 522,510 | 53,979 | 534,959 |
| Permits and fees: | | | | |
| Building permits and inspection fees | 250,000 | 315,346 | 65,346 | 286,931 |
| Planning/Zoning fees and charges | 17,500 | 27,075 | 9,575 | 24,979 |
| Sidewalk extension fees | - | 3,040 | 3,040 | 17,524 |
| Franchise fees | - | - | - | 125 |
| Total permits and fees | 267,500 | 345,461 | 77,961 | 329,559 |
| Sales and services: | | | | |
| Court cost and fees | 3,500 | 3,355 | (145) | 3,814 |
| Lot cleaning fees | 500 | 135 | (365) | - |
| Cemetery fees | 750 | 1,620 | 870 | 1,365 |
| Recreation concessions | 2,000 | 1,998 | (2) | 2,291 |
| Sale of cemetery lots | 2,500 | 7,500 | 5,000 | 11,000 |
| Mail box rent and mail fees | 2,500 | 754 | (1,746) | 3,139 |
| Library fees and charges | 4,250 | 2,370 | (1,880) | 3,760 |
| Leases | 90,300 | 65,897 | (24,403) | 54,353 |
| E 911 cost sharing | 15,000 | 24,380 | 9,380 | 25,335 |
| Recreation fees and charges | 145,300 | 147,200 | 1,900 | 158,136 |
| Total sales and services | 266,600 | 255,209 | (11,391) | 263,193 |
| Investment earnings | 6,000 | 16,539 | 10,539 | 6,422 |
| Miscellaneous revenue: | | | | |
| Restricted donations | 27,900 | 9,598 | (18,302) | 7,752 |
| Insurance reimbursements/refunds | 113,970 | 125,890 | 11,920 | 44,345 |
| Sale of surplus property | 11,395 | 168 | (11,227) | 45,072 |
| Miscellaneous | 23,540 | 22,271 | (1,269) | 24,952 |
| Total miscellaneous revenue | 176,805 | 157,927 | (18,878) | 122,121 |
| Total revenue | 11,295,561 | 11,999,965 | 704,404 | 11,322,681 |

(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, 2016
 With Comparative Actual Amounts for Year Ended June 30, 2015

(Page 3 of 5)

| | 2016 | | Variance, with Final Budget | 2015 |
|----------------------------------|------------------|------------------|-----------------------------------|------------------|
| | Final Budget | Actual | | Actual |
| Expenditures | | | | |
| General government: | | | | |
| Mayor - town council | | | | |
| Salaries and benefits | | \$ 22,540 | | \$ 21,146 |
| Other | | 10,758 | | 5,698 |
| | 91,395 | 33,298 | 58,097 | 26,844 |
| Administration: | | | | |
| Salaries, wages and benefits | | 222,794 | | 203,259 |
| Other | | 13,990 | | 14,739 |
| | 252,794 | 236,784 | 16,010 | 217,998 |
| Finance: | | | | |
| Salaries, wages and benefits | | 256,602 | | 236,315 |
| Other | | 30,167 | | 24,931 |
| | 324,703 | 286,769 | 37,934 | 261,246 |
| Central services: | | | | |
| Employee benefits | | 118,976 | | 84,550 |
| Professional services | | 114,150 | | 123,258 |
| Capital outlay | | - | | 64,597 |
| Other | | 272,569 | | 302,947 |
| | 551,314 | 505,695 | 45,619 | 575,352 |
| Community projects | 72,055 | 65,200 | 6,855 | 62,353 |
| Information Technology | | | | |
| Salaries, wages and benefits | | 35,122 | | - |
| Other | | 32,788 | | - |
| | 84,510 | 67,910 | 16,600 | - |
| Cemetery, buildings and grounds: | | | | |
| Salaries, wages and benefits | | 277,098 | | 250,952 |
| Capital outlay | | 40,245 | | 17,712 |
| Other | | 141,505 | | 139,775 |
| | 520,650 | 458,848 | 61,802 | 408,439 |
| Garage: | | | | |
| Salaries, wages and benefits | | 43,058 | | 46,749 |
| Other | | 6,408 | | 7,921 |
| | 57,944 | 49,466 | 8,478 | 54,670 |
| Total general government | 1,955,365 | 1,703,970 | 251,395 | 1,606,902 |

(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, 2016
 With Comparative Actual Amounts for Year Ended June 30, 2015

(Page 4 of 5)

| | 2016 | | | 2015 |
|-----------------------------------|---------------------|------------------|-----------------------------------|------------------|
| | Final Budget | Actual | Variance, with Final Budget | Actual |
| Public safety: | | | | |
| Police: | | | | |
| Salaries, wages and benefits | | \$ 2,865,038 | | \$ 2,796,453 |
| Capital outlay | | 108,053 | | 165,735 |
| Other | | 448,228 | | 473,968 |
| | \$ 3,533,031 | 3,421,319 | \$ 111,712 | 3,436,156 |
| Inspections: | | | | |
| Salaries, wages and benefits | | 426,907 | | 399,279 |
| Other | | 31,494 | | 32,449 |
| | 551,400 | 458,401 | 92,999 | 431,728 |
| Federal drug forfeit funds: | | | | |
| Other | | 1,182 | | 13,664 |
| | 4,950 | 1,182 | 3,768 | 13,664 |
| Total public safety | 4,089,381 | 3,880,902 | 208,479 | 3,881,548 |
| Highways and streets: | | | | |
| Transportation: | | | | |
| Salaries, wages and benefits | | 427,604 | | 398,966 |
| Capital outlay | | 49,344 | | 5,170 |
| Other | | 321,763 | | 275,757 |
| | 912,900 | 798,711 | 114,189 | 679,893 |
| Powell Bill funds | 269,450 | 89,018 | 180,432 | 353,855 |
| Total highways and streets | 1,182,350 | 887,729 | 294,621 | 1,033,748 |
| Recreation: | | | | |
| Salaries, wages and benefits | | 353,620 | | 332,803 |
| Capital outlay | | 46,769 | | 95,796 |
| Other | | 215,846 | | 171,752 |
| Total recreation | 665,525 | 616,235 | 49,290 | 600,351 |
| Parks: | | | | |
| Salaries, wages and benefits | | 121,413 | | 111,513 |
| Capital outlay | | 32,200 | | 153,013 |
| Other | | 183,229 | | 40,219 |
| Total parks | 353,050 | 336,842 | 16,208 | 304,745 |

(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, 2016
With Comparative Actual Amounts for Year Ended June 30, 2015**

(Page 5 of 5)

| | 2016 | | | 2015 |
|---|--------------------|---------------------|-----------------------------|---------------------|
| | Final Budget | Actual | Variance, with Final Budget | Actual |
| Library: | | | | |
| Salaries, wages and benefits | | \$ 98,292 | | \$ 97,419 |
| Capital outlay | | 26,400 | | 3,600 |
| Other | | 49,129 | | 40,797 |
| Total library | \$ 231,225 | 173,821 | \$ 57,404 | 141,816 |
| Debt service: | | | | |
| Principal retirement | | 301,607 | | 298,826 |
| Interest fees | | 236,539 | | 243,685 |
| Total debt service | 702,097 | 538,146 | 163,951 | 542,511 |
| Total expenditures | 9,178,993 | 8,137,645 | 1,041,348 | 8,111,621 |
| Revenue over expenditures | 2,116,568 | 3,862,320 | 1,745,752 | 3,211,060 |
| Other financing sources (uses) | | | | |
| Fund balance appropriated | 667,000 | - | (667,000) | - |
| Sale of capital assets | - | 13,558 | 13,558 | - |
| Transfers out: | | | | |
| Fire/EMS District Fund | (2,739,050) | (2,739,050) | - | (1,990,761) |
| Morehead Municipal Campus CPF | | - | - | (107,500) |
| Baseball Park CPF | (17,970) | (17,970) | - | - |
| Jib Waterfront Access Capital Project Fund | | - | - | (105,000) |
| Contingency | (26,548) | - | 26,548 | - |
| Total other financing uses | (2,116,568) | (2,743,462) | (626,894) | (2,203,261) |
| Revenue and other financing sources over (under) expenditures and other financing uses | \$ - | 1,118,858 | \$ 1,118,858 | 1,007,799 |
| Fund balance, beginning as previously reported | | 6,917,761 | | 5,909,962 |
| Restatement for accounting change | | 128,884 | | - |
| Fund balance, beginning as restated | | 7,046,645 | | 5,909,962 |
| Fund balance, ending | | <u>\$ 8,165,503</u> | | <u>\$ 6,917,761</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, 2016
 With Comparative Actual Amounts for Year Ended June 30, 2015

(Page 1 of 2)

| | 2016 | | | 2015 |
|------------------------------------|------------------|------------------|----------------------------------|------------------|
| | Budget | Actual | Variance with Final Budget | Actual |
| Revenue | | | | |
| Operating revenue | | | | |
| Restricted - intergovernmental | | | | |
| Carteret County equipment | \$ - | \$ - | \$ - | \$ 208,000 |
| Charges for services | 1,605,750 | 1,794,794 | 189,044 | 1,499,709 |
| Total operating revenue | 1,605,750 | 1,794,794 | 189,044 | 1,707,709 |
| Investment earnings | 500 | 1,725 | 1,225 | 677 |
| Miscellaneous revenue | | | | |
| Donations | 5,500 | 1,000 | (4,500) | 7,264 |
| Special Project Revenue | 19,375 | 22,723 | 3,348 | |
| Sale of surplus property | 98,500 | 679 | (97,821) | - |
| Insurance reimbursements | - | 20,612 | 20,612 | 4,001 |
| Miscellaneous | - | - | - | 432 |
| Total miscellaneous revenue | 123,375 | 45,014 | (78,361) | 11,697 |
| Total revenue | 1,729,625 | 1,841,533 | 111,908 | 1,720,083 |
| Expenditures | | | | |
| Public safety: | | | | |
| Salaries, wages, and benefits | | 3,250,666 | | 2,676,713 |
| Other | | 754,166 | | 647,823 |
| Capital outlay | | 289,289 | | 145,220 |
| | 4,602,900 | 4,294,121 | 308,779 | 3,469,756 |

(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, 2016
 With Comparative Actual Amounts for Year Ended June 30, 2015

(Page 2 of 2)

| | 2016 | | | 2015 |
|--|--------------------|----------------------------|----------------------------------|--------------------------|
| | Budget | Actual | Variance with Final Budget | Actual |
| Debt service: | | | | |
| Principal retirement | | \$ 26,155 | | \$ 25,210 |
| Interest fees | | 75,956 | | 76,901 |
| | <u>\$ 102,111</u> | <u>102,111</u> | <u>\$ -</u> | <u>102,111</u> |
| Total expenditures | 4,705,011 | 4,396,232 | 308,779 | 3,571,867 |
| Revenue over (under) expenditures | (2,975,386) | (2,554,699) | 420,687 | (1,851,784) |
| Other financing sources (uses): | | | | |
| Fund balance appropriated | 340,000 | - | (340,000) | - |
| Sale of capital assets | - | 68,001 | 68,001 | - |
| Contingency | (103,664) | - | 103,664 | - |
| Operating transfer in: | | | | |
| General fund | 2,739,050 | 2,739,050 | - | 1,990,761 |
| Operating transfer out: | | | | |
| Fire/EMS Station #2 | - | - | - | - |
| Total other financing sources (uses) | 2,975,386 | 2,807,051 | (168,335) | 1,990,761 |
| Revenue and other financing sources over expenditures | \$ - | 252,352 | \$ 252,352 | 138,977 |
| Fund balance, beginning | | <u>852,259</u> | | <u>713,282</u> |
| Fund balance, ending | | <u><u>\$ 1,104,611</u></u> | | <u><u>\$ 852,259</u></u> |

Morehead City Municipal Campus Capital Project Fund

This fund is used to account for funds accumulated for the acquisition of the Charles Wallace School Property and additional renovations to the property.

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Town of Morehead City, North Carolina

Morehead City Municipal Campus Capital Project Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balance -
 Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2016

| | Project | | Actual | |
|--|---------------------|---------------------|--------------------|---------------------|
| | Authorization | Prior | Current | Project |
| | | Years | Year | To Date |
| Revenue | | | | |
| Restricted intergovernmental | | | | |
| Carteret County | \$ 996,754 | \$ 996,754 | \$ - | \$ 996,754 |
| Interest revenue | 8,923 | 10,005 | 133 | 10,138 |
| Interest revenue, Build America Bonds | 33,633 | 33,633 | - | 33,633 |
| Miscellaneous revenue-rent | 309,700 | 313,950 | - | 313,950 |
| Miscellaneous revenue-insurance reimbursemer | 41,101 | 41,088 | - | 41,088 |
| Miscellaneous revenue | | | 241 | 241 |
| Total revenue | 1,390,111 | 1,395,430 | 374 | 1,395,804 |
| Expenditures | | | | |
| General government | | 215,326 | 11,290 | 226,616 |
| Public safety | | - | - | - |
| Capital outlay | | | | |
| General government | | 1,110,961 | 799 | 1,111,760 |
| Public safety | | 6,059,986 | 8,892 | 6,068,878 |
| | 7,467,236 | 7,386,273 | 20,981 | 7,407,254 |
| Debt service: | | | | |
| Principal retirement | 5,000,000 | 5,000,000 | - | 5,000,000 |
| Interest fees | 96,100 | 96,094 | - | 96,094 |
| | 5,096,100 | 5,096,094 | - | 5,096,094 |
| Total expenditures | 12,563,336 | 12,482,367 | 20,981 | 12,503,348 |
| Revenue under expenditures | (11,173,225) | (11,086,937) | (20,607) | (11,107,544) |
| Other financing sources (uses) | | | | |
| Contingency | | - | - | - |
| Issuance of debt | 9,808,000 | 9,808,000 | - | 9,808,000 |
| Transfer from General Fund | 1,365,225 | 1,365,225 | - | 1,365,225 |
| Total other financing sources | 11,173,225 | 11,173,225 | - | 11,173,225 |
| Revenue and other financing sources over (under) expenditures | \$ - | \$ 86,288 | \$ (20,607) | \$ 65,681 |
| Fund balance, beginning | | | 86,288 | |
| Fund balance, ending | | | \$ 65,681 | |

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NON-MAJOR GOVERNMENTAL FUNDS

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

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

Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2016

With Comparative Totals as of June 30, 2015

| | MATS Capital Project Fund | Baseball Park Capital Project Fund | Newport River Water Access Capital Project Fund |
|---|------------------------------------|--|--|
| Assets: | | | |
| Cash and cash equivalents | \$ 45,643 | \$ 68,924 | \$ 23 |
| Accounts receivable | - | - | - |
| Due from other non-major funds | - | - | - |
| Total assets | \$ 45,643 | \$ 68,924 | \$ 23 |
| Liabilities and fund balances: | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | \$ - | \$ 54,175 | \$ - |
| Due to other non-major funds | - | - | - |
| Total liabilities | - | 54,175 | - |
| Deferred inflows of resources | - | - | - |
| Fund balances: | | | |
| Restricted | | | |
| Recreation | - | 14,749 | 23 |
| General government | - | - | - |
| Public safety | - | - | - |
| Assigned | | | |
| Streets | 45,643 | - | - |
| Unassigned | - | - | - |
| Total fund balances | 45,643 | 14,749 | 23 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 45,643 | \$ 68,924 | \$ 23 |

| Jib Waterfront Access Capital Project Fund | Fire/EMS Station #2 Replacement Capital Project Fund | Totals | |
|---|---|-------------------|-------------------|
| | | 2016 | 2015 |
| \$ 265,373 | \$ 8,832 | \$ 388,795 | \$ 271,947 |
| - | - | - | 222,404 |
| - | - | - | - |
| \$ 265,373 | \$ 8,832 | \$ 388,795 | \$ 494,351 |
| | | | |
| \$ 193,082 | \$ - | \$ 247,257 | \$ 219,592 |
| - | - | - | - |
| 193,082 | - | 247,257 | 219,592 |
| | | | |
| - | - | - | 200,000 |
| | | | |
| - | - | 14,772 | 70,854 |
| 72,291 | - | 72,291 | - |
| - | 8,832 | 8,832 | 8,815 |
| - | - | 45,643 | - |
| - | - | - | 45,554 |
| - | - | - | (50,464) |
| 72,291 | 8,832 | 141,538 | 74,759 |
| | | | |
| \$ 265,373 | \$ 8,832 | \$ 388,795 | \$ 494,351 |

Town of Morehead City, North Carolina

Non-Major Governmental Funds
 Combining Statement of Revenue, Expenditures and
 Changes in Fund Balance
 Year Ended June 30, 2016
 With Comparative Totals For Year Ended June 30, 2015

| | MATS Capital Project Fund | Baseball Park Capital Project Fund | Newport River Water Access Capital Project Fund |
|---|------------------------------------|--|--|
| Revenue | | | |
| Restricted intergovernmental | \$ - | \$ - | \$ 26 |
| Miscellaneous | - | - | - |
| Investment earnings | 89 | 98 | - |
| Total revenue | 89 | 98 | 26 |
| Expenditures | | | |
| Recreation | - | 54,175 | 20,001 |
| Public safety | - | - | - |
| General Government | - | - | - |
| Total expenditures | - | 54,175 | 20,001 |
| Revenue over (under) expenditures | 89 | (54,077) | (19,975) |
| Other financing sources | | | |
| Transfers in | - | 17,970 | - |
| Total other financing sources | - | 17,970 | - |
| Revenue and other financing sources over (under) expenditures and other financing uses | 89 | (36,107) | (19,975) |
| Fund balance, beginning | 45,554 | 50,856 | 19,998 |
| Fund balance (deficit), ending | \$ 45,643 | \$ 14,749 | \$ 23 |

| Jib Waterfront Access Capital Project Fund | Fire/EMS Station #2 Replacement Capital Project Fund | 2016 Totals | 2015 Totals |
|---|---|------------------------|------------------------|
| \$ 200,000 | \$ - | \$ 200,026 | \$ 140,253 |
| - | - | - | 35,804 |
| 489 | 17 | 693 | 418 |
| 200,489 | 17 | 200,719 | 176,475 |
| - | - | 74,176 | 130,870 |
| - | - | - | - |
| 77,734 | - | 77,734 | 480,647 |
| 77,734 | - | 151,910 | 611,517 |
| 122,755 | 17 | 48,809 | (435,042) |
| - | - | 17,970 | 512,000 |
| - | - | 17,970 | 512,000 |
| 122,755 | 17 | 66,779 | 76,958 |
| (50,464) | 8,815 | 74,759 | (2,199) |
| \$ 72,291 | \$ 8,832 | \$ 141,538 | \$ 74,759 |

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, 2016

| | Project | Actual | | Project |
|--|------------------|------------------|------------------|------------------|
| | Authorization | Prior | Current | To Date |
| | | Years | Year | |
| Revenue | | | | |
| Restricted intergovernmental | | | | |
| NCDOT Grant | \$ 287,909 | \$ 287,909 | \$ - | \$ 287,909 |
| Carteret County Grant | 35,989 | 35,989 | - | 35,989 |
| Interest earnings | 4,500 | 7,837 | 89 | 7,926 |
| Total revenue | 328,398 | 331,735 | 89 | 331,824 |
| Expenditures | | | | |
| Trail improvements | 914,697 | 871,965 | - | 871,965 |
| Total expenditures | 914,697 | 871,965 | - | 871,965 |
| Revenue over (under) expenditures | (586,299) | (540,230) | 89 | (540,141) |
| 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 | \$ - | \$ 45,554 | 89 | \$ 45,643 |
| Fund balance, beginning | | | <u>45,554</u> | |
| Fund balance, ending | | | <u>\$ 45,643</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, 2016**

| | Project Authorization | Prior Years | Actual Current Year | Project To Date |
|--|--------------------------|--------------------|---------------------------|--------------------|
| Revenue | | | | |
| Restricted intergovernmental | | | | |
| LWCF grant | \$ 250,000 | \$ 250,000 | \$ - | \$ 250,000 |
| PARTF grant | 150,000 | 150,000 | - | 150,000 |
| Interest revenue | 33,043 | 33,365 | 98 | 33,463 |
| Miscellaneous revenue - donations | 264,500 | 264,500 | - | 264,500 |
| Total revenue | 697,543 | 697,865 | 98 | 697,963 |
| Expenditures | | | | |
| Baseball park construction | 2,949,720 | 2,881,216 | 54,175 | 2,935,391 |
| Total expenditures | 2,949,720 | 2,881,216 | 54,175 | 2,935,391 |
| Revenue under expenditures | (2,252,177) | (2,183,351) | (54,077) | (2,237,428) |
| Other financing sources | | | | |
| Transfer from General Fund | 2,245,920 | 2,227,950 | 17,970 | 2,245,920 |
| Transfer from Mayberry/20th Street | 6,257 | 6,257 | - | 6,257 |
| Total other financing sources | 2,252,177 | 2,234,207 | 17,970 | 2,252,177 |
| Revenue and other financing sources over (under) expenditures | \$ - | \$ 50,856 | (36,107) | \$ 14,749 |
| Fund balance, beginning | | | 50,856 | |
| Fund balance, ending | | | \$ 14,749 | |

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 (Non-GAAP)
 From Inception and for the Year Ended June 30, 2016

| | Project Authorization | Prior Years | Actual Current Year | Project To Date |
|--|--------------------------|------------------|---------------------------|--------------------|
| 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 | 1,240,822 | - | 1,240,822 |
| Coastal Rec. Fishing License grant | 49,430 | 49,431 | - | 49,431 |
| DENR/DWR Dredging grant | 26,500 | 26,516 | - | 26,516 |
| NC Marine Resources grant | 156,780 | 156,780 | - | 156,780 |
| Investment earnings | 2,000 | 1,905 | 26 | 1,931 |
| Total revenue | 2,575,530 | 2,575,454 | 26 | 2,575,480 |
| Expenditures | | | | |
| Water access improvements | 2,725,530 | 2,705,456 | 20,001 | 2,725,457 |
| Total expenditures | 2,725,530 | 2,705,456 | 20,001 | 2,725,457 |
| Revenue under expenditures | (150,000) | (130,002) | (19,975) | (149,977) |
| 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 | \$ - | \$ 19,998 | (19,975) | \$ 23 |
| Fund balance, beginning | | | 19,998 | |
| Fund balance, ending | | | \$ 23 | |

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, 2016

| | Project Authorization | Prior Years | Actual Current Year | Project To Date |
|--|--------------------------|--------------------|---------------------------|--------------------|
| Revenue | | | | |
| Restricted intergovernmental | | | | |
| CAMA grant | \$ 400,000 | \$ 200,000 | \$ 200,000 | \$ 400,000 |
| Division of Water Resources grant | 300,000 | 300,000 | - | 300,000 |
| Waterfront access | 150,000 | 150,000 | - | 150,000 |
| Interest revenue | - | 168 | 489 | 657 |
| Miscellaneous revenue - donations | 149,424 | 129,670 | - | 129,670 |
| Total revenue | 999,424 | 779,838 | 200,489 | 980,327 |
| Expenditures | | | | |
| Jib waterfront access expenditures | 3,187,150 | 2,872,554 | 77,734 | 2,950,288 |
| Interest expense on interfund loan | 4,850 | 4,836 | - | 4,836 |
| Total expenditures | 3,192,000 | 2,877,390 | 77,734 | 2,955,124 |
| Revenue under expenditures | (2,192,576) | (2,097,552) | 122,755 | (1,974,797) |
| Other financing sources (uses) | | | | |
| Contingency | (47,622) | - | - | - |
| Issuance of debt | 407,000 | 407,000 | - | 407,000 |
| Transfer from General Fund | 1,830,993 | 1,637,897 | - | 1,637,897 |
| Transfer from Shepard Street Boat Ramp | 2,205 | 2,191 | - | 2,191 |
| Transfer from Water/Sewer Fund | 650,000 | 650,000 | - | 650,000 |
| Transfer to Water/Sewer Fund | (650,000) | (650,000) | - | (650,000) |
| Total other financing sources (uses) | 2,192,576 | 2,047,088 | - | 2,047,088 |
| Revenue and other financing sources over (under) expenditures | \$ - | \$ (50,464) | 122,755 | \$ 72,291 |
| Fund balance (deficit), beginning | | | (50,464) | |
| Fund balance, ending | | | \$ 72,291 | |

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, 2016

| | Project Authorization | Prior Years | Actual Current Year | Project To Date |
|--|--------------------------|--------------------|---------------------------|--------------------|
| Revenue | | | | |
| Restricted intergovernmental-USDA grant | \$ 200,000 | \$ 200,000 | \$ - | \$ 200,000 |
| Interest revenue | - | (6,194) | 17 | (6,177) |
| Miscellaneous revenue - donations | - | 400 | - | 400 |
| Total revenue | 200,000 | 194,206 | 17 | 194,223 |
| Expenditures | | | | |
| Capital outlay - Fire/EMS St. #2 replacement | 2,821,100 | 2,812,364 | - | 2,812,364 |
| Interest expense on Fire/EMS St. #2 replacement | 13,550 | 7,677 | - | 7,677 |
| Total expenditures | 2,834,650 | 2,820,041 | - | 2,820,041 |
| Revenue under expenditures | (2,634,650) | (2,625,835) | 17 | (2,625,818) |
| Other financing sources | | | | |
| Issuance of debt | 2,075,000 | 2,075,000 | - | 2,075,000 |
| Transfer from Fire/EMS Fund | 559,650 | 559,650 | - | 559,650 |
| Total other financing sources | 2,634,650 | 2,634,650 | - | 2,634,650 |
| Revenue and other financing sources over expenditures | \$ - | \$ 8,815 | 17 | \$ 8,832 |
| Fund balance, beginning | | | <u>8,815</u> | |
| Fund balance, ending | | | <u>\$ 8,832</u> | |

Town of Morehead City, North Carolina

Katherine Davis Park 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, 2016

| | Project Authorization | Actual | |
|--|--------------------------|-----------------|--------------------|
| | | Current Year | Project To Date |
| Revenue | | | |
| Interest revenue | \$ - | \$ - | \$ - |
| Total revenue | <u>-</u> | <u>-</u> | <u>-</u> |
| Expenditures | | | |
| Katherine Davis Park expenditures | <u>2,605,000</u> | - | - |
| Total expenditures | <u>2,605,000</u> | <u>-</u> | <u>-</u> |
| Revenue under expenditures | <u>(2,605,000)</u> | <u>-</u> | <u>-</u> |
| Other financing sources | | | |
| Issuance of debt | <u>2,605,000</u> | - | - |
| Total other financing sources | <u>2,605,000</u> | <u>-</u> | <u>-</u> |
| Revenue and other financing sources over (under) expenditures | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> |
| Fund balance, beginning | | <u>-</u> | |
| Fund balance, ending | | <u>\$ -</u> | |

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ENTERPRISE FUNDS

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

The Town maintains two enterprise funds.

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

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

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Town of Morehead City, North Carolina

Water and Sewer Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 Year Ended June 30, 2016
 With Comparative Actual Amounts For The Year Ended June 30, 2015
 (Page 1 of 3)

| | 2016 | | Variance with Final Budget | 2015 |
|---|-------------------------|-------------------------|----------------------------------|-------------------------|
| | Budget | Actual | | Actual |
| Operating revenue: | | | | |
| Charges for sales and services: | | | | |
| Sewer charges | \$ 2,917,400 | \$ 3,084,061 | \$ 166,661 | \$ 2,870,398 |
| Water charges | 3,161,100 | 3,370,208 | 209,108 | 3,140,655 |
| Tap fees | 14,000 | 35,913 | 21,913 | 29,560 |
| Total charges for sales and services | <u>6,092,500</u> | <u>6,490,182</u> | <u>397,682</u> | 6,040,613 |
| Miscellaneous | <u>276,000</u> | <u>312,531</u> | <u>36,531</u> | <u>318,807</u> |
| Total operating revenue | <u>6,368,500</u> | <u>6,802,713</u> | <u>434,213</u> | <u>6,359,420</u> |
| Operating expenditures | | | | |
| Cost of sales and services - | | | | |
| Water, wells and pumping stations: | | | | |
| Salaries, wages and employee benefits | | 129,793 | | 114,934 |
| Other | | 319,345 | | 241,338 |
| Repairs and maintenance | | 105,475 | | 98,156 |
| Total cost of sales and services - water, wells and pumping stations | <u>628,375</u> | <u>554,613</u> | <u>73,762</u> | <u>454,428</u> |
| Cost of sales and services - | | | | |
| Water distribution and sewer collection: | | | | |
| Salaries, wages and employee benefits | | 803,309 | | 711,050 |
| Other | | 791,714 | | 795,805 |
| Repairs and maintenance | | 55,042 | | 54,668 |
| Capital outlay | | 104,024 | | 72,483 |
| Total cost of sales and services - water distribution and sewer collection | <u>1,890,198</u> | <u>1,754,089</u> | <u>136,109</u> | <u>1,634,006</u> |
| Cost of sales and services - | | | | |
| Lift stations and sewer mains: | | | | |
| Other | | 87,202 | | 84,194 |
| Repairs and maintenance | | 54,134 | | 55,121 |
| Capital outlay | | 74,450 | | 77,096 |
| Total cost of sales and services - lift stations and sewer mains | <u>282,300</u> | <u>215,786</u> | <u>66,514</u> | <u>216,411</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, 2016
 With Comparative Actual Amounts For The Year Ended June 30, 2015
 (Page 2 of 3)

| | 2016 | | Variance with Final Budget | 2015 |
|--|---------------------|--------------------|----------------------------------|--------------------|
| | Budget | Actual | | Actual |
| Cost of sales and services - | | | | |
| Wastewater treatment plant: | | | | |
| Salaries, wages and employee benefits | | \$ 470,227 | | \$ 408,692 |
| Other | | 323,829 | | 309,181 |
| Repairs and maintenance | | 102,233 | | 54,644 |
| Total cost of sales and services - wastewater treatment plant | \$ 1,025,050 | 896,289 | \$ 128,761 | 772,517 |
| Cost of sales and services - | | | | |
| Water billing and collection | | | | |
| Salaries, wages and employee benefits | | 186,863 | | 164,308 |
| Other | | 53,747 | | 62,251 |
| Total cost of sales and services - water billing and collection | 275,219 | 240,610 | 34,609 | 226,559 |
| Total operating expenditures | 4,101,142 | 3,661,387 | 439,755 | 3,303,921 |
| Operating revenue over operating expenditures | 2,267,358 | 3,141,326 | 873,968 | 3,055,499 |
| Nonoperating revenue (expenditures) | | | | |
| Interest revenue | 13,550 | 23,185 | 9,635 | 16,535 |
| Restricted intergovernmental | - | 6,200 | 6,200 | 5,753 |
| Interest and fiscal charges | (436,161) | (342,582) | 93,579 | (374,929) |
| Bond and installment agreement principal payments | (1,324,081) | (1,324,081) | - | (1,450,206) |
| Total nonoperating revenues (expenditures) | (1,746,692) | (1,637,278) | 109,414 | (1,802,847) |
| Revenue over expenditures | 520,666 | 1,504,048 | 983,382 | 1,252,652 |

(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, 2016

With Comparative Actual Amounts For The Year Ended June 30, 2015

(Page 3 of 3)

| | 2016 | | Variance with Final Budget | 2015 |
|---|------------------|---------------------|----------------------------------|-------------------|
| | Budget | Actual | | Actual |
| Other financing sources (uses) | | | | |
| Capital contributions | \$ 65,625 | \$ 65,528 | \$ (97) | \$ 63,019 |
| Transfers in: | | | | |
| Water Reuse Capital Project Fund | 63,767 | 63,766 | (1) | (346,467) |
| Transfers out: | | | | |
| Water and Sewer Capital Project Funds | (925,300) | (445,136) | 480,164 | (346,467) |
| Contingency | (134,383) | - | 134,383 | - |
| Fund balance appropriated | 409,625 | - | (409,625) | - |
| Total other financing sources (uses) | (520,666) | (315,842) | 204,824 | (629,915) |
| Revenue and other sources over expenditures and other financing uses | \$ - | \$ 1,188,206 | \$ 1,188,206 | \$ 622,737 |

Reconciliation of modified accrual basis to
full accrual basis:

| | | |
|---|---------------------|---------------------|
| Revenue and other financing sources over expenditures and other financing uses | \$ 1,188,206 | \$ 622,737 |
| Depreciation | (1,724,011) | (1,673,713) |
| Note and installment agreement principal payment | 1,324,081 | 1,450,206 |
| Capitalized expenditures included in capital outlay and other expenditures | 169,398 | 149,133 |
| Net transfers to Water and Sewer Capital Project Funds | 381,370 | 346,467 |
| Contributed capital from notes receivable | (51,255) | (64,127) |
| Repairs and maintenance expense from capital project funds | (234,416) | (225,299) |
| Contributed capital assets | - | 231,578 |
| Contributions-capital project funds | 280,312 | 244,780 |
| Capital asset transferred in from General Fund | - | 2,427 |
| Interest expense in capital project funds | (418) | (77) |
| Intergovernmental revenue from capital projects | - | 2,690,341 |
| Interest earned from capital project funds | 4,340 | 1,868 |
| Decrease in net pension asset | (111,331) | - |
| Increase in deferred outflows of resources - pensions | 14,550 | - |
| Increase in net pension liability | (93,483) | - |
| Decrease in deferred inflows of resources - pensions | 213,711 | - |
| Net other post employment benefit obligation | (16,991) | (17,230) |
| Pension expense | - | (18,303) |
| Contributions to the pension plan in the current fiscal year | - | 81,346 |
| Net income, full accrual basis | \$ 1,344,063 | \$ 3,822,134 |

Town of Morehead City, North Carolina

Solid Waste Fund

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

Year Ended June 30, 2016

With Comparative Actual Amounts for Year Ended June 30, 2015

| | 2016 | | Variance, with Final Budget | 2015 |
|---|-----------------|------------------|-----------------------------------|--------------------|
| | Budget | Actual | | Actual |
| Revenue: | | | | |
| Operating revenue: | | | | |
| Charges for sales and services: | | | | |
| Refuse collections - carts | \$ 920,000 | \$ 944,477 | \$ 24,477 | \$ 945,157 |
| Miscellaneous | - | 786 | 786 | 725 |
| Total operating revenue | 920,000 | 945,263 | 25,263 | 945,882 |
| Operating expenditures: | | | | |
| Contracted Services | | 623,650 | | 648,984 |
| Salaries, wages and employee benefits | | 53,122 | | 48,786 |
| Operating | | 179,737 | | 182,294 |
| Capital outlay | | - | | 171,736 |
| Total operating expenditures | 909,750 | 856,509 | 53,241 | 1,051,800 |
| Operating revenue over (under) operating expenditures | 10,250 | 88,754 | 78,504 | (105,918) |
| Nonoperating revenue: | | | | |
| Interest revenue | 100 | 695 | 595 | 257 |
| Restricted intergovernmental | 6,000 | 6,096 | 96 | 81,053 |
| Total nonoperating revenue | 6,100 | 6,791 | 691 | 81,310 |
| Revenue over expenditures | 16,350 | 95,545 | 79,195 | (24,608) |
| Other financing sources (uses) | | | | |
| Contingency | (27,250) | - | 27,250 | - |
| Fund balance appropriated | 10,900 | - | (10,900) | - |
| Total other financing uses | (16,350) | - | 16,350 | - |
| Revenue and other financing sources over expenditures | \$ - | \$ 95,545 | 95,545 | \$ (24,608) |
| Reconciliation of modified accrual basis with full accrual basis: | | | | |
| Revenue and other financing sources over expenditures | | \$ 95,545 | | \$ (24,608) |
| Net other postemployment benefit obligation | | (214) | | (207) |
| Depreciation | | (31,948) | | (26,783) |
| Capital outlay | | - | | 171,736 |
| Repairs and maintenance in capital outlay | | - | | (918) |
| Decrease in net pension asset | | (2,787) | | |
| Decrease in deferred outflows of resources - pensions | | 186 | | |
| Increase in net pension liability | | (2,159) | | |
| Decrease in deferred inflows of resources - pensions | | 5,444 | | |
| Pension expense | | - | | (447) |
| Contributions to the pension plan in the current fiscal year | | - | | 2,036 |
| Net income, full accrual basis | | \$ 64,067 | | \$ 120,809 |

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, 2016
 With Comparative Actual Amounts For The Year Ended June 30, 2015

| | 2016 | | | 2015 |
|---|-----------------|-------------------|-----------------------------------|-------------------|
| | Budget | Actual | Variance, with Final Budget | Actual |
| Revenue | | | | |
| Impact fees | \$ 95,000 | \$ 271,264 | \$ 176,264 | \$ 115,551 |
| Interest | 1,200 | 3,067 | 1,867 | 1,243 |
| Total revenue | 96,200 | 274,331 | 178,131 | 116,794 |
| Other financing sources (uses) | | | | |
| Transfers out: | | | | |
| Water and sewer capital project fund | (40,000) | (20,000) | 20,000 | (10,000) |
| Reserved for future appropriation | (56,200) | - | 56,200 | - |
| Total other financing sources (uses) | (96,200) | (20,000) | 76,200 | (10,000) |
| | | | | |
| Revenue and other financing sources over other financing sources | \$ - | \$ 254,331 | \$ 254,331 | \$ 106,794 |

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, 2016
 With Comparative Actual Amounts For The Year Ended June 30, 2015

| | 2016 | | Variance, with Final Budget | 2015 |
|--|------------------|------------------|-----------------------------------|------------------|
| | Budget | Actual | | Actual |
| Revenue | | | | |
| Interest | \$ - | \$ (417) | \$ (417) | \$ (77) |
| Total revenue | - | (417) | (417) | (77) |
| Expenditures | | | | |
| Repair and extension | 200,000 | 90,761 | 109,239 | 118,015 |
| Engineering | 20,000 | 20,000 | - | 10,000 |
| Contracted services-mapping | 50,000 | 50,000 | - | 49,983 |
| Improvements | 30,000 | - | 30,000 | 26,139 |
| Sewer rehab pilot | 10,000 | - | 10,000 | - |
| Land purchase | 30,000 | - | 30,000 | - |
| Other equipment | - | - | - | - |
| Slip lining/I & I reduction | 100,000 | 78,208 | 21,792 | 43,625 |
| Lift station & force main repair | 435,300 | 155,740 | 279,560 | 90,758 |
| Well relining repair | 41,000 | 39,891 | 1,109 | 5,600 |
| Supervisory Control and Data Acquisiton/ Well control system | - | - | - | - |
| | 49,000 | 14,621 | 34,379 | 12,347 |
| Total expenditures | 965,300 | 449,221 | 516,079 | 356,467 |
| Revenue over (under) expenditures | (965,300) | (449,638) | 515,662 | (356,544) |
| Other financing sources | | | | |
| Transfers in: | | | | |
| Water and sewer fund | 925,300 | 445,136 | (480,164) | 346,467 |
| Water and sewer capital reserve fund | 40,000 | 20,000 | (20,000) | 10,000 |
| Total other financing sources and (uses) | 965,300 | 465,136 | (500,164) | 356,467 |
| Revenue and other financing sources over (under) expenditures | \$ - | \$ 15,498 | \$ 15,498 | \$ (77) |

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, 2016
 With Comparative Actual Amounts For The Year Ended June 30, 2015

| | 2016 | | | 2015 |
|--|----------------|-----------------|-----------------------------------|-----------------|
| | Budget | Actual | Variance, with Final Budget | Actual |
| Revenue | | | | |
| Contributed capital | \$ 5,000 | \$ 9,048 | \$ 4,048 | \$ 7,854 |
| Interest | 200 | 480 | 280 | 217 |
| Total revenue | 5,200 | 9,528 | 4,328 | 8,071 |
| Other financing sources (uses) | | | | |
| Reserved for future appropriation | (5,200) | - | 5,200 | - |
| Total other financing sources | (5,200) | - | 5,200 | - |
| | | | | |
| Revenue over other financing uses | \$ - | \$ 9,528 | \$ 9,528 | \$ 8,071 |

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, 2016

| | 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 | 4,847,006 | - | 4,847,006 |
| Interest | - | 1,920 | 621 | 2,541 |
| Total revenue | 6,369,000 | 6,348,926 | 621 | 6,349,547 |
| Expenditures | | | | |
| Water treatment improvements | 13,100,000 | 12,766,790 | - | 12,766,790 |
| Total expenditures | 13,100,000 | 12,766,790 | - | 12,766,790 |
| Revenue under expenditures | (6,731,000) | (6,417,864) | 621 | (6,417,243) |
| Other financing sources | | | | |
| Issuance of debt-ARRA funds (PWS) | 1,500,000 | 1,500,000 | - | 1,500,000 |
| Issuance of debt ARRA funds (USDA-RDA) | 4,932,000 | 4,932,000 | - | 4,932,000 |
| Issuance of bond anticipation notes | 4,932,000 | 4,932,000 | - | 4,932,000 |
| Principal - interim bond anticipation notes | (4,932,000) | (4,932,000) | - | (4,932,000) |
| 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 expenditures | \$ - | \$ 313,136 | \$ 621 | \$ 313,757 |

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, 2016

| | Project Authorization | Prior Years | Current Year | Project to Date |
|--|--------------------------|------------------|--------------------|--------------------|
| Revenue | | | | |
| Restricted Intergovernmental | | | | |
| CWMTF Reuse Grant | \$ 81,900 | \$ 81,899 | \$ - | \$ 81,899 |
| Interest | 4,233 | 4,222 | 10 | 4,232 |
| Total revenue | 86,133 | 86,121 | 10 | 86,131 |
| Expenditures | | | | |
| Water and sewer improvements | 279,166 | 279,165 | - | 279,165 |
| Total expenditures | 279,166 | 279,165 | - | 279,165 |
| Revenue over (under) expenditures | (193,033) | (193,044) | 10 | (193,034) |
| Other financing sources (uses) | | | | |
| Transfers In: | | | | |
| Transfer to water and sewer fund | (63,767) | - | (63,766) | (63,766) |
| Transfers Out: | | | | |
| Transfer from water and sewer capital reserve fund | 29,800 | 29,800 | - | 29,800 |
| Transfer from water and sewer fund | 227,000 | 227,000 | - | 227,000 |
| Total other financing sources (uses) | 193,033 | 256,800 | (63,766) | 193,034 |
| Revenue and other financing sources over (under) expenditures | \$ - | \$ 63,756 | \$ (63,756) | \$ - |

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, 2016

| | Project Authorization | Prior Years | Current Year | Project to Date |
|--|--------------------------|------------------|-----------------|--------------------|
| Revenue | | | | |
| Restricted Intergovernmental | | | | |
| Rural Center Grant - Vinings | \$ 40,000 | \$ 40,000 | \$ - | \$ 40,000 |
| Contributed Capital - Radio Island | 713,616 | 713,618 | - | 713,618 |
| Contributed Capital - SCYC | 486,414 | 486,413 | - | 486,413 |
| Contributed Capital - Mariners Point | 827,795 | 827,795 | - | 827,795 |
| Contributed Capital - Morgan Street | 123,964 | 123,964 | - | 123,964 |
| Contributed Capital - Vinings Apts. | 349,699 | 341,241 | - | 341,241 |
| Contributed Capital - S&W Ready Mix | 96,626 | 96,627 | - | 96,627 |
| Contributed Capital - 26th/Evans Sewer | 24,749 | 24,748 | - | 24,748 |
| Interest earned | 76,910 | 77,012 | 162 | 77,174 |
| Total revenue | 2,739,773 | 2,731,418 | 162 | 2,731,580 |
| Expenditures | | | | |
| Water and sewer improvements | 3,129,284 | 3,120,820 | - | 3,120,820 |
| Total expenditures | 3,129,284 | 3,120,820 | - | 3,120,820 |
| Revenue under expenditures | (389,511) | (389,402) | 162 | (389,240) |
| Other financing sources (uses) | | | | |
| Transfer to Water & Sewer | (182,128) | (182,128) | - | (182,128) |
| Contingency - S&W Ready Mix | | - | - | - |
| Contingency - 26th/Evans Sewer | | - | - | - |
| 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 | (74,071) | - | - | - |
| Total other financing sources | 389,511 | 463,581 | - | 463,581 |
| Revenue and other financing sources over expenditures | \$ - | \$ 74,179 | \$ 162 | \$ 74,341 |

Town of Morehead City, North Carolina

West End Force Main Capital Project Fund

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

For the Year Ended June 30, 2016

| | Project Authorization | Current Year | Project to Date |
|--|--------------------------|-----------------|--------------------|
| Revenue | | | |
| Restricted Intergovernmental | | | |
| Division of Water Infrastructure | \$ 2,500,000 | \$ - | \$ - |
| Total revenue | 2,500,000 | - | - |
| Expenditures | | | |
| Legal services | 59,000 | - | - |
| Engineering | 209,000 | - | - |
| Inspections | 182,000 | - | - |
| Construction | 2,000,000 | - | - |
| Total expenditures | 2,450,000 | - | - |
| Revenue over (under) expenditures | 50,000 | - | - |
| Other financing sources | | | |
| Contingency | 50,000 | - | - |
| Total other financing sources | 50,000 | - | - |
| Revenue and other financing sources over expenditures | \$ - | \$ - | \$ - |

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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, 2016**

| Year Ended June 30 | Uncollected Balance June 30, 2015 | Additions (Releases) Net | Collections and Credits | Uncollected Balance June 30, 2016 |
|--------------------------|---|--------------------------------|----------------------------|---|
| 2015-2016 | \$ - | \$ 6,841,840 | \$ 6,792,301 | \$ 49,539 |
| 2014-2015 | 41,710 | (201) | 29,311 | 12,198 |
| 2013-2014 | 13,992 | (1) | 5,761 | 8,230 |
| 2012-2013 | 12,875 | - | 3,193 | 9,682 |
| 2011-2012 | 7,047 | - | 2,161 | 4,886 |
| 2010-2011 | 2,124 | - | 1,023 | 1,101 |
| 2009-2010 | 1,582 | (1) | 1,034 | 547 |
| 2008-2009 | 5,743 | - | 1,321 | 4,422 |
| 2007-2008 | 1,712 | - | 1,023 | 689 |
| 2006-2007 | 1,266 | - | 611 | 655 |
| 2005-2006 | 956 | - | - | 956 |
| 2004-2005 | 1,657 | - | 1,657 | - |
| | <u>\$ 90,664</u> | <u>\$ 6,841,637</u> | <u>\$ 6,839,396</u> | <u>92,905</u> |

Less allowance for doubtful accounts

(19,264)

\$ 73,641

Reconciliation with revenues:

| | |
|--|---------------------|
| Taxes - Ad valorem, General Fund | \$ 6,785,716 |
| Net collection adjustments | (386) |
| Amounts adjusted for tax discount | 82,445 |
| Less penalties and interest collected, net | <u>(28,379)</u> |
| Total collections and credits | <u>\$ 6,839,396</u> |

Town of Morehead City, North Carolina

**Analysis of Current Tax Levy
For the Year Ended June 30, 2016**

| | 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 | \$ 1,936,441,187 | 0.350 | \$ 6,777,544 | \$ 6,493,819 | \$ 283,725 |
| Late listing penalties | - | - | 5,129 | 5,129 | - |
| Total | 1,936,441,187 | | 6,782,673 | 6,498,948 | 283,725 |
| Discoveries: | | | | | |
| Current year taxes | 40,383,978 | 0.350 | 142,334 | 141,344 | 990 |
| Prior year taxes | 1,719,333 | 0.330 | 5,674 | 5,674 | - |
| Prior year taxes | 789,074 | 0.215 | 2,486 | 2,486 | - |
| Prior year taxes | 623,907 | 0.285 | 1,778 | 1,778 | - |
| Prior year taxes | 529,076 | 0.220 | 1,164 | 1,164 | - |
| Total | 44,045,368 | | 153,436 | 152,446 | 990 |
| Abatements | | | | | |
| Current year taxes | 26,641,430 | 0.350 | 93,245 | 93,245 | - |
| Other adjustments | - | - | 34 | 34 | - |
| Total | 26,641,430 | | 93,279 | 93,279 | - |
| Total property valuation | <u><u>\$ 1,953,845,125</u></u> | | | | |
| Net levy | | | 6,842,830 | 6,558,115 | 284,715 |
| Uncollected taxes at June 30, 2016 | | | 49,539 | 49,539 | - |
| Current year's taxes collected | | | <u><u>\$ 6,793,291</u></u> | <u><u>\$ 6,508,576</u></u> | <u><u>\$ 284,715</u></u> |
| Current levy collection percentage | | | <u><u>99.28%</u></u> | <u><u>99.24%</u></u> | <u><u>100.00%</u></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 | 108 |
| Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes. | 119 |
| 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. | 124 |
| 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. | 130 |
| 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. | 134 |

Town of Morehead City, North Carolina

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

| | Fiscal Year | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Governmental activities: | | | | |
| Net investment in capital assets | \$ 11,334,954 | \$ 14,487,313 | \$ 20,038,930 | \$ 27,397,697 |
| Restricted | 17,982 | 44,853 | 49,870 | 49,870 |
| Unrestricted | 5,995,760 | 6,110,999 | 5,319,695 | 3,541,078 |
| Total governmental activities net position | \$ 17,348,696 | \$ 20,643,165 | \$ 25,408,495 | \$ 30,988,645 |
| Business-type activities: | | | | |
| Net investment in capital assets | \$ 21,246,564 | \$ 22,276,242 | \$ 23,703,651 | \$ 25,608,344 |
| Unrestricted | 6,272,564 | 6,784,898 | 6,663,538 | 5,696,777 |
| Total business-type activities net position | \$ 27,519,128 | \$ 29,061,140 | \$ 30,367,189 | \$ 31,305,121 |
| Primary government: | | | | |
| Net investment in capital assets | \$ 32,581,518 | \$ 36,763,555 | \$ 43,742,581 | \$ 53,006,041 |
| Restricted | 17,982 | 44,853 | 49,870 | 49,870 |
| Unrestricted | 12,268,324 | 12,895,897 | 11,983,233 | 9,237,855 |
| Total primary government net position | \$ 44,867,824 | \$ 49,704,305 | \$ 55,775,684 | \$ 62,293,766 |

| Fiscal Year | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| \$ 28,415,541 | \$ 28,409,590 | \$ 29,832,269 | \$ 29,797,242 | \$ 30,996,748 | \$ 30,553,783 |
| 2,604,295 | 3,029,403 | 2,236,110 | 2,328,152 | 2,251,305 | 2,512,603 |
| 2,902,265 | 3,318,508 | 3,043,941 | 3,226,255 | 4,023,536 | 5,093,407 |
| \$ 33,922,101 | \$ 34,757,501 | \$ 35,112,320 | \$ 35,351,649 | \$ 37,271,589 | \$ 38,159,793 |
| \$ 27,669,652 | \$ 28,868,465 | \$ 28,439,320 | \$ 31,102,147 | \$ 33,535,086 | \$ 33,488,345 |
| 6,339,091 | 5,908,427 | 7,291,817 | 7,933,557 | 9,644,766 | 11,099,637 |
| \$ 34,008,743 | \$ 34,776,892 | \$ 35,731,137 | \$ 39,035,704 | \$ 43,179,852 | \$ 44,587,982 |
| \$ 56,085,193 | \$ 57,278,055 | \$ 58,271,589 | \$ 60,899,389 | \$ 64,531,834 | \$ 64,042,128 |
| 2,604,295 | 3,029,403 | 2,236,110 | 2,328,152 | 2,251,305 | 2,512,603 |
| 9,241,356 | 9,226,935 | 10,335,758 | 11,159,812 | 13,668,302 | 16,193,044 |
| \$ 67,930,844 | \$ 69,534,393 | \$ 70,843,457 | \$ 74,387,353 | \$ 80,451,441 | \$ 82,747,775 |

Town of Morehead City, North Carolina

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

| | Fiscal Year | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Expenses: | | | | |
| Governmental activities: | | | | |
| General government | \$ 1,481,178 | \$ 1,500,379 | \$ 1,435,315 | \$ 1,374,988 |
| Public safety | 5,070,021 | 5,685,970 | 5,797,619 | 5,877,638 |
| Highways and streets | 359,256 | 913,660 | 922,125 | 861,275 |
| Cultural and recreation | 408,615 | 935,483 | 791,320 | 719,211 |
| Library | - | - | 138,631 | 138,268 |
| Interest on long-term debt | 130,978 | 92,389 | 72,241 | 70,524 |
| Total governmental activities expenses | 7,450,048 | 9,127,881 | 9,157,251 | 9,041,904 |
| Business-type activities: | | | | |
| Water and sewer | 3,586,411 | 4,317,521 | 4,405,690 | 4,521,842 |
| Solid waste | 774,657 | 798,825 | 803,220 | 857,002 |
| Total business-type activities expenses | 4,361,068 | 5,116,346 | 5,208,910 | 5,378,844 |
| Total primary government expenses | 11,811,116 | 14,244,227 | 14,366,161 | 14,420,748 |
| Program revenue: | | | | |
| Governmental activities: | | | | |
| Charges for services | | | | |
| General government | 86,862 | 63,521 | 78,207 | 72,296 |
| Public safety | 799,982 | 720,403 | 772,663 | 904,846 |
| Highways and streets | 46,515 | 10,472 | 61,406 | - |
| Cultural and recreation | 151,042 | 118,773 | 80,794 | 124,142 |
| Library | - | - | 31,336 | 7,759 |
| Operating grants and contributions | | | | |
| General government | 45,615 | 2,135 | 33,871 | 2,381 |
| Public safety | 209,490 | 269,149 | 247,953 | 291,185 |
| Highways and streets | 425,220 | 337,333 | 275,479 | 250,052 |
| Cultural and recreation | 292,621 | 55,000 | 18,979 | 133,991 |
| Library | - | - | 55,000 | 53,075 |
| Capital grants and contributions | | | | |
| General government | - | - | 107,028 | - |
| Public safety | - | - | 53,253 | 935,555 |
| Highways and streets | - | - | 1,866,084 | 127,876 |
| Economic and physical development | - | - | - | - |
| Cultural and recreation | 277,419 | 797,500 | 1,347,082 | 3,049,718 |
| Library | - | - | 30,806 | - |
| Total governmental activities program revenue | 2,334,766 | 2,374,286 | 5,059,941 | 5,952,876 |
| Business-type activities: | | | | |
| Charges for services: | | | | |
| Water and sewer | 3,846,383 | 4,187,986 | 4,249,027 | 4,356,093 |
| Solid waste | 747,112 | 757,122 | 810,719 | 821,547 |
| Operating grants and contributions | - | - | - | 9,431 |
| Capital grants and contributions | 2,593,703 | 1,388,956 | 1,294,674 | 806,506 |
| Total business-type activities program revenue | 7,187,198 | 6,334,064 | 6,354,420 | 5,993,577 |
| Total primary government program revenue | 9,521,964 | 8,708,350 | 11,414,361 | 11,946,453 |

(Continued)

| Fiscal Year | | | | | |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| \$ 1,439,277 | \$ 1,608,076 | \$ 1,805,015 | \$ 1,787,898 | \$ 1,797,065 | \$ 1,667,275 |
| 5,924,665 | 5,941,696 | 7,074,479 | 7,315,678 | 7,663,099 | 8,629,216 |
| 960,596 | 932,790 | 231,503 | 1,019,054 | 939,536 | 999,423 |
| 1,266,613 | 1,066,750 | 763,721 | 1,159,643 | 1,139,113 | 1,425,224 |
| 141,726 | 135,880 | 140,368 | 158,508 | 170,326 | 205,802 |
| 208,152 | 340,508 | 297,958 | 314,150 | 319,016 | 311,099 |
| 9,941,029 | 10,025,700 | 10,313,044 | 11,754,931 | 12,028,155 | 13,238,039 |
| 4,667,772 | 4,933,504 | 4,907,070 | 5,028,282 | 5,382,993 | 5,786,961 |
| 895,433 | 966,224 | 872,407 | 899,208 | 906,383 | 887,987 |
| 5,563,205 | 5,899,728 | 5,779,477 | 5,927,490 | 6,289,376 | 6,674,948 |
| 15,504,234 | 15,925,428 | 16,092,521 | 17,682,421 | 18,317,531 | 19,912,987 |
| 144,243 | 91,956 | 87,547 | 66,419 | 116,299 | 109,376 |
| 816,709 | 115,574 | 621,344 | 1,187,605 | 2,019,975 | 2,134,520 |
| - | - | - | - | - | - |
| 103,932 | 103,211 | 114,772 | 138,247 | 160,427 | 149,198 |
| 7,818 | 7,947 | 6,858 | 5,070 | 3,760 | 2,370 |
| - | 47,863 | 39,525 | 39,286 | 35,000 | 86,000 |
| 180,140 | 304,801 | 263,607 | 537,708 | 167,796 | 106,174 |
| 249,100 | 252,306 | - | - | - | - |
| - | - | - | - | - | - |
| 53,075 | 53,075 | 53,075 | 53,075 | 53,075 | 53,075 |
| - | - | - | 150,000 | 200,000 | - |
| 537,023 | 179,812 | 200,000 | - | 1,324,477 | - |
| - | 498,563 | 339,608 | 271,051 | 274,388 | 272,445 |
| - | - | - | - | - | - |
| 2,003,391 | 100,000 | 195,251 | - | 144,953 | 206,596 |
| - | - | - | - | - | - |
| 4,095,431 | 1,755,108 | 1,921,587 | 2,448,461 | 4,500,150 | 3,119,754 |
| 4,707,662 | 4,758,541 | 5,160,283 | 5,486,373 | 6,040,613 | 6,490,182 |
| 846,708 | 927,927 | 920,217 | 927,360 | 945,157 | 944,477 |
| 5,985 | 127,767 | 255,525 | 14,853 | 81,053 | 6,096 |
| 2,374,606 | 522,823 | 77,691 | 2,447,316 | 3,171,344 | 300,785 |
| 7,934,961 | 6,337,058 | 6,413,716 | 8,875,902 | 10,238,167 | 7,741,540 |
| 12,030,392 | 8,092,166 | 8,335,303 | 11,324,363 | 14,738,317 | 10,861,294 |

Town of Morehead City, North Carolina

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

| | 2007 | 2008 | 2009 | 2010 |
|--|---------------------|---------------------|---------------------|---------------------|
| Net (expense) revenue: | | | | |
| Governmental activities | (5,115,282) | (6,753,595) | (4,097,310) | (3,089,028) |
| Business-type activities | 2,826,130 | 1,217,718 | 1,145,510 | 614,733 |
| Total primary government net expense | (2,289,152) | (5,535,877) | (2,951,800) | (2,474,295) |
| General revenue and other changes in net position: | | | | |
| Governmental activities: | | | | |
| Taxes: | | | | |
| Property taxes, levied for general purpose | 4,581,817 | 5,514,458 | 5,769,140 | 5,785,183 |
| Local option sales tax | 1,779,655 | 1,897,449 | 1,717,304 | 1,485,898 |
| Other taxes | 277,341 | 87,954 | 90,484 | 255,550 |
| Unrestricted intergovernmental | 819,157 | 998,888 | 1,100,858 | 1,054,303 |
| Investment earnings, unrestricted | 372,072 | 257,686 | 108,206 | 36,910 |
| Loss on disposal of assets | - | - | - | - |
| Miscellaneous income, unrestricted | 1,768,159 | 1,291,629 | 76,648 | 51,334 |
| Transfers | - | - | - | - |
| Total governmental activities | 9,598,201 | 10,048,064 | 8,862,640 | 8,669,178 |
| Business-type activities: | | | | |
| Investment earnings | 390,402 | 324,294 | 160,539 | 60,010 |
| Miscellaneous income | - | - | - | 263,189 |
| Transfers | - | - | - | - |
| Total business-type activities | 390,402 | 324,294 | 160,539 | 323,199 |
| Total primary government | 9,988,603 | 10,372,358 | 9,023,179 | 8,992,377 |
| Changes in net position: | | | | |
| Governmental activities | 4,482,919 | 3,294,469 | 4,765,330 | 5,580,150 |
| Business-type activities | 3,216,532 | 1,542,012 | 1,306,049 | 937,932 |
| Total primary government | \$ 7,699,451 | \$ 4,836,481 | \$ 6,071,379 | \$ 6,518,082 |

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| (5,845,598) | (8,270,592) | (8,391,457) | (9,306,470) | (7,528,005) | (10,118,285) |
| 2,371,756 | 437,330 | 634,239 | 2,948,412 | 3,948,791 | 1,066,592 |
| (3,473,842) | (7,833,262) | (7,757,218) | (6,358,058) | (3,579,214) | (9,051,693) |

| | | | | | |
|------------------|------------------|------------------|------------------|-------------------|-------------------|
| 5,775,012 | 5,953,304 | 5,411,825 | 6,110,807 | 6,322,041 | 6,785,757 |
| 1,511,872 | 1,842,063 | 2,006,679 | 1,963,754 | 2,307,936 | 2,484,746 |
| 254,620 | 263,509 | 93,464 | 93,306 | 74,189 | 29,145 |
| 1,121,557 | 902,888 | 1,089,515 | 1,118,241 | 1,353,173 | 1,402,712 |
| 56,951 | 21,560 | 11,551 | 8,939 | 3,629 | 19,089 |
| - | - | - | - | - | (47,026) |
| 59,042 | 122,668 | 133,242 | 250,752 | 177,698 | 203,182 |
| - | - | - | - | (2,427) | - |
| 8,779,054 | 9,105,992 | 8,746,276 | 9,545,799 | 10,236,239 | 10,877,605 |

| | | | | | |
|------------------|------------------|------------------|------------------|-------------------|-------------------|
| 44,917 | 36,205 | 27,689 | 23,066 | 18,660 | 28,221 |
| 286,949 | 294,614 | 292,317 | 333,089 | 319,532 | 313,317 |
| - | - | - | - | 2,427 | - |
| 331,866 | 330,819 | 320,006 | 356,155 | 340,619 | 341,538 |
| 9,110,920 | 9,436,811 | 9,066,282 | 9,901,954 | 10,576,858 | 11,219,143 |

| | | | | | |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2,933,456 | 835,400 | 354,819 | 239,329 | 2,708,234 | 759,320 |
| 2,703,622 | 768,149 | 954,245 | 3,304,567 | 4,289,410 | 1,408,130 |
| \$ 5,637,078 | \$ 1,603,549 | \$ 1,309,064 | \$ 3,543,896 | \$ 6,997,644 | \$ 2,167,450 |

Town of Morehead City, North Carolina

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

| | Fiscal Year | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 |
| General Fund: | | | | |
| Reserved | \$ 1,369,881 | \$ 1,295,931 | \$ 1,058,644 | \$ 1,356,068 |
| Unreserved | 3,976,579 | 3,036,393 | 3,297,549 | 3,760,096 |
| Total General Fund | \$ 5,346,460 | \$ 4,332,324 | \$ 4,356,193 | \$ 5,116,164 |
| All Other Governmental Funds: | | | | |
| Reserved | \$ 536,360 | \$ 424,139 | \$ 338,140 | \$ 4,525,157 |
| Unreserved, reported in: | | | | |
| Special revenue funds | 49,027 | 433,635 | 849,191 | 63,131 |
| Capital projects funds | 633,262 | 1,255,086 | 225,666 | (2,253,538) |
| Total all other Government Funds | \$ 1,218,649 | \$ 2,112,860 | \$ 1,412,997 | \$ 2,334,750 |

Town of Morehead City, North Carolina

Fund Balances, Governmental Funds

Last Six Years

(Modified Accrual Basis of Accounting)

(Unaudited)

| | Fiscal Year | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Fund: | | | | | | |
| Non Spendable | \$ 5,704 | \$ 3,506 | \$ 3,886 | \$ 4,403 | \$ 9,752 | \$ 3,381 |
| Restricted | 1,396,236 | 1,306,003 | 1,493,214 | 1,921,287 | 1,873,344 | 2,076,481 |
| Committed | 131,979 | 131,979 | 131,979 | 132,979 | 150,503 | 282,427 |
| Assigned | 743,829 | 955,600 | 129,500 | 571,850 | 603,900 | 1,742,091 |
| Unassigned | 2,750,836 | 3,078,547 | 3,423,270 | 3,279,443 | 4,280,262 | 4,061,123 |
| Total General Fund | \$ 5,028,584 | \$ 5,475,635 | \$ 5,181,849 | \$ 5,909,962 | \$ 6,917,761 | \$ 8,165,503 |
| All Other Governmental Funds: | | | | | | |
| Non Spendable | \$ 20,785 | \$ 7,189 | \$ - | \$ - | \$ - | \$ - |
| Restricted | 1,208,059 | 1,723,400 | 742,896 | 400,865 | 377,961 | 436,122 |
| Assigned | 434,965 | 927,864 | 461,662 | 608,569 | 753,456 | 952,246 |
| Unassigned | (783,374) | (145,110) | - | (117,951) | (118,111) | (76,539) |
| Total all other Governmental Funds | \$ 880,435 | \$ 2,513,343 | \$ 1,204,558 | \$ 891,483 | \$ 1,013,306 | \$ 1,311,829 |

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

Town of Morehead City, North Carolina

Changes In Fund Balances, Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Unaudited)

| | Fiscal Year | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Revenue: | | | | |
| Taxes | \$ 4,583,518 | \$ 5,510,995 | \$ 5,766,103 | \$ 5,752,282 |
| Other taxes and licenses | 277,341 | 87,954 | 285,374 | 255,550 |
| Intergovernmental | 3,498,663 | 4,115,879 | 3,674,288 | 4,609,859 |
| Permits and fees | 497,046 | 296,788 | 250,492 | 130,440 |
| Sales and services | 538,688 | 566,135 | 680,616 | 683,340 |
| Investment earnings | 372,072 | 257,686 | 108,206 | 37,179 |
| Miscellaneous | 1,872,278 | 380,096 | 193,977 | 155,857 |
| Total revenue | 11,639,606 | 11,215,533 | 10,959,056 | 11,624,507 |
| Expenditures: | | | | |
| General government | 1,364,735 | 1,493,602 | 1,302,666 | 1,118,017 |
| Public safety | 4,709,486 | 5,368,924 | 5,518,315 | 5,618,063 |
| Highway and streets | 775,807 | 814,348 | 771,565 | 715,181 |
| Culture and recreation | 649,516 | 813,027 | 757,067 | 645,897 |
| Capital outlay | 3,898,300 | 2,617,912 | 2,669,623 | 7,587,018 |
| Debt service: | | | | |
| Interest | 123,669 | 97,371 | 79,404 | 61,200 |
| Principal | 549,832 | 460,274 | 536,410 | 247,407 |
| Total expenditures | 12,071,345 | 11,665,458 | 11,635,050 | 15,992,783 |
| Excess of revenue (under) expenditures | (431,739) | (449,925) | (675,994) | (4,368,276) |
| Other financing sources (uses): | | | | |
| Sales of capital assets | - | - | - | - |
| Transfers in | 3,068,632 | 2,270,721 | 1,831,074 | 2,088,594 |
| Transfers out | (3,068,632) | (2,270,721) | (1,831,074) | (2,088,594) |
| Debt issued | - | 330,000 | - | 6,050,000 |
| Total other financing sources | - | 330,000 | - | 6,050,000 |
| Net changes in fund balance | \$ (431,739) | \$ (119,925) | \$ (675,994) | \$ 1,681,724 |
| Debt service as a percentage of noncapital expenditures | 8.24% | 6.16% | 5.59% | 3.67% |

| Fiscal Year | | | | | |
|-----------------------|---------------------|-----------------------|-------------------|---------------------|---------------------|
| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| \$ 5,794,269 | \$ 5,921,562 | \$ 5,405,814 | \$ 6,106,245 | \$ 6,331,129 | \$ 6,785,716 |
| 254,620 | 263,509 | 93,464 | 93,306 | 74,189 | 29,145 |
| 5,594,738 | 3,595,747 | 4,149,263 | 4,133,115 | 4,544,321 | 4,609,994 |
| 207,628 | 119,754 | 193,414 | 263,773 | 329,559 | 345,461 |
| 708,283 | 657,197 | 1,170,479 | 1,228,315 | 1,762,902 | 2,050,003 |
| 56,951 | 21,560 | 11,551 | 8,939 | 7,652 | 19,090 |
| 165,862 | 154,852 | 133,242 | 250,752 | 170,622 | 203,182 |
| 12,782,351 | 10,734,181 | 11,157,227 | 12,084,445 | 13,220,374 | 14,042,591 |
| 1,272,341 | 1,316,704 | 1,329,077 | 1,492,138 | 1,606,902 | 1,598,377 |
| 5,550,763 | 5,603,595 | 5,814,771 | 6,695,853 | 7,351,304 | 7,812,983 |
| 839,748 | 811,191 | 840,581 | 866,211 | 1,033,748 | 840,835 |
| 774,498 | 822,249 | 797,993 | 924,901 | 1,658,429 | 1,172,332 |
| 5,274,968 | 1,601,481 | 2,879,010 | 1,122,716 | 202,747 | 641,985 |
| 196,232 | 297,089 | 300,644 | 328,535 | 324,036 | 312,495 |
| 5,223,696 | 276,913 | 281,816 | 239,053 | 320,586 | 327,762 |
| 19,132,246 | 10,729,222 | 12,243,892 | 11,669,407 | 12,497,752 | 12,706,769 |
| (6,349,895) | 4,959 | (1,086,665) | 415,038 | 722,622 | 1,335,822 |
| - | - | - | - | - | 81,559 |
| 2,371,207 | 1,565,000 | 2,553,133 | 2,063,847 | 2,203,261 | 2,757,020 |
| (2,371,207) | (1,565,000) | (2,553,133) | (2,063,847) | (2,203,261) | (2,757,020) |
| 4,808,000 | 2,075,000 | - | - | 407,000 | - |
| 4,808,000 | 2,075,000 | - | - | 407,000 | 81,559 |
| \$ (1,541,895) | \$ 2,079,959 | \$ (1,086,665) | \$ 415,038 | \$ 1,129,622 | \$ 1,417,381 |
| 38.10% | 6.29% | 6.22% | 5.38% | 5.24% | 5.31% |

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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 |
|----------------------------|----------------------|---------------------|---------------------------|-----------------------|-----------------------|---------------------------------|---|
| 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% |
| 2015 | 1,715,148,131 | 189,872,631 | 26,079,819 | 1,931,100,581 | 0.0033 | 1,797,900,551 | 108.42% |
| 2016 | 1,684,259,780 | 240,557,404 | 29,027,941 | 1,953,845,125 | 0.0035 | 1,823,330,530 | 108.40% |

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**

| <u>Fiscal Year Ending June 30.</u> | <u>Direct Rate Morehead City</u> | <u>Overlapping Rate Carteret County</u> |
|--|--|---|
| 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 |
| 2015 | 0.330 | 0.300 |
| 2016 | 0.350 | 0.300 |

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, 2016 | | | Fiscal Year Ending June 30, 2007 | | |
|--------------------------------|----------------------------------|------|---|----------------------------------|------|---|
| | Taxable Assessed Value | Rank | Percentage of Total Town Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Town Taxable Assessed Value |
| ITAC 192 LLC | \$ 25,357,352 | 1 | 1.35 | | | |
| Stevens Towing Company | 22,000,408 | 2 | 1.17 | | | |
| US Portfolio Five LLC | 20,274,257 | 3 | 1.08 | | | |
| Walmart Real Est Business TR | 15,027,141 | 4 | 0.80 | 11,815,034 | 2 | 1.08 |
| Duke Energy Progress Inc | 14,678,602 | 5 | 0.78 | | | |
| Vinings at Morehead LLC | 13,567,489 | 6 | 0.72 | | | |
| 4 Sisters-00 LLC ETAL | 13,288,946 | 7 | 0.71 | | | |
| Southstar Holding MHC LLC ETAL | 10,968,515 | 8 | 0.59 | 8,386,649 | 4 | 0.76 |
| ZP No 185 LLC | 8,648,101 | 9 | 0.46 | | | |
| Radio Island Marina Club Inc | 7,817,000 | 10 | 0.42 | | | |
| USPG Portfolio Two LLC | | | | 12,847,946 | 1 | 1.17 |
| Carolina Power and Light | | | | 9,198,441 | 3 | 0.84 |
| Carolina Telephone | | | | 7,412,429 | 5 | 0.67 |
| SF Ballou Construction Co | | | | 7,005,220 | 6 | 0.64 |
| Morehead Plaza LLC | | | | 6,475,852 | 7 | 0.59 |
| 70 West Marina LLC | | | | 5,892,583 | 8 | 0.54 |
| Harborview Enterprises | | | | 5,865,039 | 9 | 0.53 |
| Carteret Investment Associates | | | | 5,113,800 | 10 | 0.47 |
| | <u>\$ 151,627,811</u> | | <u>8.08</u> | <u>\$ 80,012,993</u> | | <u>7.29</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 |
| 2007 | \$ 3,925,936 | \$ 3,914,535 | 99.71% | \$ 10,649 | \$ 3,925,184 | 99.98% |
| 2008 | 4,671,447 | 4,647,776 | 99.49% | 18,667 | 4,666,443 | 99.89% |
| 2009 | 4,986,367 | 4,956,797 | 99.41% | 20,685 | 4,977,482 | 99.82% |
| 2010 | 5,014,647 | 4,970,086 | 99.11% | 41,379 | 5,011,465 | 99.94% |
| 2011 | 5,015,615 | 4,982,951 | 99.35% | 31,558 | 5,014,509 | 99.98% |
| 2012 | 5,240,988 | 5,181,661 | 98.87% | 57,232 | 5,238,893 | 99.96% |
| 2013 | 5,260,008 | 5,205,324 | 98.96% | 47,887 | 5,253,211 | 99.87% |
| 2014 | 5,865,417 | 5,810,430 | 99.06% | 49,395 | 5,859,825 | 99.90% |
| 2015 | 6,131,180 | 6,089,596 | 99.32% | 29,311 | 6,118,907 | 99.80% |
| 2016 | 6,558,115 | 6,508,576 | 99.24% | - | 6,508,576 | 99.24% |

Source: Town of Morehead City tax reports.

Note: Excludes motor vehicle taxes

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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 |
| 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 | - |
| 2015 | - | 8,119,877 | 306,925 | - |
| 2016 | - | 7,801,593 | 297,447 | - |

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 | Revenue Bonds | Installment Contracts | Notes Payable | Total Primary Government | Population Estimate | Total Debt Per Capita |
|--------------------------------|------------------|--------------------------|-------------------|--------------------------------|------------------------|-----------------------------|
| - | - | 2,951,334 | 5,283,522 | 10,581,262 | 8,390 | 1,261 |
| - | - | 2,593,358 | 13,811,891 | 18,621,382 | 8,691 | 2,143 |
| - | - | 3,858,590 | 16,667,915 | 22,206,229 | 8,763 | 2,534 |
| - | - | 2,341,124 | 16,774,299 | 26,597,740 | 8,830 | 3,012 |
| - | - | 1,987,380 | 17,188,307 | 26,242,308 | 8,693 | 3,019 |
| - | - | 1,620,429 | 16,318,704 | 26,803,841 | 8,810 | 3,042 |
| - | - | 1,236,578 | 20,886,144 | 30,705,614 | 9,163 | 3,351 |
| - | - | 840,289 | 19,843,403 | 29,027,531 | 9,313 | 3,117 |
| - | 4,932,000 | 432,824 | 13,868,662 | 27,660,288 | 9,319 | 2,968.16 |
| - | 4,932,000 | 151,484 | 12,825,921 | 26,008,445 | 9,362 | 2,778.09 |

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 |
|-------------|---------------------------------|--------------------------------|--|---------------------|-----------------------|
| 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% | 9,313 | - |
| 2015 | - | 1,931,100,581 | 0.00% | 9,319 | - |
| 2016 | - | 1,953,845,125 | 0.00% | 9,362 | - |

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, 2016
(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 | \$ 36,450,000 | 13.57% | \$ 4,946,328 |
| Subtotal, overlapping debt | \$ 36,450,000 | | 4,946,328 |
| Town direct debt | - | 100.00% | 8,099,041 |
| Total direct and overlapping debt | | | \$ 13,045,369 |

Notes:

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

Town of Morehead City, North Carolina

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

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Debt limit | \$ 87,871,351 | \$ 176,350,885 | \$ 186,156,521 | \$ 186,792,225 | \$ 187,144,678 |
| Total net debt applicable to limit | - | - | - | - | - |
| Legal debt margin | <u>\$ 87,871,351</u> | <u>\$ 176,350,885</u> | <u>\$ 186,156,521</u> | <u>\$ 186,792,225</u> | <u>\$ 187,144,678</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Legal Debt Margin | | | | | |
| Calculation for Fiscal Year 2016 | | | | | |
| Total assessed valuation | 1,953,845,125 | | | | |
| Debt limit (8% of assessed value) | <u>156,307,610</u> | | | | |
| Legal debt margin | <u>\$ 156,307,610</u> | | | | |

| 2012 | 2009 | 2014 | 2015 | 2016 |
|-----------------------|-----------------------|-----------------------|-----------------------|------------------------------|
| \$ 151,675,002 | \$ 186,156,521 | \$ 155,861,337 | \$ 154,488,046 | \$ 156,307,610 |
| - | - | - | - | - |
| <u>\$ 186,156,521</u> | <u>\$ 186,156,521</u> | <u>\$ 155,861,337</u> | <u>\$ 154,488,046</u> | <u>\$ 156,307,610</u> |
| 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

Town of Morehead City, North Carolina

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

| Fiscal Year Ending June 30, | Population (1) | Carteret County Public School Enrollment (2) | Morehead City Public School Enrollment (2) | Average Annual Unemployment Rate (3) | Per Capita Personal Income (4) | Personal Income (4) |
|-----------------------------|----------------|--|--|--------------------------------------|--------------------------------|---------------------|
| 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% | 42,214 | 2,888,870 |
| 2014 | 9,313 | 8,615 | 2,599 | 6.5% | 43,903 | 3,021,043 |
| 2015 | 9,319 | 8,451 | 2,665 | 5.8% | N/A | N/A |
| 2016 | 9,362 | 8,139 | 2,526 | 6.1% | N/A | N/A |

Notes:

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

Town of Morehead City, North Carolina

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

| Employer | 2016 | | 2006* | |
|--------------------------------------|-----------|------|-----------|------|
| | Employees | Rank | Employees | Rank |
| Carteret County General Hospital | 1000-1499 | 1 | 1000-1499 | 1 |
| Carteret County Board of Education | 250-499 | 2 | 250-499 | 4 |
| Lowe's Home Centers, Inc | 100-249 | 3 | 100-249 | 6 |
| Refrigerated Boxes, Inc | 100-249 | 3 | 100-249 | 5 |
| Town of Morehead City | 100-249 | 3 | 100-249 | 7 |
| NC Dept of Environment & Natural Res | 100-249 | 3 | 100-249 | - |
| Carteret Community College | 100-249 | 3 | 100-249 | 3 |
| Maxim Healthcare Services, Inc | 100-249 | 3 | 100-249 | - |
| Harborview Healthcare | 100-249 | 3 | 100-249 | 10 |
| Belk, Inc | 100-249 | 3 | 100-249 | 9 |
| Lowes Food | 50-99 | 4 | 50-99 | - |
| Big Rock Sports, LLC | 50-99 | 4 | 50-99 | - |
| Walmart | - | - | 250-499 | 2 |
| Creative Outlet | - | - | 100-249 | 8 |

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 | | | | | | | | | |
|--------------------------------|--|------|------|------|------|------|------|------|------|------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| General Government: | | | | | | | | | | |
| Administration | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 4 | 4 | 4 |
| Finance | 7 | 7 | 7 | 7 | 6 | 6 | 6 | 6 | 6 | 6 |
| Building & Grounds | 5 | 6 | 5 | 5 | 5 | 7 | 7 | 7 | 8 | 6 |
| Garage | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 |
| Public Safety: | | | | | | | | | | |
| Police | 46 | 46 | 48 | 47 | 45 | 45 | 53 | 51 | 51 | 48 |
| Fire/EMS | 49 | 44 | 38 | 35 | 34 | 34 | 34 | 33 | 33 | 27 |
| Planning & Inspections | 7 | 7 | 7 | 7 | 6 | 6 | 7 | 7 | 7 | 7 |
| Transportation: | | | | | | | | | | |
| Streets | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 | 10 | 9 |
| Recreation & Culture: | | | | | | | | | | |
| Recreation | 7 | 8 | 7 | 7 | 6 | 8 | 8 | 8 | 8 | 7 |
| Parks | 3 | 3 | 3 | 3 | 3 | 1 | 1 | 1 | 0 | 0 |
| Library | 3 | 3 | 3 | 5 | 4 | 4 | 4 | 4 | 4 | 4 |
| Water & Sewer: | | | | | | | | | | |
| Billing & collections | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Wells & water treatment | 2 | 2 | 2 | 1 | - | - | - | - | - | - |
| Water Distbr. & sewer collect. | 14 | 15 | 14 | 14 | 15 | 15 | 14 | 14 | 14 | 14 |
| Wastewater treatment | 9 | 8 | 8 | 8 | 7 | 7 | 7 | 6 | 6 | 5 |
| Solid Waste: | | | | | | | | | | |
| Operations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| TOTAL | 173 | 170 | 163 | 160 | 152 | 153 | 161 | 157 | 157 | 143 |

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Town of Morehead City, North Carolina

Operating Indicators By Function/Program

Last Ten Fiscal Years

(Unaudited)

| Function/Program | Calendar Year | | | |
|--|---------------|---------------|---------------|---------------|
| | 2007 | 2008 | 2009 | 2010 |
| Function/Program | | | | |
| Public Safety | | | | |
| Police calls dispatched ## | 98,801 | 96,127 | 98,291 | 84,586 |
| Number of building permits issued ## | 1,000 | 953 | 890 | 813 |
| Construction value of building permits issued \$ | 94,425,714 | \$ 48,035,938 | \$ 27,011,019 | \$ 25,341,471 |
| Fire/EMS area served in square miles ## | 14.17 | N/A | 14.20 | 14.20 |
| Fire calls answered ## | 814 | 772 | 807 | 727 |
| EMS calls answered ## | 1,433 | 1,619 | 1,665 | 1,893 |
| Highways and Streets | | | | |
| Miles of streets maintained ** | 44.11 | 47.15 | 49.38 | 49.56 |
| Water/Sewer | | | | |
| Number of customers served ** | 5,218 | 5,299 | 5,322 | 5,299 |
| Daily avg. gallons water consumption ## | 1,289,000 | 1,254,000 | 1,212,000 | 1,244,000 |
| Daily avg. gallons waste water treated ## | 1,416,000 | 1,321,000 | 1,156,000 | 1,329,000 |
| Sanitation | | | | |
| Solid waste collected annually (tons) ** | 3,733 | 3,392 | 3,293 | 3,246 |
| Recyclables collected annually (tons) ** | 321 | 369 | 434 | 398 |

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

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----|------------|---------------|---------------|---------------|---------------|----------------------|
| | 81,015 | 72,351 | 72,194 | 75,004 | 68,038 | 58,144 |
| | 943 | 1,050 | 1,256 | 985 | 1,094 | 1,256 |
| \$ | 24,851,031 | \$ 38,126,292 | \$ 21,528,398 | \$ 26,764,940 | \$ 68,690,713 | \$ 37,701,802 |
| | 14.20 | 15.73 | 15.73 | 15.73 | 28.00 | 28.00 |
| | 966 | 1,015 | 762 | 707 | 667 | 785 |
| | 1,801 | 2,058 | 2,261 | 2,505 | 2,499 | 3,201 |
| | 49.82 | 50.27 | 50.27 | 50.27 | 50.35 | 50.35 |
| | 5,323 | 5,375 | 5,419 | 5,454 | 5,339 | 5,534 |
| | 1,209,000 | 1,208,000 | 1,163,000 | 1,165,000 | 1,160,000 | 1,191,000 |
| | 1,199,000 | 1,169,000 | 1,121,000 | 1,144,000 | 1,340,000 | 1,438,000 |
| | 3,235 | 3,204 | 3,077 | 3,080 | 3,010 | 3,056 |
| | 397 | 398 | 366 | 365 | 435 | 469 |

Town of Morehead City, North Carolina

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

| Function/Program | Calendar Year | | | |
|---------------------------------------|---------------|-------|-------|-------|
| | 2007 | 2008 | 2009 | 2010 |
| General Government | | | | |
| Number of cemeteries | 3 | 3 | 3 | 3 |
| Public Safety | | | | |
| Number of police stations/substations | 3 | 3 | 3 | 4 |
| Number of patrol units | 44 | 44 | 44 | 52 |
| Number of police boats | 1 | 1 | 1 | 1 |
| Number of Fire/EMS stations | 3 | 4 | 4 | 4 |
| Number of engines | 5 | 6 | 5 | 5 |
| Number of ambulances | 3 | 3 | 3 | 3 |
| Number of Fire/EMS boats | 1 | 1 | 1 | 1 |
| Highways and Streets | | | | |
| Miles of streets | 44.11 | 47.15 | 49.38 | 49.56 |
| Culture and Recreation | | | | |
| Number of parks | 10 | 13 | 13 | 16 |
| Number of public water accesses | 9 | 19 | 19 | 22 |
| Park acreage | 87.00 | 74.00 | 74.00 | 76.00 |
| Tennis and multipurpose courts | 8 | 7 | 7 | 7 |
| Playgrounds | 4 | 4 | 4 | 4 |
| Ballfields | 9 | 8 | 10 | 11 |
| Number of libraries | 1 | 1 | 1 | 1 |
| Water/Sewer | | | | |
| Miles of water mains | 76.00 | 78.82 | 82.04 | 83.25 |
| Miles of sanitary sewers | 74.00 | 76.95 | 79.14 | 79.50 |
| Number of water treatment plants | 0 | 0 | 0 | 0 |
| Number of treatment plants | 2 | 2 | 2 | 2 |
| Sanitation | | | | |
| Number of yard waste trucks | 2 | 2 | 2 | 2 |

Notes:

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

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------|-------|-------|-------|-------|--------------|
| 3 | 3 | 3 | 3 | 3 | 3 |
| 4 | 4 | 2 | 2 | 2 | 2 |
| 52 | 50 | 46 | 46 | 48 | 47 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 4 | 4 | 3 | 3 | 3 | 3 |
| 5 | 5 | 5 | 5 | 7 | 7 |
| 3 | 4 | 5 | 5 | 5 | 5 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 49.82 | 50.27 | 50.27 | 50.27 | 50.35 | 50.35 |
| 16 | 16 | 16 | 16 | 16 | 16 |
| 22 | 22 | 22 | 23 | 23 | 23 |
| 76.00 | 76.00 | 77.50 | 77.50 | 77.50 | 77.50 |
| 7 | 7 | 7 | 7 | 7 | 7 |
| 4 | 5 | 6 | 6 | 6 | 6 |
| 11 | 11 | 10 | 10 | 10 | 10 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 83.25 | 83.25 | 83.25 | 83.25 | 83.50 | 83.50 |
| 79.50 | 79.50 | 79.50 | 79.50 | 80.00 | 80.00 |
| 0 | 1 | 1 | 1 | 3 | 3 |
| 2 | 2 | 2 | 2 | 2 | 2 |
| 2 | 2 | 2 | 2 | 2 | 2 |

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COMPLIANCE SECTION

The Compliance Section contains the Auditor Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

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RSM US LLP

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina, as of and for the year ended June 30, 2016, 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 December 21, 2016.

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.

RSM VS LLP

Morehead City, North Carolina
December 21, 2016