

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Prepared by:

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

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INTRODUCTORY SECTION

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 - **Organizational Chart**
 - **GFOA Certificate of Achievement for
Excellence in Financial Reporting**
-

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MOREHEAD CITY NORTH CAROLINA

Gerald A. Jones, Jr., Mayor

COUNCIL

Harvey N. Walker, Jr., Mayor Pro Tem
George W. Bellou
Dermus L. Thompson
William F. Taylor
Diane C. Warrender

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Morehead City, North Carolina 28557-4234
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Pete Corniel
Interim City Manager

November 21, 2012

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, 2012. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report complies with these requirements.

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

McGladrey LLP, a firm of independent licensed certified public accountants has audited the Town's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2012 are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion on the Town's financial statements for the fiscal year ended June 30, 2012. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Description of the Town of Morehead City

Morehead City is located on the coast of North Carolina approximately 150 miles southeast of Raleigh. With a population of approximately 8,810 it is the largest incorporated town in Carteret County. Founded in 1858, this picturesque community is located on the Intercoastal Waterway and is separated from the Atlantic Ocean by a sound and a protective barrier island.

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

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

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

The estimated 2012 population for the Town of 8,810 represents a slight increase from the 2011 estimated population of 8,693. The Town encompasses approximately seven square miles and employs 152 full-time equivalent staff. Although the Town has been impacted by the recession the last several years and the rate of growth has slowed, indications are that economic growth in the area will continue in the future.

Economic Conditions and Outlook

The information in the financial statements may be best understood when considered in the context of the environment in which the Town operates. Morehead City is located in a rural coastal county. The major industries are tourism and fishing. The main attractions are the area's beaches and water related activities. The county also enjoys a number of historical sites that serve as destinations for individuals and groups. The county's economy, while seasonal, is stabilized by being in close proximity to two Marine Corp bases and air stations at Cherry Point and Camp Lejeune, which provide substantial employment for the county. These installations have experienced growth in force strength in recent years. Both Carteret County and Morehead City play host to a growing marine science community. The NC State University Marine Sciences and Technology Center, UNC-Chapel Hill Institute of Marine Sciences, and the NC Division of Marine Fisheries are located in Morehead City. The Duke University Marine Laboratory and the NOAA National Marine Fisheries Service are located just outside of the city limits of the Town. The lack of dependence on manufacturing and high tech jobs has somewhat mitigated the impact of the negative economic situations that have faced other communities for the past several years. The community had an 9.3% unemployment rate in June 2012 compared to 9.9% statewide and 8.4% nationally (not seasonally adjusted).

All indications are that the Town and the county will continue to grow although at a slower pace than that experienced in prior years. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the Town limits and the extraterritorial jurisdiction in 2011 was \$38.1 million. This growth expands our tax base and property taxes, one of our largest revenue sources. Also, expansion of a natural gas pipeline in the county, which began in 2004, is seen as an economic opportunity that has the potential to attract new industry to the area and expand and diversify the job market and further expand the tax base.

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

One of the goals of the current administration has been to develop programs and pursue projects that upgrade facilities and enhance the quality of life for citizens and visitors through the cooperative efforts of governmental units, the business community, nonprofit organizations, and individual citizens. 2011-2012 major initiatives undertaken in the governmental funds to meet this goal include completion of design work and beginning renovation for a replacement Fire/EMS Station and acquisition of a mobile ambulance bus with grant funding from the Department of Homeland Security. Renovation of a historical building located on the waterfront and owned by the Town was started during the year. The Town continued support for nonprofit and other organizations that sponsor major public events which showcase the area, provide entertainment for citizens and visitors, as well as provide economic benefit to the community. Major initiatives in the Water/Sewer proprietary fund include completion of the first of a series of water treatment facilities and other related improvements. And, a new lab building was constructed at the wastewater treatment plant. More detail on each of these follows.

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

The Fire/EMS Department also acquired a mobile ambulance bus with funding through a Department of Homeland Security grant. The bus, staffed by Town personnel, is available to respond to emergencies and other gatherings in Carteret and other regional counties. It has the capacity to serve as a mass gathering unit, mobile command post, rehabilitation unit at fire scenes, mass evacuation and mass casualty unit. It can hold up to thirty six ambulatory or twelve horizontal people. It has basic and advanced life support capability and can supply oxygen to sixteen people simultaneously. It has been deployed approximately seven times for various purposes since it was put in service.

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

The Town provided in kind support for a number of groups including the North Carolina Seafood Festival (NCSF), the Big Rock Blue Marlin Tournament, and the Crystal Coast Grand Prix. The NCSF sponsors the second largest festival in North Carolina to promote and educate the public about NC seafood; the Big Rock Blue Marlin Tournament is considered the 'Super Bowl' of fishing and attracts fishermen from all over the world. The Crystal Coast Grand Prix is a 3 day event that hosts a super power boat race that draws boats and race teams from all over the United States. All of these events and other smaller ones promote Morehead City and Carteret County as a tourist destination, provide stimulus for the local economy, as well as enhance the quality of life for citizens.

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

For the Future

The Town Council adopted the fiscal year 2012-2013 budget in June 2012. Property taxes provide over half of the revenues for the General Fund. The budget maintained the property tax rate at \$.285 per \$100 of valuation. Sales tax, another large source of funding, is projected to increase. Restricted intergovernmental revenue is budgeted to decrease as several projects funded from grants are being completed. Rate increases were implemented for water and sewer and solid waste services. These increases were necessary to pay operating costs associated with these services and to provide adequate funds to pay for debt in the Water and Sewer Fund.

On the spending side, employees received a three percent cost of living adjustment at the beginning of the 2012-2013 year, the first increase of this type after three years of freezes. Benefit plans were continued largely unchanged. However, the merit pool remained frozen. The budget also included staffing increases in the General, Fire/EMS, and Water/Sewer Funds. One new position funded to begin at midyear was added in the Finance Department, two positions anticipated to receive partial grant funding were unfrozen in Police and one part time position was added. Also, one Inspector position was unfrozen in Planning and Inspections in recognition of increased building activity. A new full time position to hire a second Fire Marshal and one part time administrative assistant were added in the Fire/EMS Fund. The additional Fire

Marshal and one part time administrative assistant were added in the Fire/EMS Fund. The additional Fire Marshal position was much needed as the Town has grown significantly in size and population in recent years. The administrative assistant will free up time for the Chief and his staff to concentrate on other Fire/EMS pursuits. One new position was added in Water/Sewer to keep pace with the increased water and sewer activities. The Town elected to appropriate General Fund fund balance for the 2012-2013 year to acquire some much needed capital items. The Council's policy is to maintain unassigned fund balance in the General Fund in an amount not less than \$2,000,000 and to utilize fund balance only for capital related expenditures and emergencies. Fund balance was also appropriated in the Water/Sewer Fund to be used for capital items.

The Town's longtime City Manager retired in February 2012 after serving over sixteen years. An Interim Manager was employed while the Town Council advertised and went through the selection process for a new Manager. The Council announced their selection in August 2012 and the new City Manager began work with the Town in September 2012.

Independent Audit

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

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Town of Morehead City for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the twenty second consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements

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

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

Respectfully submitted,



B. Ellen Sewell, Finance Officer

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Town of Morehead City, North Carolina

**List of Principal Officials
June 30, 2012**

Town Council

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

Diane C. Warrender

William F. Taylor

Harvey N. Walker, Jr.
Mayor Pro Tem

George W. Ballou

Demus L. Thompson

Administration

Peter T. Connet
Interim
City Manager

Jeanne M. Giblin
City Clerk

B. Ellen Sewell
Finance Officer

David E. McCabe
Public Works Director

Jamie E. Fulk
Chief, Fire & EMS Department

E. Wrenn Johnson
Chief, Police Department

Daniel K. Williams
Public Utilities Director

S. Craig Lands
Parks and Recreation

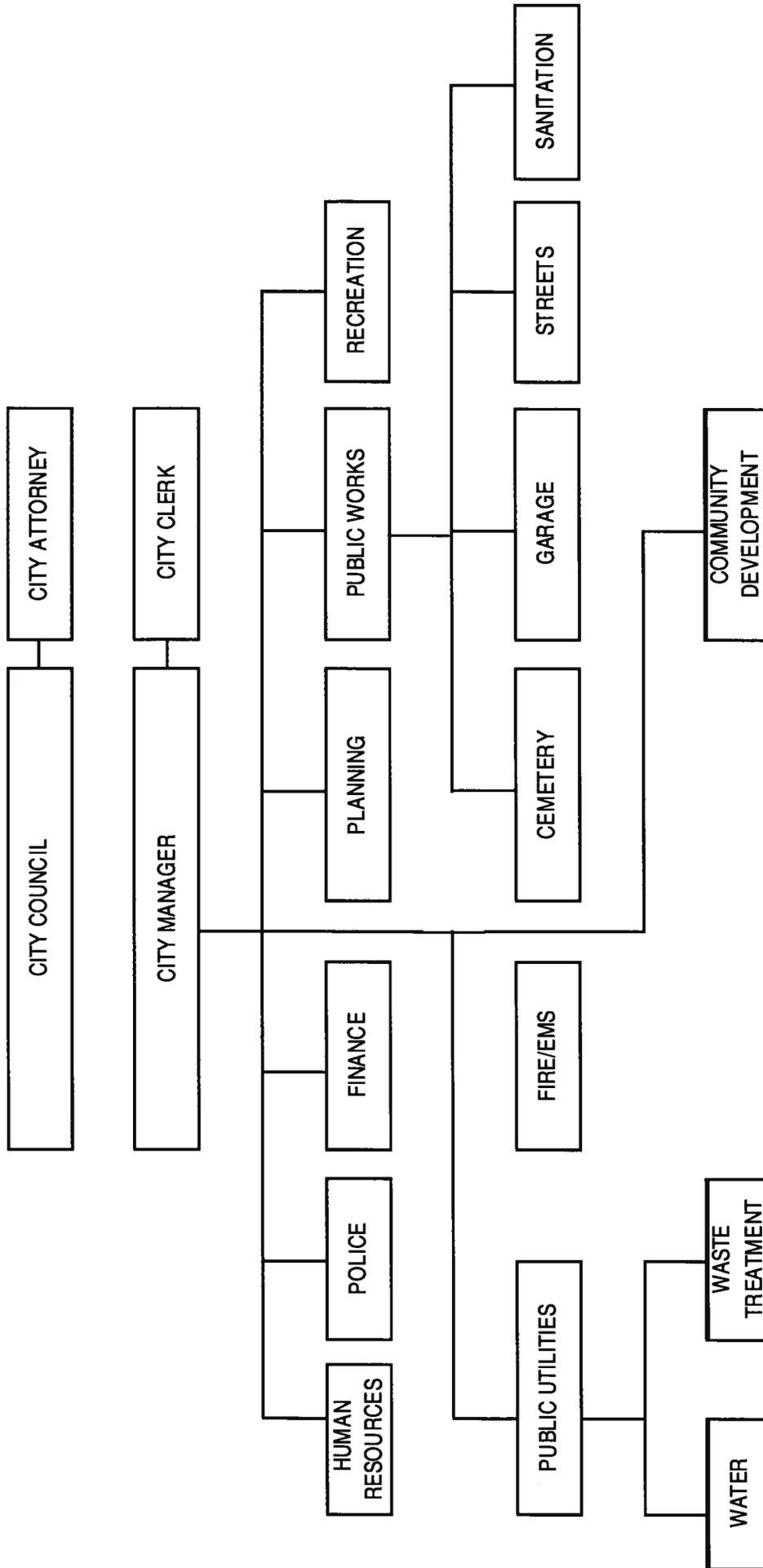
Linda V. Stabb
Planning and Inspection Director

Shirl F. Meadows
Tax Collector

Sandra W. Bell
Library Director

Susan Nixon
Human Resources Director

TOWN OF MOREHEAD CITY



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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

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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
Morehead City, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise Town of Morehead City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Morehead City, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012 on our consideration of the Town'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on pages 13 through 21 and 66 through 69 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 supplemental 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Morehead City's basic financial statements. The individual fund financial statements and schedules, budgetary schedules, and other financial data listed in the table of contents as "other supplementary information", as well as the Schedule of Expenditures of Federal and State Awards (in the compliance section) as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements of Town of Morehead City, North Carolina. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and schedules, financial data, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Morehead City. The introductory section and statistical tables of the Comprehensive Annual Financial Report are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

McGladrey LLP

Morehead City, North Carolina
November 21, 2012

Town of Morehead City, North Carolina

Management's Discussion and Analysis (Unaudited) For the Fiscal Year Ended June 30, 2012

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, 2012. 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.

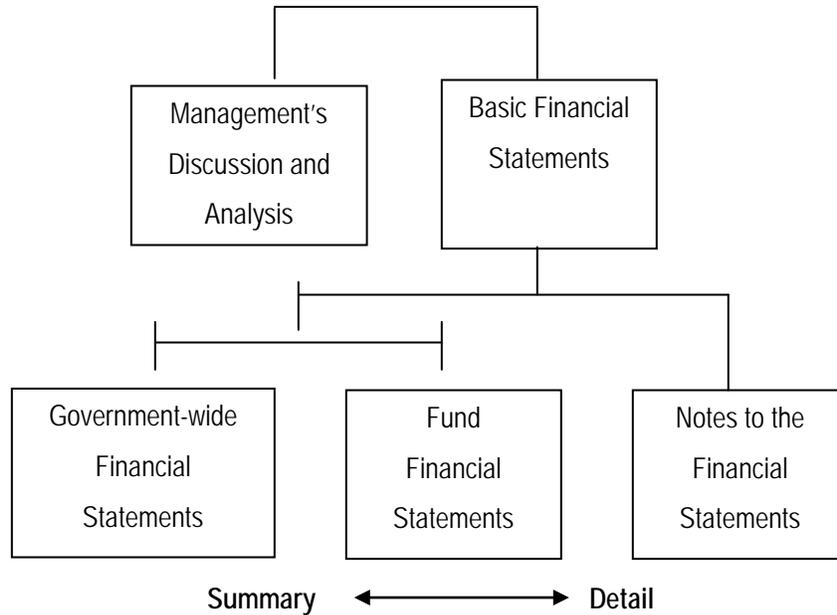
Financial Highlights

- The overall financial position of the Town improved in 2012 as evidenced by an increase in total net assets of \$1.6 million. This increase was from both governmental (\$.8 million) and business-type (\$.8 million) activities.
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$69.5 million (net assets). Of this amount, \$9.2 million (unrestricted net assets) 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 \$8.0 million, an increase of \$2.1 million in comparison with the prior year. Approximately 63.3% or \$5.1 million is nonspendable, restricted, committed, or assigned.
- At the end of the current fiscal year unassigned fund balance for the General Fund was \$3.1 million, or approximately 42.9% of General Fund expenditures for the fiscal year, and is available for spending at the government's discretion.
- Governmental net capital assets increased \$1.1 million primarily due to undertaking renovation of an existing building for a replacement Fire/EMS Station. Business-type net capital assets increased \$.1 million as several improvements, including a water treatment facility which had been in progress during the prior year, were completed.
- The Town's total debt increased by \$.6 million during the current fiscal year. The Town borrowed \$2.1 million to finance the Fire/EMS Station mentioned above in the governmental funds and \$.2 million for system improvements in the Water and Sewer Fund. Principal payments from governmental funds were \$.3 million. Business-type activities principal payments totaled \$1.4 million during the year. Principal of \$.2 million was forgiven on American Recovery and Reinvestment Act (ARRA) funded loans in the Water and Sewer Fund.

Overview of the Financial Statements

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

Required Components of Annual Financial Report



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

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

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

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

Government-wide Statements

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

The *statement of net assets* includes all of the government's assets and liabilities except fiduciary funds. The *statement of activities* accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the Town's net assets (the difference between assets and liabilities) and how they have changed. Over time, increases or decreases in the Town's net assets are one indicator of whether the Town's financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Town's property tax base and the condition of the Town's roads, must be considered to assess the overall health of the Town.

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

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

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

Fund Financial Statements

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

The Town has three kinds of funds:

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

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

- Proprietary funds – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Town has one type of proprietary fund. Enterprise funds are the same as the business-type activities (shown in the Government-wide Statements), but provide more detail and additional information, such as cash flows.

- Fiduciary funds - The Town is the trustee, or fiduciary, for the Law Enforcement Officers' Special Separation Allowance Trust Fund and the Other Postemployment Benefits Trust Fund. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 39 of this report.

Financial Analysis of the Town as a Whole

Net Assets: For the Town, assets exceeded liabilities by \$69.5 million at the close of the most recent fiscal year. A summary of the Town's net assets at June 30, 2012 and 2011 is presented below:

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 9,267,978	\$ 7,351,065	\$ 7,614,385	\$ 8,464,620	\$ 16,882,363	\$ 15,815,685
Capital assets	36,523,359	35,435,015	46,807,598	46,663,190	83,330,957	82,098,205
Total assets	<u>45,791,337</u>	<u>42,786,080</u>	<u>54,421,983</u>	<u>55,127,810</u>	<u>100,213,320</u>	<u>97,913,890</u>
Long-term liabilities outstanding	9,826,692	7,908,852	18,075,754	19,281,665	27,902,446	27,190,517
Other liabilities	1,207,144	955,127	1,569,337	1,837,402	2,776,481	2,792,529
Total liabilities	<u>11,033,836</u>	<u>8,863,979</u>	<u>19,645,091</u>	<u>21,119,067</u>	<u>30,678,927</u>	<u>29,983,046</u>
Net assets:						
Invested in capital assets, net of related debt	28,409,590	28,415,541	28,868,465	27,669,652	57,278,055	56,085,193
Restricted	3,029,403	2,604,295	-	-	3,029,403	2,604,295
Unrestricted	3,318,508	2,902,265	5,908,427	6,339,091	9,226,935	9,241,356
Total net assets	<u>\$ 34,757,501</u>	<u>\$ 33,922,101</u>	<u>\$ 34,776,892</u>	<u>\$ 34,008,743</u>	<u>\$ 69,534,393</u>	<u>\$ 67,930,844</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The Town's net assets increased by \$1.6 million for the fiscal year ended June 30, 2012. However, the largest portion (82.4%) 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 assets (4.4%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$9.2 million (13.2%) is unrestricted.

Net assets of the governmental activities increased \$.8 million, or 2.5 percent, to \$34.8 million. However, \$31.5 million of these net assets either are restricted as to the purposes they can be used for or are invested in capital assets (e.g. land, buildings, machinery, and equipment buildings, roads, etc.). \$3.3 million is unrestricted. The unrestricted net assets are available primarily to support operations and to provide for payment of long-term debt.

The net assets of the business-type activities increased by \$.8 million, or 2.3 percent, to \$34.8 million. These net assets will be used to finance the operations and expansion of the water, sewer, and solid waste operations.

Changes in Net Assets: The following table presents the Town's changes in net assets for the fiscal years ended June 30, 2012 and 2011:

	Town of Morehead City's Changes in Net Assets					
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenue:						
Program revenue:						
Charges for services	\$ 318,688	\$ 1,072,702	\$ 5,686,468	\$ 5,554,370	\$ 6,005,156	\$ 6,627,072
Operating grants and contributions	658,045	482,315	127,767	5,985	785,812	488,300
Capital grants and contributions	778,375	2,540,414	522,823	2,374,606	1,301,198	4,915,020
General revenue:						
Property taxes	5,953,304	5,775,012	-	-	5,953,304	5,775,012
Other taxes	2,105,572	1,766,492	-	-	2,105,572	1,766,492
Grants and contributions not restricted to specific programs	902,888	1,121,557	-	-	902,888	1,121,557
Other	144,228	115,993	330,819	331,866	475,047	447,859
Total revenue	<u>10,861,100</u>	<u>12,874,485</u>	<u>6,667,877</u>	<u>8,266,827</u>	<u>17,528,977</u>	<u>21,141,312</u>
Expenses:						
General government	1,608,076	1,439,277	-	-	1,608,076	1,439,277
Public safety	5,941,696	5,924,665	-	-	5,941,696	5,924,665
Highways and streets	932,790	960,596	-	-	932,790	960,596
Culture and recreation	1,066,750	1,266,613	-	-	1,066,750	1,266,613
Library	135,880	141,726	-	-	135,880	141,726
Interest on long-term debt	340,508	208,152	-	-	340,508	208,152
Water and sewer	-	-	4,933,504	4,667,772	4,933,504	4,667,772
Solid waste	-	-	966,224	895,433	966,224	895,433
Total expenses	<u>10,025,700</u>	<u>9,941,029</u>	<u>5,899,728</u>	<u>5,563,205</u>	<u>15,925,428</u>	<u>15,504,234</u>
Increase in net assets	835,400	2,933,456	768,149	2,703,622	1,603,549	5,637,078
Net assets, July 1	<u>33,922,101</u>	<u>30,988,645</u>	<u>34,008,743</u>	<u>31,305,121</u>	<u>67,930,844</u>	<u>62,293,766</u>
Net assets, June 30	<u>\$34,757,501</u>	<u>\$33,922,101</u>	<u>\$34,776,892</u>	<u>\$34,008,743</u>	<u>\$69,534,393</u>	<u>\$67,930,844</u>

Total government-wide revenue of \$17.5 million was primarily derived from charges for services (34.2%), property taxes (34.0%) and other taxes (12.0%). The total expenses of all programs were \$15.9 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 37.3% and water and sewer for 31.0%.

Governmental Activities

Governmental activities increased the Town's net assets by \$.8 million, thereby accounting for 50.0% of the total growth in the net assets of the Town of Morehead City. Key elements of this increase are as follows:

- The Town received various capital grants including \$.1 million for the development of recreation and public water access facilities of \$.2 million for the acquisition of a mobile ambulance grant as well as grants for other smaller projects during the year.
- \$.05 million of assets were contributed by developers during the year.
- The increase in expenses was less than 1% when compared to the previous year.

Business-type Activities

Business-type activities increased the Town of Morehead City's net assets by \$.8 million, accounting for 50.0% of the total growth in the government's net assets. Key elements of this increase are as follows:

- The Town received \$.3 million of grant revenue for lift station improvements and \$.2 million of ARRA related principal forgiveness for water treatment improvements.
- Charges for services in the Water and Sewer and Solid Waste Funds increased by approximately \$132,000 or 2.4% over the prior year. Solid waste rates increased at the beginning of the fiscal year and contributed 61.5% or \$81,000 of the increase while water and sewer rates were increased midway through the year and accounted for 38.5% or \$51,000 of the increase.
- The Water and Sewer Fund experienced a 5.7% increase in expenses primarily due to increased operating expenses. The solid waste operation experienced a 7.9% increase in operating expenses.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Morehead City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3.1 million, while total fund balance was \$5.5 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. Unassigned fund balance represents 42.9% of total General Fund expenditures of \$7.2 million, while total fund balance represents 76.3% of that same amount. The Town Council of Morehead City has determined that the General Fund should maintain no less than \$2.0 million of unassigned fund balance in order to meet unforeseen needs and opportunities.

At June 30, 2012, the governmental funds of the Town of Morehead City reported a combined fund balance of \$8.0 million, up from \$5.9 million the previous year. The General Fund fund balance increased \$0.4 million. Revenue and expenditures increased \$.3 million and \$.5 million, respectively, while net transfers decreased \$.7 million. The fund balance in the Fire/EMS Fund increased \$0.3 million. The fund balance in the Major and Non-Major Capital Project Funds increased \$1.4 million primarily due to issuance of debt related to Fire/EMS Station #2 Capital Project Fund.

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

Total revenue exceeded the final budget by approximately \$243,000 in the General Fund. The most significant favorable variances were in ad valorem taxes and unrestricted intergovernmental revenue. Expenditures were tightly controlled, and the Town was able to comply with its budgetary requirements in all categories. The favorable variances were the result of expenditure reductions in operations and the delay of Street related capital outlay.

Proprietary Funds. Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets at the end of the year totaled \$5.6 million in the Water and Sewer fund and \$.3 million in the Solid Waste fund. Unrestricted net assets in the Water and Sewer Fund decreased approximately \$0.5 million. The Solid Waste Fund increased \$0.1 million. Other factors concerning the finances of these funds were addressed in the discussion of the business-type activities.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2012, the Town had \$83.3 million (net of accumulated depreciation) in capital assets consisting primarily of buildings, improvements other than buildings, water and sewer operating plant and infrastructure. This amount represents a net increase of \$1.2 million, or 1.5%, over last year. The summary of capital assets at June 30, 2012 and 2011 is presented below:

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 9,748,815	\$ 9,748,815	\$ 835,664	\$ 432,586	\$ 10,584,479	\$10,181,401
Intangible assets	506,253	136,355	20,000	-	526,253	136,355
Infrastructure	5,407,679	5,370,235	-	-	5,407,679	5,370,235
Buildings and other improvements	17,275,851	17,712,877	2,001,123	51,664	19,276,974	17,764,541
Equipment and vehicles	2,362,821	2,124,796	733,859	797,992	3,096,680	2,922,788
Operating plant	-	-	42,516,877	41,756,327	42,516,877	41,756,327
Construction in progress	1,221,940	341,937	700,075	3,624,621	1,922,015	3,966,558
Total	\$ 36,523,359	\$ 35,435,015	\$ 46,807,598	\$46,663,190	\$ 83,330,957	\$82,098,205

This year's major capital asset additions included:

- Building and other improvements - \$1.5 million
- Water and sewer system improvements - \$.8 million
- Land - \$.4 million
- Intangible assets – \$.4 million

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

Long-term Debt. At June 30, 2012, the City had \$26.8 million of debt outstanding in installment purchases and loans from the State of North Carolina and US Department of Agriculture (USDA). Details by type of debt are presented in the following table:

Town of Morehead City's Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Installment contracts	\$ 8,531,541	\$ 6,725,391	\$ 1,620,429	\$ 1,987,380	\$10,151,970	\$ 8,712,771
Notes payable	333,167	341,230	16,318,704	17,188,307	16,651,871	17,529,537
Total	\$ 8,864,708	\$ 7,066,621	\$ 17,939,133	\$ 19,175,687	\$26,803,841	\$26,242,308

The Town of Morehead City's total long-term debt increased by \$.6 million (2.1%) during the past fiscal year. New debt totaling \$2.075 million for building renovation was issued by the governmental funds during the year and \$0.3 million of principal was paid on other previously outstanding debt. \$.2 million was borrowed for business-type activities. This increase was for construction of the new water treatment facility. Principal of \$1.4 million was paid on business-type previously outstanding debt. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Morehead City is \$151,675,002.

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

Economic Factors and Next Year's Budget and Rates

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

- During calendar year 2011, 1,050 permits were issued with a value of \$38.1 million compared to \$29.2 million for 2010.
- The June 2012 unemployment rate for Carteret County (unadjusted) was 9.3 percent compared to 9.9 percent for the state and 8.4 percent for the nation.

The following are highlights for the 2013 budgets for the governmental activities:

The General Fund initial budget for 2012-2013 increased 5.0% from \$9.8 million to \$10.3 million. The Town maintained the ad valorem tax rate of \$.285 per \$100 of valuation and was still able to project a 2.5% increase from this revenue source due to tax base growth and a determined approach to collecting. Sales taxes, another of the largest revenue sources for the Town, are projected to increase. Other revenue sources including Permits and Fees and Sales and Services also show signs of growth. On the expenditure side, increased transfers to the Fire/EMS Fund were necessary as the County elected to reduce the tax rate on the district outside of Town that is served by the Town. Employees received a 3% cost of living adjustment effective in July 2012 after three years of salaries freezes. In addition, the Town Council funded three full time positions in Public Safety that had been frozen and added one new part time position. A new position funded to begin at midyear was added in Finance. Other selected operating expenditures which had been curtailed in recent years were again funded as the Town's revenue picture brightened. Also, Council appropriated \$1.0 million of fund balance primarily to fund capital items while still maintaining unassigned fund balance at a level that will exceed the Council's minimum of \$2.0 million.

The initial budget for 2012-2013 of \$2.9 million in the Fire/EMS Fund was \$.2 million less than the previous year. The decrease was the result of completion of a grant funded in the previous year. As noted above, transfers from the General Fund were increased while district revenue declined. One new full time position, a second Fire Marshal, and one new part time position, an administrative assistant, were funded. Employees received the 3% COLA increase described above. Some other operating costs are projected to increase upon completion of renovation of a building that will replace an old, much smaller, station constructed in the 1950s. The budget also includes funding for capital items including a replacement vehicle, defibrillators, and airpaks.

The following are highlights for the 2013 budgets for the business-type activities:

The budget for the Water and Sewer Fund remained essentially flat with only a \$58,000 increase. A rate increase was budgeted to be effective midway through the fiscal year. The increase is needed to offset revenue lost from conservation and to provide a rate structure that will support current and upcoming debt service on major capital projects undertaken by the Town in recent years. Congruent with the governmental funds, employees received a 3% COLA. One new position in the wastewater treatment plant was added. Capital items funded included three replacement vehicles, equipment replacements, and exterior improvements to several of the buildings.

The initial 2012-2013 budget for the Solid Waste Fund also remained essentially flat compared to the prior year. A 2.6% rate increase effective in July 2012 is projected to produce \$34,000 of additional revenue. This revenue increase offset the need for a fund balance appropriation which was required to balance the budget in the prior fiscal year. The increased revenue is needed to keep pace with increased operating costs while allowing the fund to accumulate money for the periodic replacement of vehicles without incurring debt. As noted in the other funds, a 3% COLA increase was included in the budget for the one full time employee as well as for a seasonal employee who operates the second yard waste truck during the warm months.

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

Statement of Net Assets

June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,878,628	\$ 6,103,368	\$ 12,981,996
Restricted cash and investments	750,939	-	750,939
Receivables:			
Due from governmental agencies	1,031,389	25,670	1,057,059
Local option sales tax receivable	451,092	-	451,092
Taxes receivable, net	70,310	-	70,310
Accrued interest on taxes receivable	17,510	-	17,510
Customer receivables, net	57,415	909,194	966,609
Notes receivable	-	364,152	364,152
Inventories	3,506	212,001	215,507
Prepaid expense	7,189	-	7,189
Capital assets:			
Land and construction in process	11,477,008	1,555,739	13,032,747
Other capital assets, net of depreciation	25,046,351	45,251,859	70,298,210
Total assets	45,791,337	54,421,983	100,213,320
Liabilities			
Accounts payable and accrued expenses	1,032,121	981,277	2,013,398
Accrued interest payable	89,905	76,824	166,729
Unearned revenue	85,117	8,459	93,576
Customer deposits	-	502,777	502,777
Noncurrent liabilities:			
Due within one year	449,441	1,470,578	1,920,019
Due in more than one year	9,377,251	16,605,176	25,982,427
Total liabilities	11,033,835	19,645,091	30,678,926
Net Assets			
Invested in capital assets, net of related debt	28,409,590	28,868,465	57,278,055
Restricted:			
Stablization by State Statute	1,465,955	-	1,465,955
General government	253,203	-	253,203
Streets	390,448	-	390,448
Public safety	674,571	-	674,571
Recreation	245,226	-	245,226
Unrestricted	3,318,508	5,908,427	9,226,935
Total net assets	\$ 34,757,501	\$ 34,776,892	\$ 69,534,393

See Notes to Financial Statements.

Town of Morehead City

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,608,076	\$ 91,956	\$ 47,863	\$ -
Public safety	5,941,696	115,574	304,801	179,812
Highways and streets	932,790	-	252,306	498,563
Cultural and recreation	1,066,750	103,211	-	100,000
Library	135,880	7,947	53,075	-
Interest on long-term debt	340,508	-	-	-
Total governmental activities	10,025,700	318,688	658,045	778,375
Business-type activities:				
Water and sewer	4,933,504	4,758,541	48,751	522,823
Solid waste	966,224	927,927	79,016	-
Total business-type activities	5,899,728	5,686,468	127,767	522,823
Total primary government	\$ 15,925,428	\$ 6,005,156	\$ 785,812	\$ 1,301,198

General revenue:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Miscellaneous income, unrestricted

Total general revenue

Change in net assets

Net assets-beginning

Net assets-ending

See Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (1,468,257)	\$ -	\$ (1,468,257)
(5,341,509)	-	(5,341,509)
(181,921)	-	(181,921)
(863,539)	-	(863,539)
(74,858)	-	(74,858)
(340,508)	-	(340,508)
(8,270,592)	-	(8,270,592)
-	396,611	396,611
-	40,719	40,719
-	437,330	437,330
(8,270,592)	437,330	(7,833,262)
5,953,304	-	5,953,304
1,842,063	-	1,842,063
263,509	-	263,509
902,888	-	902,888
21,560	36,205	57,765
122,668	294,614	417,282
9,105,992	330,819	9,436,811
835,400	768,149	1,603,549
33,922,101	34,008,743	67,930,844
\$ 34,757,501	\$ 34,776,892	\$ 69,534,393

Town of Morehead City, North Carolina

Balance Sheet-Governmental Funds
June 30, 2012

	Major General	Major Fire/EMS District	Major School Property Acquisition/ Improvement Capital Project Fund	Fire/EMS Station #2 Replacement Capital Project Fund	Non-Major Governmental Funds	Totals
Assets:						
Cash and cash equivalents	\$ 5,182,760	\$ 1,017,060	\$ 271,856	\$ 99,107	\$ 307,845	\$ 6,878,628
Restricted cash equivalents	82,367	-	-	668,572	-	750,939
Receivables	955,355	654,850	-	-	-	1,610,205
Inventories	3,506	-	-	-	-	3,506
Prepaid items	-	7,189	-	-	-	7,189
Total assets	\$ 6,223,988	\$ 1,679,099	\$ 271,856	\$ 767,679	\$ 307,845	\$ 9,250,467
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 372,667	\$ 33,017	\$ 1,248	\$ 204,236	\$ 200,650	\$ 811,818
Unearned revenue	85,117	-	-	-	-	85,117
Deferred revenue	126,444	17,806	-	-	-	144,250
Accrued salaries	164,125	56,179	-	-	-	220,304
Total liabilities	748,353	107,002	1,248	204,236	200,650	1,261,489
Fund Balances (Deficits):						
Non Spendable:						
Inventories	3,506	-	-	-	-	3,506
Prepaid items	-	7,189	-	-	-	7,189
Restricted:						
Stabilization by State Statute	828,911	637,044	-	-	-	1,465,955
General government	30,576	-	220,438	-	2,189	253,203
Streets	345,062	-	-	-	45,386	390,448
Public safety	60,958	-	50,170	563,443	-	674,571
Recreation	40,496	-	-	-	204,730	245,226
Committed:						
Sidewalk construction	108,630	-	-	-	-	108,630
Recreation facilities development	23,349	-	-	-	-	23,349
Assigned:						
Public safety	-	927,864	-	-	-	927,864
Subsequent year's expenditures	955,600	-	-	-	-	955,600
Unassigned	3,078,547	-	-	-	(145,110)	2,933,437
Total fund balances	5,475,635	1,572,097	270,608	563,443	107,195	7,988,978
Total liabilities and fund balances	\$ 6,223,988	\$ 1,679,099	\$ 271,856	\$ 767,679	\$ 307,845	\$ 9,250,467

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Reconciliation of the Governmental Funds Balance Sheet to Net
Assets of Governmental Activities in the Statement of Assets
June 30, 2012

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

Total fund balances for governmental funds	\$ 7,988,978
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	36,523,359
Liabilities for earned but deferred revenue in the fund statement.	144,251
Accrued interest on property taxes - Statement of Net Assets	17,510
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(9,826,692)
Accrued interest payable on long-term liabilities not recorded in the fund statements	<u>(89,905)</u>
Net assets of governmental activities	<u><u>\$ 34,757,501</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, 2012

	Major General	Major Fire/EMS District	Major School Property Acquisition/ Improvement Capital Project Fund	Fire/EMS Station #2 Replacement Capital Project Fund	Non-Major Governmental Funds	Totals
Revenue						
Ad valorem taxes	\$ 5,337,259	\$ 584,303	\$ -	\$ -	\$ -	\$ 5,921,562
Other taxes and licenses	92,526	170,983	-	-	-	263,509
Unrestricted intergovernmental	2,744,951	-	-	-	-	2,744,951
Restricted intergovernmental	552,467	198,329	-	-	100,000	850,796
Permits and fees	119,754	-	-	-	-	119,754
Sales and services	207,755	449,442	-	-	-	657,197
Investment earnings	14,916	6,634	738	(1,134)	406	21,560
Miscellaneous	122,668	9,927	22,257	-	-	154,852
Total revenue	9,192,296	1,419,618	22,995	(1,134)	100,406	10,734,181
Expenditures						
Current:						
General government	1,438,620	-	34,598	-	86,525	1,559,743
Public safety	3,589,407	2,447,281	13,445	879,582	-	6,929,715
Highways and streets	811,191	-	-	-	-	811,191
Library	117,598	-	-	-	-	117,598
Recreation	435,406	-	-	-	16,490	451,896
Parks	285,077	-	-	-	-	285,077
Debt service:						
Principal	209,149	67,764	-	-	-	276,913
Interest	293,797	3,292	-	-	-	297,089
Total expenditures	7,180,245	2,518,337	48,043	879,582	103,015	10,729,222
Revenue over (under) expenditures	2,012,051	(1,098,719)	(25,048)	(880,716)	(2,609)	4,959
Other financing sources (uses)						
Issuance of debt	-	-	-	2,075,000	-	2,075,000
Transfers in	-	1,365,000	-	-	200,000	1,565,000
Transfers out	(1,565,000)	-	-	-	-	(1,565,000)
Total other financing sources (uses)	(1,565,000)	1,365,000	-	2,075,000	200,000	2,075,000
Net changes in fund balances	447,051	266,281	(25,048)	1,194,284	197,391	2,079,959
Fund balances (deficits), beginning	5,028,584	1,305,816	295,656	(630,841)	(90,196)	5,909,019
Fund balance, ending	\$ 5,475,635	\$ 1,572,097	\$ 270,608	\$ 563,443	\$ 107,195	\$ 7,988,978

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, 2012

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

Net changes in fund balances - total governmental funds \$ 2,079,959

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

Increase in purchased capital assets, net of decrease in construction in progress 1,601,481
Depreciation expense (1,006,871)

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 (4,829)
Donated capital assets 498,563

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

Decrease in deferred EMS fees (459,520)
Increase in deferred property taxes 26,236
Increase in deferred grant revenues 56,134
Increase in accrued interest receivable 5,507

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 (2,205,488)
Retirement of long-term liabilities 287,648

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:

Increase in accrued interest payable (43,420)

Total changes in net assets of governmental activities \$ 835,400

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, 2012

	General Fund			Variance with Final Budget
	Budget, Original	Budget, Final	Actual	
Revenue				
Ad valorem taxes	\$ 5,182,500	\$ 5,194,500	\$ 5,337,259	\$ 142,759
Other taxes	88,000	88,000	92,526	4,526
Unrestricted intergovernmental	2,506,500	2,625,800	2,744,951	119,151
Restricted intergovernmental	897,875	665,675	552,467	(113,208)
Permits and fees	136,000	106,000	119,754	13,754
Sales and services	160,700	182,200	207,755	25,555
Investment earnings	12,000	12,000	14,916	2,916
Miscellaneous	41,500	75,285	122,668	47,383
Total revenue	9,025,075	8,949,460	9,192,296	242,836
Expenditures				
Current:				
General government	1,399,796	1,662,655	1,438,620	224,035
Public safety	3,527,968	3,700,163	3,589,407	110,756
Highways and streets	1,646,600	1,380,450	811,191	569,259
Recreation and parks	775,850	834,750	720,483	114,267
Library	209,100	209,100	117,598	91,502
Contingency	240,786	55,432	-	55,432
Debt service	503,804	513,804	502,946	10,858
Total expenditures	8,303,904	8,356,354	7,180,245	1,176,109
Revenue over expenditures	721,171	593,106	2,012,051	1,418,945
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(1,465,000)	(1,565,000)	(1,565,000)	-
Fund balance appropriated	743,829	971,894	-	(971,894)
Total other financing sources (uses)	(721,171)	(593,106)	(1,565,000)	(971,894)
Revenue and other financing sources over expenditures and other financing uses	\$ -	\$ -	447,051	\$ 447,051
Fund balance, beginning			5,028,584	
Fund balance, ending			\$ 5,475,635	
Reconciliation:				
Prepaid costs reported as prepaid expense on GAAP basis				
Fund balance ending, as reported for GAAP				

See Notes to Financial Statements.

Fire/EMS District Fund

Budget, Original	Budget, Final	Actual	Variance with Final Budget
\$ 680,000	\$ 509,350	\$ 584,303	\$ 74,953
-	-	-	-
163,000	157,000	170,983	13,983
385,300	227,350	198,329	(29,021)
-	-	-	-
440,000	440,000	449,442	9,442
500	500	6,634	6,134
-	7,900	9,927	2,027
<u>1,668,800</u>	<u>1,342,100</u>	<u>1,419,618</u>	<u>77,518</u>
-	-	-	-
2,799,110	2,656,160	2,433,685	222,475
-	-	-	-
-	-	-	-
-	-	-	-
148,257	31,084	-	31,084
137,633	71,056	71,056	-
<u>3,085,000</u>	<u>2,758,300</u>	<u>2,504,741</u>	<u>253,559</u>
<u>(1,416,200)</u>	<u>(1,416,200)</u>	<u>(1,085,123)</u>	<u>331,077</u>
1,416,200	1,365,000	1,365,000	-
-	-	-	-
-	51,200	-	(51,200)
<u>1,416,200</u>	<u>1,416,200</u>	<u>1,365,000</u>	<u>(51,200)</u>
<u>\$ -</u>	<u>\$ -</u>	279,877	<u>\$ 279,877</u>
		<u>1,305,816</u>	
		1,585,693	
		<u>(13,596)</u>	
		<u>\$ 1,572,097</u>	

Town of Morehead City, North Carolina

Statement of Net Assets
 Proprietary Funds
 June 30, 2012

	Water and Sewer Fund	Solid Waste Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 5,897,098	\$ 206,270	\$ 6,103,368
Receivables	787,207	147,657	934,864
Inventories	212,001	-	212,001
Total current assets	6,896,306	353,927	7,250,233
Noncurrent assets			
Notes receivable	364,152	-	364,152
Capital assets, net	46,720,891	86,707	46,807,598
Total noncurrent assets	47,085,043	86,707	47,171,750
Total assets	53,981,349	440,634	54,421,983
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	883,763	53,334	937,097
Current maturities of long-term debt	1,426,592	-	1,426,592
Customer deposits	502,777	-	502,777
Accrued salaries	42,121	2,059	44,180
Accrued compensated absences-current portion	43,435	551	43,986
Unearned revenue	8,459	-	8,459
Accrued interest payable	76,824	-	76,824
Total current liabilities	2,983,971	55,944	3,039,915
Noncurrent liabilities			
Accrued compensated absences	24,432	310	24,742
Installment notes	16,512,541	-	16,512,541
Net other post employment benefits obligation	68,756	(863)	67,893
Total noncurrent liabilities	16,605,729	(553)	16,605,176
Total liabilities	19,589,700	55,391	19,645,091
Net assets			
Invested in capital assets, net of related debt	28,781,758	86,707	28,868,465
Unrestricted	5,609,891	298,536	5,908,427
Total net assets	\$ 34,391,649	\$ 385,243	\$ 34,776,892

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Revenue, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2012

	Water and Sewer Fund	Solid Waste Fund	Totals
Operating revenue			
Charges for sales and services	\$ 4,758,541	\$ 897,145	\$ 5,655,686
Miscellaneous	293,251	1,363	294,614
Total operating revenue	5,051,792	898,508	5,950,300
Operating expenses			
Cost of sales and services	2,991,861	942,653	3,934,514
Depreciation	1,462,806	23,571	1,486,377
Total operating expenses	4,454,667	966,224	5,420,891
Operating income (loss)	597,125	(67,716)	529,409
Nonoperating revenue (expense)			
Interest revenue	35,830	375	36,205
Restricted intergovernmental	571,574	109,798	681,372
Interest expense and fiscal charges	(445,556)	-	(445,556)
Total nonoperating revenue	161,848	110,173	272,021
Loss of disposal of fixed assets	(33,281)	-	(33,281)
Net income	725,692	42,457	768,149
Net assets, beginning	33,665,957	342,786	34,008,743
Net assets, ending	\$ 34,391,649	\$ 385,243	\$ 34,776,892

See Notes to Financial Statements.

Town of Morehead City, North Carolina

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

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 5,264,890	\$ 869,731	\$ 6,134,621
Cash paid to suppliers for goods and services	(1,986,866)	(900,235)	(2,887,101)
Cash paid to employees	(1,237,173)	(44,322)	(1,281,495)
Customer deposits	10,096	-	10,096
Net cash provided by (used in) operating activities	2,050,947	(74,826)	1,976,121
Cash Flows from Non-Capital and Related Financing Activities:			
Restricted intergovernmental	560,240	109,798	670,038
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(1,664,066)	-	(1,664,066)
Interfund receivable	-	-	-
Debt issued	173,138	-	173,138
Principal paid on long-term debt	(1,409,692)	-	(1,409,692)
Interest paid on long-term debt	(454,732)	-	(454,732)
Net cash used for capital and related financing activities	(3,355,352)	-	(3,355,352)
Cash Flows from Investing Activities:			
Interest on investments	35,830	375	36,205
Net increase (decrease) in cash and cash equivalents	(708,335)	35,347	(672,988)
Cash and cash equivalents, beginning	6,605,433	170,923	6,776,356
Cash and cash equivalents, ending	\$ 5,897,098	\$ 206,270	\$ 6,103,368

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)
 Proprietary Funds
 For the Year Ended June 30, 2012

Page 2 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating income (loss)	\$ 597,125	\$ (67,716)	\$ 529,409
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,462,806	23,571	1,486,377
Change in assets and liabilities:			
Notes receivable	56,479	-	56,479
Receivables	156,619	(28,777)	127,842
Inventory	(7,074)	-	(7,074)
Accounts payable and accrued liabilities	(261,367)	(3,759)	(265,126)
Customer deposits	10,096	-	10,096
Accrued salaries	5,967	1,156	7,123
Accrued other postemployment benefits	21,993	-	21,993
Accrued compensated absences	8,303	699	9,002
Net cash provided by (used in) operating activities	\$ 2,050,947	\$ (74,826)	\$ 1,976,121
 Supplemental Disclosure of Non-cash Transactions:			
Accounts payable for constructed capital assets	\$ 760,169	\$ -	\$ 760,169

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2012

	Special Separation Allowance Pension Trust Fund	Other Postemployment Benefits Trust Fund	Totals
Assets			
Cash and cash equivalents	\$ 179,229	\$ 152,410	\$ 331,639
Total assets	<u>179,229</u>	<u>152,410</u>	<u>331,639</u>
Net Assets			
Assets held in trust for pension benefits	179,229	152,410	331,639
Total net assets	<u>\$ 179,229</u>	<u>\$ 152,410</u>	<u>\$ 331,639</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Changes in Fiduciary Net Assets
 Fiduciary Fund
 For the Fiscal Year Ended June 30, 2012

	Special Separation Allowance Pension Trust Fund	Other Postemployment Benefits Trust Fund	Totals
Additions			
Contributions	\$ 62,200	\$ 131,594	\$ 193,794
Interest	507	474	981
Total additions	<u>62,707</u>	<u>132,068</u>	<u>194,775</u>
Deductions			
Benefits paid	<u>33,215</u>	<u>82,406</u>	<u>115,621</u>
Total deductions	<u>33,215</u>	<u>82,406</u>	<u>115,621</u>
Net increase	29,492	49,662	79,154
Net assets reserved for employees' pension benefits			
Beginning of year	<u>149,737</u>	<u>102,748</u>	<u>252,485</u>
End of year	<u>\$ 179,229</u>	<u>\$ 152,410</u>	<u>\$ 331,639</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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Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Basis of Presentation

Government-wide and Fund Financial Statements

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

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

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

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Fire and EMS District Fund - The Fire and EMS District Fund is used to account for activities of the EMS and fire department including revenue and services for districts outside of the Town limits.

School Property Acquisition/Improvement Capital Project Fund – Although the School Property Acquisition/Improvement Capital Project Fund does not meet the criteria for a major fund, it is being treated as major this year to be consistent with prior years. This fund is used to account for funds accumulated for acquisition of the Charles Wallace building and additional renovations to the property.

Fire/EMS Station #2 Replacement Capital Project Fund – This fund is used to account for funds accumulated for the acquisition and renovation of property for a Fire/EMS Station #2 replacement.

The Town reports the following non-major governmental funds:

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

Proprietary Funds include the following major funds:

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

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

Additionally, the government reports the following fund types:

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Therefore the net receivable amount is offset by a deferred revenue. Carteret County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County including the Town of Morehead City. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Carteret County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable in these statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1, 2012 through the fiscal year-end apply to the 2012-2013 fiscal year and are not shown as receivables at June 30, 2012.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Receivables for unbilled Water and Sewer Fund utility services are recorded at year-end. As permitted by GAAP, the Town has elected to apply only applicable Financial Accounting Standards Board Statements and Interpretations

issued before November 30, 1989 in its accounting and reporting practices for its enterprise operations to the extent those standards do not conflict with or contradict guidance of the GASB.

The Town reports deferred revenue on its balance sheet for governmental funds. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet for governmental funds and revenue is recognized.

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:

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

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

All annual appropriations lapse at the fiscal year end and project appropriations lapse at the end of the project. Expenditures may not legally exceed appropriations at the functional level for the general fund and at the fund level for all other funds. Any revisions that alter the total expenditures of any fund must be approved by the governing board. Budget amounts are as originally adopted, or as amended by the Town as of June 30, 2012. 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:

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

- 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.

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund. Investments at June 30, 2012 consist of amounts in the NCCMT which are stated at fair value, which is the NCCMT's share price.

Cash and Cash Equivalents

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

Restricted Assets

The unexpended debt proceeds received by the Town to finance specific projects are classified as restricted assets for the Water and Sewer Enterprise Fund because their use is restricted to the purpose for which the notes were originally issued and they collateralize the associated debt. The restricted cash in the General Fund and Non-Major Governmental Funds consist of required reserves for USDA loans and unspent loan proceeds, respectively.

Ad Valorem Taxes Receivable

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

Registered motor vehicles taxes are described elsewhere in Note 1.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 first-in/first-out (FIFO) method. The inventories consist of various items used in the maintenance of existing utility systems and expansion of new systems. Depending on the eventual use of these inventories, these items may be expensed in the future as maintenance of existing systems or capitalized as a part of the development of new systems.

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

Receivables and Payables

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

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

Capital Assets

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

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

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

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Long-Term Obligations

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

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

Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

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

The governmental fund types classify fund balances as follows:

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

Prepays and inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending prepaid items and inventories, which are not spendable resources.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The Town's restricted fund balance consists of the following:

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

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

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

Interfund Transactions

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

Note 2. Stewardship, Compliance and Accountability

Budgetary GAAP Reporting Reconciliation

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

Excess of Revenue and Financing Sources Over Expenditures And Other Financing Uses - Fire/EMS District Fund	
Budgetary basis	\$ 279,877
Amortization of prepaid costs reported as prepaid expense on GAAP basis	(13,596)
GAAP basis	<u>\$ 266,281</u>

Deficit in Fund Balance of Individual Funds

For the fiscal year ended June 30, 2012, the Jib Waterfront Access Capital Project Fund had a deficit of \$145,110. This deficit is expected to be funded by grant revenues and other financing sources.

Note 3. Cash and Cash Equivalents

Petty cash: At June 30, 2012, the Town had petty cash funds on hand totaling \$1,750.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 3. Cash and Cash Equivalents (Continued)

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

At year end, the Town's deposits had a carrying amount of \$13,488,962 and bank balance of \$12,857,147. Of the bank balance, \$2,459,647 was covered by federal depository insurance, and \$10,397,500 was covered by collateral held under the Pooling Method.

Investments: At June 30, 2012, the Town had \$573,862 in investments which were limited to participation in the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk, interest rate risk, concentration of credit risk or custodial credit risk.

Note 4. Receivables

Receivables at June 30, 2012, consist of the following:

	Major General	Major Fire & EMS District	Major Water & Sewer Fund	Major Solid Waste Fund	Total
Receivables					
Local option sales tax	\$ 451,092	\$ -	\$ -	\$ -	\$ 451,092
Property tax	115,806	-	-	-	115,806
Allowance for uncollectibles	(45,496)	-	-	-	(45,496)
	<u>70,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,310</u>
Accounts receivable:					
Services	-	947,415	787,320	121,987	1,856,722
Allowance for uncollectibles	-	(890,000)	(113)	-	(890,113)
	<u>-</u>	<u>57,415</u>	<u>787,207</u>	<u>121,987</u>	<u>966,609</u>
Due from governmental agencies	433,953	597,435	-	25,670	1,057,058
Net total receivables	<u>\$ 955,355</u>	<u>\$ 654,850</u>	<u>\$ 787,207</u>	<u>\$ 147,657</u>	<u>\$ 2,545,069</u>

Notes to Financial Statements

Note 5. Interfund Transactions and Balances

The Town transferred \$1,365,000 from the Major General Fund to the Major Fire/EMS District Fund to pay for a portion of the cost of operations of the receiving fund. The Town also transferred \$200,000 from the Major General Fund to a Non-Major Governmental Fund to fund a portion of the cost of construction occurring in that fund. The Town transferred \$106,125 from the Major Water and Sewer Fund to the Non-Major Water and Sewer Capital Project to fund a portion of the cost of construction occurring in that fund. The Town transferred \$189,000 from the Major Water and Sewer Fund to the Non-Major Water Treatment Capital Project Fund for the Town's match for a USDA grant/loan. The Town also transferred \$28,937 from the Non-Major Capital Reserve Fund to the Non-Major Water and Sewer Capital Project Fund to fund a portion of construction occurring in that fund.

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,748,815	\$ -	\$ -	\$ 9,748,815
Intangible assets	136,355	369,898	-	506,253
Construction in progress	341,937	1,337,280	(457,277)	1,221,940
Total capital assets not being depreciated	<u>10,227,107</u>	<u>1,707,178</u>	<u>(457,277)</u>	<u>11,477,008</u>
Capital assets being depreciated:				
Buildings and other improvements	19,774,938	120,806	(3,285)	19,892,459
Infrastructure	5,800,742	155,270	-	5,956,012
Equipment and vehicles	5,291,806	574,067	(154,128)	5,711,745
Total capital assets being depreciated	<u>30,867,486</u>	<u>850,143</u>	<u>(157,413)</u>	<u>31,560,216</u>
Less accumulated depreciation for:				
Buildings and other improvements	(2,062,061)	(556,184)	1,637	(2,616,608)
Infrastructure	(430,507)	(117,826)	-	(548,333)
Equipment and vehicles	(3,167,010)	(332,861)	150,947	(3,348,924)
Total accumulated depreciation	<u>(5,659,578)</u>	<u>(1,006,871)</u>	<u>152,584</u>	<u>(6,513,865)</u>
Total capital assets being depreciated, net	<u>25,207,908</u>			<u>25,046,351</u>
Governmental activity capital assets, net	<u>\$ 35,435,015</u>			<u>\$ 36,523,359</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 432,586	\$ 403,078	\$ -	\$ 835,664
Intangible assets	-	20,000	-	20,000
Construction in progress	3,624,621	1,691,315	(4,615,861)	700,075
Total capital assets not being depreciated	<u>4,057,207</u>	<u>2,114,393</u>	<u>(4,615,861)</u>	<u>1,555,739</u>
Capital assets being depreciated:				
Buildings and other improvements	206,548	1,979,647	-	2,186,195
Equipment and vehicles	1,510,977	139,696	-	1,650,673
Operating plant	53,675,016	2,046,191	(109,704)	55,611,503
Total capital assets being depreciated	<u>55,392,541</u>	<u>4,165,534</u>	<u>(109,704)</u>	<u>59,448,371</u>
Less accumulated depreciation for:				
Buildings and other improvements	(154,884)	(30,188)	-	(185,072)
Equipment and vehicles	(823,263)	(180,258)	-	(1,003,521)
Operating plant	(11,918,689)	(1,252,360)	76,423	(13,094,626)
Total accumulated depreciation	<u>(12,896,836)</u>	<u>(1,462,806)</u>	<u>76,423</u>	<u>(14,283,219)</u>
Total capital assets being depreciated, net	<u>42,495,705</u>			<u>45,165,152</u>
Water and Sewer Fund capital assets, net	<u>46,552,912</u>			<u>46,720,891</u>
Solid Waste Fund				
Capital assets being depreciated:				
Equipment and vehicles	202,117	-	-	202,117
Less accumulated depreciation for:				
Equipment and vehicles	(91,839)	(23,571)	-	(115,410)
Total capital assets being depreciated, net	<u>110,278</u>			<u>86,707</u>
Solid Waste Fund capital assets, net	<u>110,278</u>			<u>86,707</u>
Business-type activity capital assets, net	<u>\$ 46,663,190</u>			<u>\$ 46,807,598</u>

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

Governmental activities:	
General government	\$ 59,844
Public safety	428,681
Highway and streets	148,204
Parks and recreation	342,093
Library	28,049
	<u>\$ 1,006,871</u>
Business-type activities:	
Water and Sewer Fund	\$ 1,462,806
Solid Waste Fund	23,571
	<u>\$ 1,486,377</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets (Continued)

Construction Commitments

As of June 30, 2012, the Town has active construction projects. The Town's commitments with contractors at June 30, 2012, are as follows:

Project	Spent to Date	Remaining Commitment
Municipal Building Renovation	\$ 143,876	\$ 73,835
Barbour Road Sidewalk Project(s)	-	59,033
Fire/EMS Station #2 Replacement Renovations	848,142	337,404
Water Treatment Plant/Bridges Street	2,393,168	100,858
	<u>\$ 3,385,186</u>	<u>\$ 571,130</u>

Note 7. Deferred/Unearned Revenue

The balance in deferred revenue on the fund statements and unearned revenue on the fund and government-wide statements at year-end is composed of the following:

	Deferred Revenue	Unearned Revenue
General Fund		
Prepaid licenses and taxes	\$ -	\$ 57,407
Prepaid fees	-	27,710
Grants receivable	56,134	
Property taxes receivable	70,310	-
	<u>126,444</u>	<u>85,117</u>
Fire/EMS Fund		
Ambulance fees receivable	17,806	-
	<u>17,806</u>	<u>-</u>
Water/Sewer Fund		
FEMA/Hurricane Irene grant revenue	11,334	-
Vinnings GIS/Mapping fees	-	8,459
	<u>11,334</u>	<u>8,459</u>
Solid Waste Fund		
FEMA/Hurricane Irene grant revenue	24,304	-
	<u>24,304</u>	<u>-</u>
	<u>\$ 179,888</u>	<u>\$ 93,576</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets.

Changes in Long-term Liabilities – Governmental Activities

Long-term liability activity for governmental activities for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
*Accrued compensated absences	\$ 366,988	\$ 173,316	\$ 175,901	\$ 364,403	\$ 167,625
Net pension obligation	220,748	-	8,150	212,598	-
Other postemployment benefits	254,495	130,488	-	384,983	-
Notes payable	341,230	-	8,063	333,167	8,396
Installment contracts	6,725,391	2,075,000	268,850	8,531,541	273,420
Total	\$ 7,908,852	\$ 2,378,804	\$ 460,964	\$ 9,826,692	\$ 449,441

*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, 2012, the remaining obligation due under this agreement totaled \$720,000.

The Town has a \$330,000 installment purchase contract to finance the acquisition of vehicles and equipment. The agreement has a term of 5 years and is collateralized by a purchase-money deed of trust. The note bears interest as a rate of 2.73% annually. As of June 30, 2012, the remaining obligation due under this agreement totaled \$69,627.

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, 2012, \$10,627 remains in a restricted account and the remaining obligation due under this agreement totaled \$160,946.

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, 2012, \$11,512 remains in a restricted account and the remaining obligation due under this agreement totaled \$172,221.

The Town has a \$1,050,000 installment loan payable from Branch Banking & Trust to finance the Shepard Street property purchase. The agreement has a term of 15 years and is collateralized by the property. The note bears interest at a rate of 4.57% annually renegotiated to 3.39% effective May 2012. As of June 30, 2012, the remaining obligation due under this agreement totaled \$910,000.

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, 2012, \$50,016 remains in a restricted account and the remaining obligation due under this agreement totaled \$4,756,914.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

The Town has a \$2,075,000 installment note payable from USDA to finance the construction of the new Fire and EMS station. The agreement has a term of 40 years and is collateralized by the property. The note bears interest at a rate of 3.75% annually. As of June 30, 2012, \$10,212 remains in a restricted account and the remaining obligation due under this agreement totaled \$2,075,000.

Changes in Long-term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2012, is as follows:

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	Portion of
					Balance
Notes payable	\$ 17,188,307	\$ 173,138	\$ 1,042,741	\$ 16,318,704	\$ 1,042,741
Installment contracts	1,987,380	-	366,951	1,620,429	383,851
*Accrued compensated absences	59,727	45,391	36,390	68,728	43,986
Other postemployment benefits	46,251	21,992	350	67,893	-
Total	\$ 19,281,665	\$ 240,521	\$ 1,446,432	\$ 18,075,754	\$ 1,470,578

*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, 2012, the remaining obligation due under this agreement totaled \$694,914.

The Town has a \$1,750,000 installment purchase contract to finance the construction of improvements to the water and sewer system. The agreement has a term of 7 years and is collateralized by a purchase-money deed of trust. The note shall bear interest at a rate of 3.33% annually renegotiated to 1.97% effective May 2012. As of June 30, 2012, the remaining obligation due under this agreement totaled \$925,515.

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, 2012, the remaining obligation due under this agreement totaled \$935,000.

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, 2012, the remaining obligation due under this agreement totaled \$656,386.

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, 2012, the remaining obligation due under this agreement totaled \$650,000.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

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, 2012, \$14,456,702 has been drawn down from the \$15,000,000 of available funds and is repayable to the State. The total remaining funds available for use is \$543,298. As of June 30, 2012, the remaining obligation due under this agreement totaled \$12,206,702.

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, 2012, \$624,222 has been drawn from the \$645,000 of available funds and is repayable to the State. The total remaining funds available for use is \$20,778. As of June 30, 2012, the obligation due is \$559,721.

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, 2012, \$1,385,895 has been drawn from the \$1,500,000 of available funds and is repayable to the State. The total remaining funds available for use is \$114,105. As of June 30, 2012, the obligation due is \$1,310,895.

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		
2012-2013	\$ 281,816	\$ 339,468
2013-2014	239,053	328,534
2014-2015	242,635	320,586
2015-2016	246,362	312,495
2016-2017	250,239	304,253
2018-2022	1,235,042	1,392,440
2023-2027	898,281	1,195,508
2028-2032	838,452	1,032,878
2033-2037	998,734	849,889
2038-2042	1,119,235	641,400
2043-2047	1,362,991	397,644
2048-2052	1,151,868	111,893
	<u>8,864,708</u>	<u>7,226,988</u>

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

	Principal	Interest
Business-type activities, Water and Sewer Fund		
2012-2013	1,426,592	659,829
2013-2014	1,439,030	631,623
2014-2015	1,450,221	603,242
2015-2016	1,324,081	436,889
2016-2017	1,194,226	270,274
2018-2022	5,213,706	989,867
2023-2027	4,672,724	446,120
2028-2032	1,218,553	350,963
	17,939,133	4,388,807
	\$ 26,803,841	\$ 11,615,795

Interest paid on the above obligations during 2012 totaled \$750,895. 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, 2012 amounts to \$151,675,002.

Note 9. Pension Plan and Postemployment Obligations

Local Governmental Employees' Retirement System

Plan Description. Town of Morehead City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.95% and 7.05%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$365,684, \$350,005, and \$269,820, respectively, and were equivalent to the required amount.

Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

The Town of Morehead City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly.

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>38</u>
Total	<u><u>40</u></u>

2. Summary of Significant Accounting Policies.

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

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

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits. For the current year, the Town contributed \$62,200, or 4% of annual covered payroll, to the plan. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method and level dollar closed amortization method (remaining period 19 years). The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year, and (c) inflation at 3%. The assumptions did not include postemployment benefit increases or cost of living adjustments.

The Town's annual pension cost and net pension obligation for the Special Separation Allowance as of June 30, 2012 are as follows:

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

Employer annual required contribution	\$ 56,182
Interest on net pension obligation	11,037
Adjustment to annual required contribution	<u>(13,169)</u>
Annual pension cost	54,050
Employer contributions made for fiscal year	<u>62,200</u>
Increase in net pension obligation	(8,150)
Net pension obligation beginning of fiscal year	<u>220,748</u>
Net pension obligation end of fiscal year	<u><u>\$ 212,598</u></u>

Fiscal Year Ended	Three-Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation End of Year
June 30, 2010	\$ 51,738	89.49%	\$ 209,076
June 30, 2011	61,472	81.01%	220,748
June 30, 2012	54,050	115.08%	212,598

4. Funded Status and Funding Progress.

As of December 31, 2011, the most recent actuarial valuation date, the plan was 32.74 percent funded. The actuarial accrued liability for benefits was \$610,238, and the actuarial value of assets was \$199,814, resulting in an unfunded actuarial accrued liability (UAAL) of \$410,424. The covered payroll (annual payroll of active employees covered by the plan) was \$1,565,447, and the ratio of the UAAL to the covered payroll was 26.22 percent.

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

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

The following are financial statements for the Town's Separation Allowance included as Fiduciary Funds in the Basic Financial Statements at June 30, 2012:

Statement of Net Assets

Assets	
Cash and cash equivalents	\$ 179,229
Total assets	<u>179,229</u>
Net Assets	
Assets held in trust for pension benefits	179,229
Total net assets	<u>\$ 179,229</u>

Statement of Changes in Net Assets

Additions	
Contributions	\$ 62,200
Interest	507
Total additions	<u>62,707</u>
Deductions	
Benefits paid	33,215
Total deductions	<u>33,215</u>
Net increase	29,492
Net assets reserved for employees' pension benefits	
Beginning of year	149,737
End of year	<u>\$ 179,229</u>

Supplemental Retirement Income Plan for Law Enforcement:

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$100,603, which consisted of \$76,812 from the Town and \$23,791 from the law enforcement officers.

Notes to Financial Statements

Note 10. Other Postemployment Benefits

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

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

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

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

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

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

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

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

The current ARC rate is 5.29% of annual covered payroll. For the current year, the Town contributed \$117,854 or 2.2% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees, and none of the retirees elected to participate in the dependent care coverage benefit. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council.

Notes to Financial Statements

Note 10. Other Postemployment Benefits (Continued)

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

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

Annual required contribution	\$ 265,860
Interest on net OPEB obligation	12,030
Adjustment on annual required contribution	(10,379)
Annual OPEB cost (expense)	<u>267,511</u>
Contributions made	(117,854)
Increase in net OPEB obligation	<u>149,657</u>
Net OPEB obligation, beginning of year	300,746
Net OPEB obligation, end of year	<u><u>\$ 450,403</u></u>

For Year Ended June 30,	Three-Year Trend Information		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$256,214	38.92%	\$ 156,486
2011	255,892	43.62%	300,746
2012	267,511	44.06%	450,403

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

Notes to Financial Statements

Note 10. Other Postemployment Benefits (Continued)

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

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

The following are financial statements for the Other Postemployment Benefits Trust Fund included as Fiduciary Funds in the Basic Financial Statements at June 30, 2012:

Statement of Net Assets

Assets	
Cash and cash equivalents	\$ 152,410
Total assets	<u>152,410</u>
Net Assets	
Assets held in trust for pension benefits	152,410
Total net assets	<u>\$ 152,410</u>

Statement of Changes in Net Assets

Additions	
Contributions	\$ 131,594
Interest	474
Total additions	<u>132,068</u>
Deductions	
Benefits paid	82,406
Total deductions	<u>82,406</u>
Net increase	49,662
Net assets reserved for employees' pension benefits	
Beginning of year	102,748
End of year	<u>\$ 152,410</u>

Note 11. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State.

Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the Town made contributions to the State for death benefits of \$4,743. The contributions to the Death Benefit Plan represented .07 percent and .14 percent of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a participant in two insurance pools administered by the North Carolina League of Municipalities. One pool (IRFFNC) provides coverage for property damage and general liability (including auto and law enforcement officers). Major policies and their limits of coverage include: public officials (\$3 million) and law enforcement liability (\$3 million), vehicle liability (\$2 million), public employee scheduled and blanket bonds (\$250,000), general liability (\$2 million), municipal equipment (\$2,151,617), vehicles (\$5,622,316) and property (\$63,542,423). 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 \$65,400 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.

Notes to Financial Statements

Note 13. Claims, Judgments and Contingent Liabilities

At June 30, 2012, 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.

Note 13. Claims, Judgments and Contingent Liabilities (Continued)

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

Note 14. Jointly Governed Organizations

The Town, in conjunction with seven counties and twenty-eight other municipalities, established the Eastern Carolina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$3,057 to the Council during the fiscal year ended June 30, 2012.

Note 15. Subsequent Events

The Town has been approved by the USDA for a grant of \$4,869,000 and a low-interest loan of \$4,932,000 for construction of water treatment facilities. No draw downs of the loan or grant have occurred as of June 30, 2012. The Town awarded contracts for the construction of the water treatment facilities at the November 13, 2012 town council meeting. The contracts awarded are as follows: Water Treatment Plants 2, 3, and 4, \$5,576,616; Water Treatment Plant 6, \$144,700; and elevated Tank 4, \$1,565,000.

Note 16. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2012 that have effective dates that may affect future financial presentations. Management has not currently determined what, if any, effect implementation of the following statements may have on the financial statement of the Town of Morehead City.

- GASB Statement Number 60, "Service Concession Arrangements" will be effective for the Town beginning with its year ending June 30, 2013.
- GASB Statement Number 61, "The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and 34" will be effective for the Town beginning with its year ending June 30, 2013.
- GASB Statement Number 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" will be effective for the Town beginning with its year ending June 30, 2013.
- GASB Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" will be effective for the Town beginning with its year ending June 30, 2013.
- GASB Statement Number 65, "Items Previously Reported as Assets and Liabilities" will be effective for the Town beginning with its year ending June 30, 2014.

Note 16. Pronouncements Issued, Not Yet Effective

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

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

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

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

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

Town of Morehead City, North Carolina

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

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

Notes to the Required Schedules:

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

Valuation Date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19
Asset valuation method	market value
Actuarial assumptions	
Investment rate of return	5.00%
Projected salary increases	Ranging from 4.25% to 7.85%
*includes inflation at	3.00%
Cost of living adjustments	None

Town of Morehead City, North Carolina

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

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

Town of Morehead City, North Carolina

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

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

Notes to the Required Schedules:

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

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

MAJOR GOVERNMENTAL FUNDS

- **General Fund**
 - **Fire/EMS District Fund**
 - **School Property Acquisition/Improvement Capital Project Fund**
 - **Fire/EMS Station #2 Replacement 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, 2012

With Comparative Actual Amounts for Year Ended June 30, 2011

(Page 1 of 5)

	2012		Variance, with Final Budget	2011
	Final Budget	Actual		Actual
Revenue				
Ad valorem taxes:				
Current year	\$ 5,136,000	\$ 5,272,121	\$ 136,121	\$ 5,046,961
Prior years	42,000	43,109	1,109	47,766
Interest and penalties	16,500	22,029	5,529	27,086
Total ad valorem taxes	5,194,500	5,337,259	142,759	5,121,813
Other taxes:				
Privilege licenses	70,000	68,086	(1,914)	69,755
Motor vehicle lease tax	18,000	24,440	6,440	22,411
Total other taxes	88,000	92,526	4,526	92,166
Unrestricted intergovernmental:				
Local option sales tax	1,552,300	1,671,080	118,780	1,511,872
Franchise tax fees	565,000	519,847	(45,153)	567,237
Beer and wine tax	37,700	37,664	(36)	38,917
Carteret County ABC revenue	110,000	153,690	43,690	126,566
Video programming sales tax	131,300	127,688	(3,612)	140,457
Telecommunications tax	151,000	159,242	8,242	162,712
Piped natural gas tax	16,000	17,553	1,553	17,710
Payment in lieu of taxes	62,500	58,187	(4,313)	67,958
Total unrestricted intergovernmental	2,625,800	2,744,951	119,151	2,633,429
Restricted intergovernmental:				
Powell Bill	246,550	252,306	5,756	249,100
NCDOT bike/pedestrian grant	-	-	-	24,798
DOT sidewalk grants	72,200	-	(72,200)	20,000
School resource officer	60,000	60,686	686	60,673
Governor's highway safety program grant	25,000	21,146	(3,854)	32,810
Bullet proof vest grant	3,000	-	(3,000)	2,250
Controlled substance tax	4,000	3,985	(15)	2,160
Restitution drug funds	-	613	613	585
CAMA-Mitchell Village	-	-	-	8,150
Harbor realignment study grant	600	9,669	9,069	9,363
CAMA	2,000	3,235	1,235	3,145
Court released seized property	-	335	335	-

(Continued)

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)
Year Ended June 30, 2012
With Comparative Actual Amounts for Year Ended June 30, 2011

(Page 2 of 5)

	2012			2011
	Final Budget	Actual	Variance, with Final Budget	Actual
Mosquito control grant	\$ -	\$ 4,910	\$ 4,910	\$ -
Teen Court grant	48,250	49,712	1,462	48,286
Webb Library funding	53,075	53,075	-	53,075
Housing Authority grant	35,000	35,000	-	35,000
FEMA reimbursements	80,000	51,739	(28,261)	-
Miscellaneous police grants	36,000	6,056	(29,944)	625
Total restricted governmental	665,675	552,467	(113,208)	550,020
Permits and fees:				
Building permits and inspection fees	100,000	113,406	13,406	188,340
Planning/Zoning fees and charges	6,000	5,933	(67)	5,288
Recreation development fees	-	-	-	14,000
Franchise fees	-	415	415	-
Total permits and fees	106,000	119,754	13,754	207,628
Sales and services:				
Court cost and fees	4,000	3,597	(403)	4,849
Lot cleaning fees	1,250	1,262	12	384
Cemetery fees	1,000	1,575	575	1,365
Recreation concessions	5,000	5,015	15	5,455
Sale of cemetery lots	5,000	5,550	550	10,575
Mail box rent and mail fees	3,500	3,650	150	3,892
Library fees and charges	7,000	7,947	947	7,818
Leases	48,250	57,281	9,031	49,787
E 911 cost sharing	20,000	23,704	3,704	11,684
Recreation fees and charges	87,200	98,174	10,974	88,913
Total sales and services	182,200	207,755	25,555	184,722
Investment earnings	12,000	14,916	2,916	18,786
Miscellaneous revenue:				
Restricted donations	3,250	3,194	(56)	15,864
Insurance reimbursements/refunds	28,800	52,615	23,815	9,632
Sale of surplus property	-	7,098	7,098	4,887
Miscellaneous	43,235	59,761	16,526	46,695
Total miscellaneous revenue	75,285	122,668	47,383	77,078
Total revenue	8,949,460	9,192,296	242,836	8,885,642

(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, 2012
 With Comparative Actual Amounts for Year Ended June 30, 2011

(Page 3 of 5)

	2012		Variance, with Final Budget	2011
	Final Budget	Actual		Actual
Expenditures				
General government:				
Mayor - town council				
Salaries and benefits		\$ 28,836		\$ 25,299
Other		9,230		3,461
	\$ 41,018	38,066	\$ 2,952	28,760
Administration:				
Salaries, wages and benefits		183,326		187,545
Other		13,521		11,056
	214,086	196,847	17,239	198,601
Finance:				
Salaries, wages and benefits		162,944		171,609
Other		12,005		9,769
	188,524	174,949	13,575	181,378
Central services:				
Employee benefits		72,309		61,636
Professional services		153,920		89,429
Capital outlay		156,514		21,500
Other		243,505		249,855
	775,292	626,248	149,044	422,420
Community projects	63,519	59,012	4,507	55,639
Cemetery, buildings and grounds:				
Salaries, wages and benefits		198,863		252,902
Capital outlay		-		39,102
Other		108,620		73,478
	331,900	307,483	24,417	365,482
Garage:				
Salaries, wages and benefits		27,923		37,671
Other		8,093		8,851
	48,316	36,016	12,300	46,522
Total general government	1,662,655	1,438,620	224,035	1,298,802

(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, 2012
 With Comparative Actual Amounts for Year Ended June 30, 2011

(Page 4 of 5)

	2012		Variance, with Final Budget	2011
	Final Budget	Actual		Actual
Public safety:				
Police:				
Salaries, wages and benefits		\$ 2,505,177		\$ 2,570,147
Capital outlay		186,015		63,423
Other		500,943		371,644
	\$ 3,267,998	3,192,135	\$ 75,863	3,005,214
Inspections:				
Salaries, wages and benefits		373,099		373,103
Other		23,607		24,968
	431,600	396,706	34,894	398,071
Federal drug forfeit funds:				
Other	565	566	(1)	7,671
Total public safety	3,700,163	3,589,407	110,756	3,410,956
Highways and streets:				
Transportation:				
Salaries, wages and benefits		366,247		403,374
Capital outlay		-		21,116
Other		276,202		346,897
	801,500	642,449	159,051	771,387
Powell Bill funds	578,950	168,742	410,208	89,477
Total highways and streets	1,380,450	811,191	569,259	860,864
Recreation:				
Salaries, wages and benefits		283,827		341,541
Capital outlay		6,065		-
Other		145,514		130,175
Total recreation	515,750	435,406	80,344	471,716
Parks:				
Salaries, wages and benefits		98,911		29,777
Capital outlay		9,767		45,117
Other		176,399		162,329
Total parks	319,000	285,077	33,923	237,223

(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, 2012
 With Comparative Actual Amounts for Year Ended June 30, 2011

(Page 5 of 5)

	2012		Variance, with Final Budget	2011
	Final Budget	Actual		Actual
Library:				
Salaries, wages and benefits		\$ 81,833		\$ 76,812
Capital outlay		-		3,000
Other		35,765		33,864
Total library	\$ 209,100	117,598	\$ 91,502	113,676
Debt service:				
Principal retirement		209,149		157,744
Interest fees		293,797		95,034
Total debt service	513,804	502,946	10,858	252,778
Contingency	55,432	-	55,432	-
Total expenditures	8,356,354	7,180,245	1,176,109	6,646,015
Revenue over expenditures	593,106	2,012,051	1,418,945	2,239,627
Other financing sources (uses)				
Fund balance appropriated	971,894	-	(971,894)	-
Transfers out:				
Fire/EMS District Fund	(1,365,000)	(1,365,000)	-	(1,365,000)
Baseball Park Capital Project Fund	(200,000)	(200,000)	-	-
Newport River Public Access Capital Project Fund	-	-	-	(150,000)
Shepard St. Boat Ramp Capital Project fund	-	-	-	(20,000)
Jib Waterfront Access Capital Project Fund	-	-	-	(792,207)
Total other financing uses	(593,106)	(1,565,000)	(971,894)	(2,327,207)
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	447,051	\$ 447,051	(87,580)
Fund balance, beginning		5,028,584		5,116,164
Fund balance, ending		\$ 5,475,635		\$ 5,028,584

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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, 2012
 With Comparative Actual Amounts for Year Ended June 30, 2011

(Page 1 of 2)

	2012			2011
	Budget	Actual	Variance with Final Budget	Actual
Revenue				
Operating revenue				
Restricted - intergovernmental				
Ad valorem taxes	\$ 509,350	\$ 584,303	\$ 74,953	\$ 672,456
Local sales tax	157,000	170,983	13,983	162,454
Federal grants	227,350	198,329	(29,021)	176,828
Charges for services	440,000	449,442	9,442	523,561
Total operating revenue	1,333,700	1,403,057	69,357	1,535,299
Investment earnings	500	6,634	6,134	7,665
Miscellaneous	7,900	9,927	2,027	21,487
Total revenue	1,342,100	1,419,618	77,518	1,564,451
Expenditures				
Public safety:				
Salaries, wages, and benefits		1,729,427		1,729,262
Other		444,499		460,372
Capital outlay		259,760		367,089
	2,656,160	2,433,685	222,475	2,556,723

(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, 2012
With Comparative Actual Amounts for Year Ended June 30, 2011

(Page 2 of 2)

	2012			2011
	Budget	Actual	Variance with Final Budget	Actual
Debt service:				
Principal retirement		\$ 67,764		\$ 65,952
Interest fees		3,292		5,104
	<u>\$ 71,056</u>	<u>71,056</u>	<u>\$ -</u>	<u>71,056</u>
Total expenditures	2,727,216	2,504,741	222,475	2,627,779
Revenue under expenditures	(1,385,116)	(1,085,123)	299,993	(1,063,328)
Other financing sources (uses):				
Fund balance appropriated	-	-	-	-
Issuance of debt	-	-	-	-
Contingency	(31,084)	-	31,084	-
Operating transfer in:				
General fund	1,365,000	1,365,000	-	1,365,000
Operating transfer out:				
Fire/EMS St. #2 Replacement Capital Project Fund	51,200	-	(51,200)	(44,000)
Total other financing sources	1,385,116	1,365,000	(20,116)	1,321,000
Revenue and other financing sources over expenditures	\$ -	279,877	\$ 279,877	257,672
Fund balance, beginning		<u>1,285,032</u>		<u>1,027,360</u>
Fund balance, ending		<u><u>\$ 1,564,909</u></u>		<u><u>\$ 1,285,032</u></u>
Reconciliation:				
Revenues and other financing sources over expenditures, above		\$ 279,877		\$ 257,672
Amortization of prepaid costs reported as prepaid expense on GAAP basis		(13,596)		(13,596)
Revenues and other financing sources over expenditures, GAAP		<u><u>\$ 266,281</u></u>		<u><u>\$ 244,076</u></u>

SCHOOL PROPERTY ACQUISITION/IMPROVEMENT CAPITAL PROJECT FUND

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

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Town of Morehead City, North Carolina
School Property Acquisition/Improvement 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, 2012

	Project Authorization	Actual		Project To Date
		Prior Years	Current Year	
Revenue				
Restricted intergovernmental				
Carteret County	\$ 996,754	\$ 996,753	\$ -	\$ 996,753
Interest revenue	8,923	8,442	738	9,180
Interest revenue, Build America Bonds	33,633	33,633	-	33,633
Miscellaneous revenue-rent	270,900	250,682	22,257	272,939
Total revenue	1,310,210	1,289,510	22,995	1,312,505
Expenditures				
General government		113,598	34,598	148,196
Capital outlay				
General government		1,003,409	-	1,003,409
Public safety		5,846,478	13,445	5,859,923
	7,275,235	6,963,485	48,043	7,011,528
Debt service:				
Principal retirement	5,000,000	5,000,000	-	5,000,000
Interest fees	98,000	96,094	-	96,094
	5,098,000	5,096,094	-	5,096,094
Total expenditures	12,373,235	12,059,579	48,043	12,107,622
Revenue under expenditures	(11,063,025)	(10,770,069)	(25,048)	(10,795,117)
Other financing sources (uses)				
Contingency	(2,700)	-	-	-
Issuance of debt	9,808,000	9,808,000	-	9,808,000
Transfer from General Fund	1,257,725	1,257,725	-	1,257,725
Total other financing sources	11,063,025	11,065,725	-	11,065,725
Revenue and other financing sources over (under) expenditures	\$ -	\$ 295,656	(25,048)	\$ 270,608
Fund balance, beginning			295,656	
Fund balance, ending			\$ 270,608	

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FIRE/EMS STATION #2 REPLACEMENT CAPITAL PROJECT FUND

This fund is used to account for funds accumulated for the acquisition and renovation of property for a Fire/EMS Station #2 replacement.

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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, 2012

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Interest revenue	\$ -	\$ (5,239)	\$ (1,134)	\$ (6,373)
Total revenue	-	(5,239)	(1,134)	(6,373)
Expenditures				
Capital outlay - Fire/EMS St. #2 replacement	2,619,000	1,169,602	879,582	2,049,184
Total expenditures	2,619,000	1,169,602	879,582	2,049,184
Revenue under expenditures	(2,619,000)	(1,174,841)	(880,716)	(2,055,557)
Other financing sources				
Issuance of debt	2,075,000	-	2,075,000	2,075,000
Transfer from Fire/EMS Fund	544,000	544,000	-	544,000
Total other financing sources	2,619,000	544,000	2,075,000	2,619,000
Revenue and other financing sources over (under) expenditures	\$ -	\$ (630,841)	1,194,284	\$ 563,443
Fund balance (deficit), beginning			<u>(630,841)</u>	
Fund balance, ending			<u>\$ 563,443</u>	

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NON-MAJOR GOVERNMENTAL FUNDS

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

- **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.
 - **Shepard St. Boat Ramp Capital Project Fund** – This fund is used to account for funds accumulated for the acquisition of the Shepard Street property.
-

Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2012

With Comparative Totals as of June 30, 2011

	MATS Capital Project Fund	Baseball Park Capital Project Fund	Newport River Water Access Capital Project Fund
Assets:			
Cash and cash equivalents	\$ 45,386	\$ 201,358	\$ 6,393
Total assets	\$ 45,386	\$ 201,358	\$ 6,393
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 2,671	\$ 350
Due to other non-major capital project funds	-	-	-
Due to other major capital project funds	-	-	-
Total liabilities	-	2,671	350
Fund balances (deficits):			
Restricted			
Recreation	-	198,687	6,043
General government	-	-	-
Assigned			
Streets	45,386	-	-
Unassigned	-	-	-
Total fund balances (deficits)	45,386	198,687	6,043
Total liabilities and fund balances (deficits)	\$ 45,386	\$ 201,358	\$ 6,393

Jib Waterfront Access Capital Project Fund	Shepard St. Boat Ramp Capital Project Fund	Totals	
		2012	2011
\$ 52,519	\$ 2,189	\$ 307,845	\$ 195,227
<u>\$ 52,519</u>	<u>\$ 2,189</u>	<u>\$ 307,845</u>	<u>\$ 195,227</u>
\$ 197,629	\$ -	\$ 200,650	\$ 197,818
-	-	-	141,707
-	-	-	488,945
<u>197,629</u>	<u>-</u>	<u>200,650</u>	<u>828,470</u>
-	-	204,730	195,227
-	2,189	2,189	-
-	-	45,386	-
(145,110)	-	(145,110)	(828,470)
<u>(145,110)</u>	<u>2,189</u>	<u>107,195</u>	<u>(633,243)</u>
\$ 52,519	\$ 2,189	\$ 307,845	\$ 195,227

Town of Morehead City, North Carolina

Non-Major Governmental Funds
 Combining Statement of Revenue, Expenditures and
 Changes in Fund Balance (Deficit)
 Year Ended June 30, 2012
 With Comparative Totals For Year Ended June 30, 2011

	MATS Capital Project Fund	Baseball Park Capital Project Fund	Newport River Water Access Capital Project Fund
Revenue			
Restricted intergovernmental	\$ -	\$ -	\$ 100,000
Investment earnings	117	40	(36)
Total revenue	117	40	99,964
Expenditures			
Capital outlay	-	10,363	6,127
Total expenditures	-	10,363	6,127
Revenue over (under) expenditures	117	(10,323)	93,837
Other financing sources (uses)			
Transfers in	-	200,000	-
Total other financing sources (uses)	-	200,000	-
Revenue and other financing sources over (under) expenditures and other financing uses	117	189,677	93,837
Fund balance (deficit), beginning	45,269	9,010	(87,794)
Fund balance (deficit), ending	\$ 45,386	\$ 198,687	\$ 6,043

Jib Waterfront Access Capital Project Fund	Shepard St. Boat Ramp Capital Project Fund	2012 Totals	2011 Totals
\$ -	\$ -	\$ 100,000	\$ -
279	6	406	(1,535)
<u>279</u>	<u>6</u>	<u>100,406</u>	<u>(1,535)</u>
86,525	-	103,015	412,728
<u>86,525</u>	<u>-</u>	<u>103,015</u>	<u>412,728</u>
(86,246)	6	(2,609)	(414,263)
-	-	200,000	856,207
-	-	200,000	856,207
(86,246)	6	197,391	441,944
(58,864)	2,183	(90,196)	(1,075,187)
<u>\$ (145,110)</u>	<u>\$ 2,189</u>	<u>\$ 107,195</u>	<u>\$ (633,243)</u>

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, 2012

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Restricted intergovernmental				
NCDOT Grant	\$ 287,909	\$ 287,909	\$ -	\$ 287,909
Carteret County Grant	35,989	35,989	-	35,989
Interest earnings	4,500	7,552	117	7,669
Total revenue	328,398	331,450	117	331,567
Expenditures				
Trail improvements	914,697	871,965	-	871,965
Total expenditures	914,697	871,965	-	871,965
Revenue over (under) expenditures	(586,299)	(540,515)	117	(540,398)
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	\$ -	\$ 45,269	117	\$ 45,386
Fund balance, beginning			<u>45,269</u>	
Fund balance, ending			<u>\$ 45,386</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, 2012**

	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	33,050	40	33,090
Miscellaneous revenue - donations	264,500	264,500	-	264,500
Total revenue	697,543	697,550	40	697,590
Expenditures				
Baseball park construction	2,608,800	2,399,797	10,363	2,410,160
Total expenditures	2,608,800	2,399,797	10,363	2,410,160
Revenue under expenditures	(1,911,257)	(1,702,247)	(10,323)	(1,712,570)
Other financing sources				
Transfer from General Fund	1,905,000	1,705,000	200,000	1,905,000
Transfer from Mayberry/20th Street	6,257	6,257	-	6,257
Total other financing sources	1,911,257	1,711,257	200,000	1,911,257
Revenue and other financing sources over expenditures	\$ -	\$ 9,010	189,677	\$ 198,687
Fund balance, beginning			9,010	
Fund balance, ending			\$ 198,687	

Town of Morehead City, North Carolina

**Newport River Water Access Capital Project Fund
Schedule of Revenue, Expenditures and
Changes in Fund Balance – Budget and Actual
From Inception and for the Year Ended June 30, 2012**

	Project Authorization	Actual		Project To Date
		Prior Years	Current Year	
Revenue				
Restricted intergovernmental				
CAMA Public Access grant	\$ 600,000	\$ 600,000	\$ -	\$ 600,000
Carteret County Water Access funds	500,000	400,000	100,000	500,000
WAMI grant	1,190,000	1,150,000	-	1,150,000
DENR/DWR Dredging grant	26,500	26,516	-	26,516
NC Marine Resources grant	179,850	-	-	-
Investment earnings	3,800	1,969	(36)	1,933
Total revenue	2,500,150	2,178,485	99,964	2,278,449
Expenditures				
Water access improvements	2,650,150	2,416,279	6,127	2,422,406
Total expenditures	2,650,150	2,416,279	6,127	2,422,406
Revenue under expenditures	(150,000)	(237,794)	93,837	(143,957)
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	\$ -	\$ (87,794)	93,837	\$ 6,043
Fund balance (deficit), beginning			<u>(87,794)</u>	
Fund balance, ending			<u>\$ 6,043</u>	

Town of Morehead City, North Carolina

Jib Waterfront Access Capital Project Fund
 Schedule of Revenue, Expenditures and
 Changes in Fund Balance (Deficit) - Budget and Actual
 From Inception and for the Year Ended June 30, 2012

	Project	Actual		Project
	Authorization	Prior	Current	To Date
		Years	Year	
Revenue				
Restricted intergovernmental				
CAMA grant	\$ 200,000	\$ 200,000	\$ -	\$ 200,000
Division of Water Resources grant	300,000	300,000	-	300,000
Interest revenue	-	(734)	279	(455)
Total revenue	500,000	499,266	279	499,545
Expenditures				
Jib waterfront access expenditures	1,560,000	1,420,501	86,525	1,507,026
Interest expense on interfund loan	10,000	4,836	-	4,836
Total expenditures	1,570,000	1,425,337	86,525	1,511,862
Revenue under expenditures	(1,070,000)	(926,071)	(86,246)	(1,012,317)
Other financing sources (uses)				
Transfer from General Fund	1,070,000	867,207	-	867,207
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)	1,070,000	867,207	-	867,207
Revenue and other financing sources under expenditures	\$ -	\$ (58,864)	(86,246)	\$ (145,110)
Fund balance (deficit), beginning			(58,864)	
Fund balance (deficit), ending			\$ (145,110)	

Town of Morehead City, North Carolina

Shepard St. Boat Ramp Capital Project Fund
 Schedule of Revenue, Expenditures and
 Changes in Fund Balance, Budget and Actual
 From Inception and for the Year Ended June 30, 2012

	Project Authorization	Actual		Project To Date
		Prior Years	Current Year	
Revenue				
Interest revenue	\$ 50	\$ 29	\$ 6	\$ 35
Expenditures				
Capital outlay - Shepard St. boat ramp	1,070,050	1,067,846	-	1,067,846
Total expenditures	1,070,050	1,067,846	-	1,067,846
Revenue(over (under) expenditures	(1,070,000)	(1,067,817)	6	(1,067,811)
Other financing sources				
Issuance of debt	1,050,000	1,050,000	-	1,050,000
Transfer from General Fund	20,000	20,000	-	20,000
Total other financing sources	1,070,000	1,070,000	-	1,070,000
Revenue and other financing sources over expenditures	\$ -	\$ 2,183	6	\$ 2,189
Fund balance, beginning			<u>2,183</u>	
Fund balance, ending			<u>\$ 2,189</u>	

ENTERPRISE FUNDS

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

The Town maintains two enterprise funds.

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

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

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Town of Morehead City, North Carolina

Water and Sewer Fund

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

Year Ended June 30, 2012

With Comparative Actual Amounts For The Year Ended June 30, 2011

(Page 1 of 3)

	2012		Variance with Final Budget	2011
	Budget	Actual		Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 2,300,000	\$ 2,263,122	\$ (36,878)	\$ 2,252,890
Water charges	2,490,000	2,476,309	(13,691)	2,435,873
Tap fees	12,500	19,110	6,610	18,899
Total charges for sales and services	<u>4,802,500</u>	<u>4,758,541</u>	<u>(43,959)</u>	<u>4,707,662</u>
Miscellaneous	296,000	293,251	(2,749)	272,886
Total operating revenue	<u>5,098,500</u>	<u>5,051,792</u>	<u>(46,708)</u>	<u>4,980,548</u>
Operating expenditures				
Cost of sales and services -				
Water, wells and pumping stations:				
Other		116,839		64,665
Repairs and maintenance		101,920		83,625
Total cost of sales and services - water, wells and pumping stations	<u>267,100</u>	<u>218,759</u>	<u>48,341</u>	<u>148,290</u>
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits		727,987		645,904
Other		749,779		730,916
Repairs and maintenance		33,680		38,267
Capital outlay		-		67,793
Total cost of sales and services - water distribution and sewer collection	<u>1,692,925</u>	<u>1,511,446</u>	<u>181,479</u>	<u>1,482,880</u>
Cost of sales and services -				
Lift stations and sewer mains:				
Other		73,866		69,849
Repairs and maintenance		76,535		28,623
Capital outlay		15,600		87,949
Total cost of sales and services - lift stations and sewer mains	<u>184,400</u>	<u>166,001</u>	<u>18,399</u>	<u>186,421</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, 2012

With Comparative Actual Amounts For The Year Ended June 30, 2011

(Page 2 of 3)

	2012		Variance with Final Budget	2011
	Budget	Actual		Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits		\$ 391,364		\$ 406,075
Other		264,826		225,278
Repairs and maintenance		74,083		70,500
Capital outlay		5,075		66,360
Total cost of sales and services - wastewater treatment plant	\$ 806,850	735,348	\$ 71,502	768,213
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits		154,084		153,077
Other		66,454		59,251
Total cost of sales and services - water billing and collection	234,650	220,538	14,112	212,328
Total operating expenditures	3,185,925	2,852,092	333,833	2,798,132
Operating revenue over operating expenditures	1,912,575	2,199,700	287,125	2,182,416
Nonoperating revenue (expenditures)				
Interest revenue	28,075	31,761	3,686	39,680
Restricted intergovernmental	-	48,751	48,751	-
Interest and fiscal charges	(609,470)	(444,630)	164,840	(477,371)
Bond and installment agreement principal payments	(1,409,692)	(1,409,692)	-	(1,321,486)
Total nonoperating expenditures	(1,991,087)	(1,773,810)	217,277	(1,759,177)
Revenue over (under) expenditures	(78,512)	425,890	504,402	423,239

(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, 2012

With Comparative Actual Amounts For The Year Ended June 30, 2011

(Page 3 of 3)

	2012			2011
	Budget	Actual	Variance with Final Budget	Actual
Other financing sources (uses)				
Capital contributions	\$ 56,100	\$ 56,122	\$ 22	\$ 54,017
Interfund loan repayment		-	-	650,000
Transfers in	-	-	-	182,128
Transfers out:				
Water and Sewer Capital Project Funds	(180,000)	(106,125)	73,875	(84,607)
Water/Sewer Extensions Capital Project Fund	-	-	-	(176,500)
Water Treatment Capital Project Fund	(189,000)	(189,000)	-	-
Contingency	(141,913)	-	141,913	-
Fund balance appropriated	533,325	-	(533,325)	-
Total other financing sources (uses)	78,512	(239,003)	(317,515)	625,038
Revenue and other sources over expenditures and other financing uses	\$ -	\$ 186,887	\$ 186,887	\$ 1,048,277

Reconciliation of modified accrual basis to full accrual basis:

Revenue and other financing sources over expenditures and other financing uses	\$ 186,887	\$ 1,048,277
Depreciation	(1,462,806)	(1,360,487)
Note and installment agreement principal payment	1,409,692	1,321,486
Capitalized expenditures included in capital outlay and other expenditures	20,675	172,674
Transfer to Water and Sewer Capital Project Funds	295,125	261,107
Contributed capital from notes receivable	(56,480)	(54,947)
Advance repayment	-	(650,000)
Transfer from Water and Sewer Capital Project Fund	-	(182,128)
Repairs and maintenance expense from capital project funds	(138,093)	(179,946)
Contributed capital assets	-	76,000
Interest expense in capital project funds	(926)	(246)
Intergovernmental revenue from capital projects	522,823	2,299,536
Interest earned from capital project funds	4,069	4,699
Loss on disposal of fixed assets	(33,282)	-
Net other post employment benefit obligation	(21,992)	(24,510)
Net income, full accrual basis	\$ 725,692	\$ 2,731,515

Town of Morehead City, North Carolina
Solid Waste Fund

Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
Year Ended June 30, 2012
With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		Variance, with Final Budget	2011
	Budget	Actual		Actual
Revenue:				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 886,000	\$ 897,145	\$ 11,145	\$ 846,708
Miscellaneous	-	1,363	1,363	14,063
Total operating revenue	886,000	898,508	12,508	860,771
Operating expenditures:				
Contracted Services		725,091		672,942
Salaries, wages and employee benefits		46,177		40,996
Operating		171,735		161,739
Capital outlay		-		104,065
Total operating expenditures	1,011,000	943,003	67,997	979,742
Operating revenue over (under) operating expenditures	(125,000)	(44,495)	80,505	(118,971)
Nonoperating revenue:				
Interest revenue	500	375	(125)	784
Restricted intergovernmental	108,750	109,798	1,048	5,985
Total nonoperating revenue	109,250	110,173	923	6,769
Revenue over (under) expenditures	(15,750)	65,678	81,428	(112,202)
Other financing sources (uses)				
Contingency	(1,800)	-	1,800	-
Fund balance appropriated	17,550	-	(17,550)	-
Total other financing sources	15,750	-	(15,750)	-
Revenue and other financing sources over (under) expenditures	\$ -	\$ 65,678	65,678	\$ (112,202)
Reconciliation of modified accrual basis with full accrual basis:				
Revenue and other financing sources over (under) expenditures		\$ 65,678		\$ (112,202)
Net other postemployment benefit obligation		350		228
Capital outlay		-		104,065
Depreciation		(23,571)		(19,984)
Net income (loss), full accrual basis		\$ 42,457		\$ (27,893)

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, 2012

With Comparative Actual Amounts For The Year Ended June 30, 2011

	2012		Variance, with Final Budget	2011
	Budget	Actual		Actual
Revenue				
Impact fees	\$ 230,000	\$ 62,883	\$ (167,117)	\$ 370,203
Interest	1,000	2,245	1,245	2,019
Total revenue	231,000	65,128	(165,872)	372,222
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(75,000)	(28,937)	46,063	(34,015)
Reserved for future appropriation	(156,000)	-	156,000	-
Total other financing sources (uses)	(231,000)	(28,937)	202,063	(34,015)
Revenue and other financing sources over other financing sources	\$ -	\$ 36,191	\$ 36,191	\$ 338,207

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, 2012

With Comparative Actual Amounts For The Year Ended June 30, 2011

	2012			2011
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Interest	\$ -	\$ (33)	\$ (33)	\$ (33)
Total revenue	-	(33)	(33)	(33)
Expenditures				
Repair and extension	80,000	-	80,000	5,702
Engineering	18,500	18,258	242	-
Improvements	11,500	-	11,500	-
Sewer rehab pilot	25,000	8,875	16,125	31,581
Land purchase	10,000	-	10,000	2,434
Slip lining/I & I reduction	100,000	43,535	56,465	72,730
Well relining repair	40,000	20,061	19,939	-
SCADA/Well control system	50,000	44,333	5,667	11,877
Total expenditures	335,000	135,062	199,938	124,324
Revenue over (under) expenditures	(335,000)	(135,095)	199,905	(124,357)
Other financing sources				
Transfers in:				
Water and sewer fund	180,000	106,125	(73,875)	84,607
Water and Sewer capital reserve fund	75,000	28,937	(46,063)	34,015
Water and sewer rebatable capital reserve fund	80,000	-	(80,000)	5,702
Total other financing sources and (uses)	335,000	135,062	(199,938)	124,324
Revenue and other financing sources under expenditures	\$ -	\$ (33)	\$ (33)	\$ (33)

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, 2012

With Comparative Actual Amounts For The Year Ended June 30, 2011

	2012			2011
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Contributed capital	\$ 5,000	\$ 7,264	\$ 2,264	\$ 3,633
Interest	500	582	82	730
Total revenue	5,500	7,846	2,346	4,363
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(80,000)	-	80,000	(5,702)
Fund balance appropriated	74,500	-	(74,500)	-
Total other financing sources (uses)	(5,500)	-	5,500	(5,702)
Revenue over (under) other financing uses	\$ -	\$ 7,846	\$ 7,846	\$ (1,339)

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, 2012

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
ARRA funds (PWS)-debt forgiveness	\$ 1,500,000	\$ 1,212,757	\$ 173,138	\$ 1,385,895
ARRA funds/USDA-RDA grant	4,869,000	-	-	-
Interest	-	1,140	(462)	678
Total revenue	6,369,000	1,213,897	172,676	1,386,573
Expenditures				
Water treatment improvements	13,100,000	3,175,455	663,980	3,839,435
Total expenditures	13,100,000	3,175,455	663,980	3,839,435
Revenue under expenditures	(6,731,000)	(1,961,558)	(491,304)	(2,452,862)
Other financing sources				
Issuance of debt-ARRA funds (PWS)	1,500,000	1,212,757	173,138	1,385,895
Issuance of debt ARRA funds (USDA-RDA)	4,932,000	-	-	-
Transfer from water/sewer fund	299,000	110,000	189,000	299,000
Total other financing sources	6,731,000	1,322,757	362,138	1,684,895
Revenue and other financing sources under expenditures	\$ -	\$ (638,801)	\$ (129,166)	\$ (767,967)

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, 2012

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
CWMTF Reuse Grant	\$ 81,900	\$ 81,899	\$ -	\$ 81,899
Interest	-	3,823	164	3,987
Total revenue	81,900	85,722	164	85,886
Expenditures				
Water and sewer improvements	338,700	279,165	-	279,165
Total expenditures	338,700	279,165	-	279,165
Revenue over (under) expenditures	(256,800)	(193,443)	164	(193,279)
Other financing sources				
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	256,800	256,800	-	256,800
Revenue and other financing sources over expenditures	\$ -	\$ 63,357	\$ 164	\$ 63,521

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, 2012

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
Rural Center Grant - Vinings	\$ -	\$ -	\$ 40,000	\$ 40,000
Contributed Capital - Radio Island	713,616	713,618	-	713,618
Contributed Capital - SCYC	486,414	486,413	-	486,413
Contributed Capital - Mariners Point	827,795	807,795	20,000	827,795
Contributed Capital - Morgan Street	140,000	140,000	(16,036)	123,964
Contributed Capital - Vinings Apts.	393,587	362,175	(19,962)	342,213
Interest earned	73,709	75,560	1,054	76,614
Total revenue	2,635,121	2,585,561	25,056	2,610,617
Expenditures				
Water and sewer improvements	3,030,528	2,614,910	371,868	2,986,778
Total expenditures	3,030,528	2,614,910	371,868	2,986,778
Revenue under expenditures	(395,407)	(29,349)	(346,812)	(376,161)
Other financing sources (uses)				
Transfer to Water & Sewer	(182,128)	(182,128)	-	(182,128)
Transfers in:				
Water & Sewer Rebatable Capital Reserve	77,297	77,297	-	77,297
Radio Island Capital Project Fund	391,913	391,912	-	391,912
Water & Sewer	176,500	176,500	-	176,500
Reserved for future appropriations	(68,175)	-	-	-
Total other financing sources	395,407	463,581	-	463,581
Revenue and other financing sources over (under) expenditures	\$ -	\$ 434,232	\$ (346,812)	\$ 87,420

Town of Morehead City, North Carolina

WWTP Improvement Capital Project Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2012

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ 16,000	\$ 16,489	\$ (431)	\$ 16,058
Total revenue	16,000	16,489	(431)	16,058
Expenditures				
Water and sewer improvements	15,842,300	15,292,248	546,618	15,838,866
Total expenditures	15,842,300	15,292,248	546,618	15,838,866
Revenue under expenditures	(15,826,300)	(15,275,759)	(547,049)	(15,822,808)
Other financing sources				
Issuance of debt	15,000,000	14,456,702	-	14,456,702
Transfer from Water/Sewer Cap. Res. Fund	675,000	675,000	-	675,000
Transfer from Water/Sewer Fund	162,000	162,000	-	162,000
Contingency	(10,700)	-	-	-
Total other financing sources	15,826,300	15,293,702	-	15,293,702
Revenue and other financing sources over (under) expenditures	\$ -	\$ 17,943	\$ (547,049)	\$ (529,106)

Town of Morehead City, North Carolina

Lift Station Improvements Grant Project Fund
 Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2012

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
Rural Center Grant	\$ 500,000	\$ 208,735	\$ 255,536	\$ 464,271
ARRA funds-debt forgiveness	1,050,000	624,222	-	624,222
Interest	-	(39)	24	(15)
Total revenue	1,550,000	832,918	255,560	1,088,478
Expenditures				
Lift station improvements	2,730,400	1,660,980	63,956	1,724,936
Total expenditures	2,730,400	1,660,980	63,956	1,724,936
Revenue over (under) expenditures	(1,180,400)	(828,062)	191,604	(636,458)
Other financing sources				
Issuance of debt-ARRA funds	1,050,000	624,222	-	624,222
Transfer from water and sewer fund	130,400	50,000	-	50,000
Total other financing sources	1,180,400	674,222	-	674,222
Revenue and other financing sources over (under) expenditures	\$ -	\$ (153,840)	\$ 191,604	\$ 37,764

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, 2012**

Year Ended June 30	Uncollected Balance June 30, 2011	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2012
2011-2012	\$ -	\$ 5,410,905	\$ 5,327,723	\$ 83,182
2010-2011	50,559	(1,041)	42,031	7,487
2009-2010	7,368	(200)	1,564	5,604
2008-2009	9,795	(3,769)	107	5,919
2007-2008	1,756	(47)	(3)	1,712
2006-2007	8,781	94	90	8,785
2005-2006	7,574	(6,570)	-	1,004
2004-2005	1,761	-	104	1,657
2003-2004	186	-	164	22
2002-2003	210	-	-	210
2001-2002	224	-	-	224
2000-2001	236	-	236	-
	<u>\$ 88,450</u>	<u>\$ 5,399,372</u>	<u>\$ 5,372,016</u>	<u>115,806</u>

Less allowance for doubtful accounts

(45,496)

\$ 70,310

Reconciliation with revenues:

Taxes - Ad valorem, General Fund \$ 5,337,259

Net collection adjustments 948

Amounts adjusted for tax discount 55,602

Less penalties and interest collected, net (21,793)

Total collections and credits \$ 5,372,016

Town of Morehead City, North Carolina

**Analysis of Current Tax Levy
For the Year Ended June 30, 2012**

	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	\$ 1,859,748,988	0.29	\$ 5,300,285	\$ 5,126,262	\$ 174,023
Late listing penalties			11,669	11,669	-
Total	1,859,748,988		5,311,954	5,137,931	174,023
Discoveries:					
Current year taxes	40,607,323	0.29	115,731	115,731	-
Prior year taxes	8,541,835	0.22	18,792	18,792	-
Prior year taxes	1,936,226	0.38	7,358	7,358	-
Total	51,085,384		141,881	141,881	-
Abatements					
Current year taxes	13,956,376	0.29	39,776	35,670	4,106
Prior year taxes	814,034	0.22	1,791	1,791	-
Prior year taxes	126,442	0.38	480	480	-
Other adjustments	-		883	883	-
Total	14,896,852		42,930	38,824	4,106
Total property valuation	\$ 1,895,937,520				
Net levy			5,410,905	5,240,988	169,917
Uncollected taxes at June 30, 2012			83,182	59,327	23,855
Current year's taxes collected			<u>\$ 5,327,723</u>	<u>\$ 5,181,661</u>	<u>\$ 146,062</u>
Current levy collection percentage			<u>98.46%</u>	<u>98.87%</u>	<u>85.96%</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	104
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	116
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	120
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	126
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	130

Town of Morehead City, North Carolina

Net Assets By Component
Last Nine Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	2004	2005	2006
Governmental activities:			
Invested in capital assets, net of related debt	\$ 5,343,984	\$ 6,969,774	\$ 7,368,834
Restricted	206,075	59,502	67,442
Unrestricted	3,941,879	4,388,933	5,429,501
Total governmental activities net assets	\$ 9,491,938	\$ 11,418,209	\$ 12,865,777
Business-type activities:			
Invested in capital assets, net of related debt	\$ 16,648,998	\$ 16,859,995	\$ 18,392,723
Unrestricted	5,112,878	5,904,172	5,909,873
Total business-type activities net assets	\$ 21,761,876	\$ 22,764,167	\$ 24,302,596
Primary government:			
Invested in capital assets, net of related debt	\$ 21,992,982	\$ 23,829,769	\$ 25,761,557
Restricted	206,075	59,502	67,442
Unrestricted	9,054,757	10,293,105	11,339,374
Total primary government net assets	\$ 31,253,814	\$ 34,182,376	\$ 37,168,373

GASB Statement No. 34 Implemented in Fiscal Year 2004

2007	2008	2009	2010	2011	2012
\$ 11,334,954	\$ 14,487,313	\$ 20,038,930	\$ 27,397,697	\$ 28,415,541	\$ 28,409,590
17,982	44,853	49,870	49,870	2,604,295	3,084,943
5,995,760	6,110,999	5,319,695	3,541,078	2,902,265	3,262,968
\$ 17,348,696	\$ 20,643,165	\$ 25,408,495	\$ 30,988,645	\$ 33,922,101	\$ 34,757,501
\$ 21,246,564	\$ 22,276,242	\$ 23,703,651	\$ 25,608,344	\$ 27,669,652	\$ 28,868,465
6,272,564	6,784,898	6,663,538	5,696,777	6,339,091	5,908,427
\$ 27,519,128	\$ 29,061,140	\$ 30,367,189	\$ 31,305,121	\$ 34,008,743	\$ 34,776,892
\$ 32,581,518	\$ 36,763,555	\$ 43,742,581	\$ 53,006,041	\$ 56,085,193	\$ 57,278,055
17,982	44,853	49,870	49,870	2,604,295	3,084,943
12,268,324	12,895,897	11,983,233	9,237,855	9,241,356	9,171,395
\$ 44,867,824	\$ 49,704,305	\$ 55,775,684	\$ 62,293,766	\$ 67,930,844	\$ 69,534,393

Town of Morehead City, North Carolina

Changes in Net Assets
Last Nine Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	2004	2005	2006
Expenses:			
Governmental activities:			
General government	\$ 1,069,653	\$ 1,062,169	\$ 1,273,118
Public safety	4,180,633	4,481,960	4,683,022
Highways and streets	807,138	667,372	711,562
Economic and physical development	57,679	10,573	6,505
Cultural and recreation	713,564	702,866	719,270
Library	-	-	-
Interest on long-term debt	82,633	81,946	80,666
Total governmental activities expenses	6,911,300	7,006,886	7,474,143
Business-type activities:			
Water and sewer	2,985,469	2,720,098	3,342,171
Solid waste	754,519	677,425	848,223
Total business-type activities expenses	3,739,988	3,397,523	4,190,394
Total primary government expenses	10,651,288	10,404,409	11,664,537
Program revenue:			
Governmental activities:			
Charges for services			
General government	311,478	315,251	339,861
Public safety	632,978	750,517	681,881
Highways and streets	-	27,390	-
Cultural and recreation	97,952	97,370	91,559
Library	-	-	-
Operating grants and contributions			
General government	1,462	-	-
Public safety	451,368	423,771	468,919
Highways and streets	226,546	476,981	247,417
Cultural and recreation	8,125	115,000	298
Library	-	-	-
Capital grants and contributions			
General government	-	-	-
Public safety	-	-	-
Highways and streets	-	107,360	21,484
Economic and physical development	57,650	10,557	-
Cultural and recreation	314,000	202,300	16,194
Library	-	-	-
Total governmental activities program revenue	2,101,559	2,526,497	1,867,613
Business-type activities:			
Charges for services:			
Water and sewer	2,836,560	3,101,515	3,406,037
Solid waste	681,135	702,697	729,613
Operating grants and contributions	91,867	-	125,663
Capital grants and contributions	2,120,618	461,574	1,243,927
Total business-type activities program revenue	5,730,180	4,265,786	5,505,240
Total primary government program revenue	7,831,739	6,792,283	7,372,853

(Continued)

2007	2008	2009	2010	2011	2012
\$ 1,481,178	\$ 1,500,379	\$ 1,435,315	\$ 1,374,988	\$ 1,439,277	\$ 1,608,076
5,070,021	5,685,970	5,797,619	5,877,638	5,924,665	5,941,696
359,256	913,660	922,125	861,275	960,596	932,790
-	-	-	-	-	-
408,615	935,483	791,320	719,211	1,266,613	1,066,750
-	-	138,631	138,268	141,726	135,880
130,978	92,389	72,241	70,524	208,152	340,508
7,450,048	9,127,881	9,157,251	9,041,904	9,941,029	10,025,700
3,586,411	4,317,521	4,405,690	4,521,842	4,667,772	4,933,504
774,657	798,825	803,220	857,002	895,433	966,224
4,361,068	5,116,346	5,208,910	5,378,844	5,563,205	5,899,728
11,811,116	14,244,227	14,366,161	14,420,748	15,504,234	15,925,428
86,862	63,521	78,207	72,296	144,243	91,956
799,982	720,403	772,663	904,846	816,709	115,574
46,515	10,472	61,406	-	-	-
151,042	118,773	80,794	124,142	103,932	103,211
-	-	31,336	7,759	7,818	7,947
45,615	2,135	33,871	2,381	-	47,863
209,490	269,149	247,953	291,185	180,140	304,801
425,220	337,333	275,479	250,052	249,100	252,306
292,621	55,000	18,979	133,991	-	-
-	-	55,000	53,075	53,075	53,075
-	-	107,028	-	-	-
-	-	53,253	935,555	537,023	179,812
-	-	1,866,084	127,876	-	498,563
-	-	-	-	-	-
277,419	797,500	1,347,082	3,049,718	2,003,391	100,000
-	-	30,806	-	-	-
2,334,766	2,374,286	5,059,941	5,952,876	4,095,431	1,755,108
3,846,383	4,187,986	4,249,027	4,356,093	4,707,662	4,758,541
747,112	757,122	810,719	821,547	846,708	927,927
-	-	-	9,431	5,985	127,767
2,593,703	1,388,956	1,294,674	806,506	2,374,606	522,823
7,187,198	6,334,064	6,354,420	5,993,577	7,934,961	6,337,058
9,521,964	8,708,350	11,414,361	11,946,453	12,030,392	8,092,166

Town of Morehead City, North Carolina

Changes in Net Assets (Continued)
Last Nine Fiscal Years
(accrual basis of accounting)
(Unaudited)

	2004	2005	2006
Net (expense) revenue:			
Governmental activities	(4,809,741)	(4,480,389)	(5,606,530)
Business-type activities	1,990,192	868,263	1,314,846
Total primary government net expense	(2,819,549)	(3,612,126)	(4,291,684)
General revenue and other changes in net assets:			
Governmental activities:			
Taxes:			
Property taxes, levied for general purpose	3,965,340	4,093,114	4,398,749
Local option sales tax	1,409,986	1,456,317	1,586,576
Other taxes	263,264	207,783	238,514
Unrestricted intergovernmental	469,781	544,198	561,558
Investment earnings, unrestricted	39,880	105,248	268,701
Miscellaneous income, unrestricted	-	-	-
Total governmental activities	6,148,251	6,406,660	7,054,098
Business-type activities:			
Investment earnings	90,648	134,028	223,583
Miscellaneous income	-	-	-
Total business-type activities	90,648	134,028	223,583
Total primary government	6,238,899	6,540,688	7,277,681
Changes in net assets:			
Governmental activities	1,338,510	1,926,271	1,447,568
Business-type activities	2,080,840	1,002,291	1,538,429
Total primary government	\$ 3,419,350	\$ 2,928,562	\$ 2,985,997

Note: The Town began to report accrual information when it implemented GASB Statement 34 for the fiscal year ending June 30, 2004

2007	2008	2009	2010	2011	2012
(5,115,282)	(6,753,595)	(4,097,310)	(3,089,028)	(5,845,598)	(8,270,592)
2,826,130	1,217,718	1,145,510	614,733	2,371,756	437,330
(2,289,152)	(5,535,877)	(2,951,800)	(2,474,295)	(3,473,842)	(7,833,262)
4,581,817	5,514,458	5,769,140	5,785,183	5,775,012	5,953,304
1,779,655	1,897,449	1,717,304	1,485,898	1,511,872	1,842,063
277,341	87,954	90,484	255,550	254,620	263,509
819,157	998,888	1,100,858	1,054,303	1,121,557	902,888
372,072	257,686	108,206	36,910	56,951	21,560
1,768,159	1,291,629	76,648	51,334	59,042	122,668
9,598,201	10,048,064	8,862,640	8,669,178	8,779,054	9,105,992
390,402	324,294	160,539	60,010	44,917	36,205
-	-	-	263,189	286,949	294,614
390,402	324,294	160,539	323,199	331,866	330,819
9,988,603	10,372,358	9,023,179	8,992,377	9,110,920	9,436,811
4,482,919	3,294,469	4,765,330	5,580,150	2,933,456	835,400
3,216,532	1,542,012	1,306,049	937,932	2,703,622	768,149
\$ 7,699,451	\$ 4,836,481	\$ 6,071,379	\$ 6,518,082	\$ 5,637,078	\$ 1,603,549

Town of Morehead City, North Carolina

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

	2003	2004	2005	2006
General Fund:				
Reserved	\$ 1,028,373	\$ 1,184,141	\$ 852,185	\$ 1,009,261
Unreserved	2,535,868	2,711,541	3,714,260	4,189,048
Total General Fund	\$ 3,564,241	\$ 3,895,682	\$ 4,566,445	\$ 5,198,309
All Other Governmental Funds:				
Reserved	\$ 183,670	\$ 343,467	\$ 635,137	\$ 855,428
Unreserved, reported in:				
Special revenue funds	(455,771)	268,446	(58,476)	529,141
Capital projects funds	256,344	(135,250)	(348,065)	413,970
Total all other government funds	\$ (15,757)	\$ 476,663	\$ 228,596	\$ 1,798,539

Fiscal Year				
	2007	2008	2009	2010
\$	1,369,881	\$ 1,295,931	\$ 1,058,644	\$ 1,356,068
	3,976,579	3,036,393	3,297,549	3,760,096
\$	5,346,460	\$ 4,332,324	\$ 4,356,193	\$ 5,116,164
\$	536,360	\$ 424,139	\$ 338,140	\$ 4,525,157
	49,027	433,635	849,191	63,131
	633,262	1,255,086	225,666	(2,253,538)
\$	1,218,649	\$ 2,112,860	\$ 1,412,997	\$ 2,334,750

Town of Morehead City, North Carolina

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

	Fiscal Year	
	2012	2011
General Fund:		
Non Spendable	\$ 3,506	\$ 5,704
Restricted	1,306,003	1,396,236
Committed	131,979	131,979
Assigned	955,600	743,829
Unassigned	3,078,547	2,750,836
Total General Fund	\$ 5,475,635	\$ 5,028,584
All Other Governmental Funds:		
Non Spendable	\$ 7,189	\$ 20,785
Restricted	1,723,400	1,208,059
Assigned	927,864	434,965
Unassigned	(145,110)	(783,374)
Total all other Governmental funds	\$ 2,513,343	\$ 880,435

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

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Town of Morehead City, North Carolina

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

	2003	2004	2005	2006
Revenue:				
Taxes	\$ 3,411,953	\$ 3,966,227	\$ 4,110,172	\$ 4,395,523
Other taxes and licenses	1,405,621	1,673,250	1,664,100	1,825,090
Intergovernmental	1,558,080	1,641,693	1,885,328	1,340,960
Permits and fees	341,470	455,714	498,911	419,236
Sales and services	370,278	430,637	455,927	527,171
Investment earnings	57,815	39,880	105,248	268,701
Miscellaneous	196,810	248,916	286,031	177,799
Total revenue	7,342,027	8,456,317	9,005,717	8,954,480
Expenditures:				
General government	1,024,755	1,104,425	1,059,147	1,195,511
Public safety	3,794,752	4,020,739	4,227,291	4,370,515
Highway and streets	881,417	789,368	686,881	707,944
Culture and recreation	404,970	1,445,323	524,676	568,144
Economic and physical development	31,781	57,679	10,573	(52)
Capital outlay	1,299,427	309,916	1,698,594	1,064,919
Debt service:				
Interest	102,476	89,151	86,257	76,668
Principal	208,868	200,855	289,602	388,603
Total expenditures	7,748,446	8,017,456	8,583,021	8,372,252
Excess of revenue (under) expenditures	(406,419)	438,861	422,696	582,228
Other financing sources (uses):				
Transfers in	1,014,112	1,443,388	1,270,354	1,117,104
Transfers out	(1,014,112)	(1,443,388)	(1,270,354)	(1,117,104)
Debt issued	-	385,000	-	1,619,579
Total other financing sources	-	385,000	-	1,619,579
Net changes in fund balance	\$ (406,419)	\$ 823,861	\$ 422,696	\$ 2,201,807
Debt service as a percentage of noncapital expenditures	4.83%	3.76%	5.46%	6.37%

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 4,583,518	\$ 5,510,995	\$ 5,766,103	\$ 5,752,282	\$ 5,794,269	\$ 5,921,562
277,341	87,954	285,374	255,550	254,620	263,509
3,498,663	4,115,879	3,674,288	4,609,859	5,594,738	3,595,747
497,046	296,788	250,492	130,440	207,628	119,754
538,688	566,135	680,616	683,340	708,283	657,197
372,072	257,686	108,206	37,179	56,951	21,560
1,872,278	380,096	193,977	155,857	165,862	154,852
11,639,606	11,215,533	10,959,056	11,624,507	12,782,351	10,734,181
1,364,735	1,493,602	1,302,666	1,118,017	1,272,341	1,316,704
4,709,486	5,368,924	5,518,315	5,618,063	5,550,763	5,603,595
775,807	814,348	771,565	715,181	839,748	811,191
649,516	813,027	757,067	645,897	774,498	822,249
-	-	-	-	-	-
3,898,300	2,617,912	2,669,623	7,587,018	5,274,968	1,601,481
123,669	97,371	79,404	61,200	196,232	297,089
549,832	460,274	536,410	247,407	5,223,696	276,913
12,071,345	11,665,458	11,635,050	15,992,783	19,132,246	10,729,222
(431,739)	(449,925)	(675,994)	(4,368,276)	(6,349,895)	4,959
3,068,632	2,270,721	1,831,074	2,088,594	2,371,207	1,565,000
(3,068,632)	(2,270,721)	(1,831,074)	(2,088,594)	(2,371,207)	(1,565,000)
-	330,000	-	6,050,000	4,808,000	2,075,000
-	330,000	-	6,050,000	4,808,000	2,075,000
\$ (431,739)	\$ (119,925)	\$ (675,994)	\$ 1,681,724	\$ (1,541,895)	\$ 2,079,959
8.24%	6.16%	5.59%	3.67%	38.10%	6.29%

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
2003	\$ 760,124,717	\$ 118,676,409	\$ 20,803,084	\$ 899,604,210	0.0038	\$ 947,778,852	94.04%
2004	792,471,863	128,599,744	21,544,709	942,616,316	0.0038	1,007,334,137	92.45%
2005	825,520,131	129,298,376	22,437,019	977,255,526	0.0038	1,104,771,797	86.62%
2006	891,984,091	152,464,411	19,185,995	1,063,634,497	0.0038	1,318,306,906	77.79%
2007	922,463,052	155,794,591	20,134,240	1,098,391,883	0.0038	1,715,353,314	60.44%
2008	1,989,594,948	100,680,174	29,112,844	2,119,387,966	0.0022	2,119,387,966	100.00%
2009	2,120,625,716	175,944,310	30,386,490	2,326,956,516	0.0022	2,506,054,275	98.40%
2010	2,122,207,558	179,711,084	32,984,193	2,334,902,815	0.0022	2,096,590,115	112.65%
2011	2,129,549,437	177,889,405	31,869,633	2,339,308,475	0.0022	2,382,103,664	98.03%
2012	1,681,511,072	184,162,834	30,263,614	1,895,937,520	0.00285	1,895,937,520	100.00%

Source: Carteret County Tax Scrolls

Notes:

- 1 The North Carolina General Statutes require a revaluation of real property at least every eight years. Real property is valued at 100% of estimated value as of the date of the latest revaluation. The last revaluation was effective for the fiscal year ending June 30, 2012.
- 2 Personal property is valued at 100% of estimated value.
- 3 Public service property is generally valued at 100% of estimated value. It may be valued at less than 100% in years in which the County's sales to assessment ratio on real property is less than 80%.
- 4 The Town bills and collects property taxes for real, public service, nonregistered motor vehicles, and personal property. Carteret County bills and collects property taxes for registered motor vehicles on behalf of the Town. The values reported above include property taxes billed and collected by the Town and County.

* Excludes tax exempt property

Includes registered motor vehicles billed and collected by Carteret County

Town of Morehead City, North Carolina

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

Fiscal Year Ending <u>June 30,</u>	Direct Rate Morehead <u>City</u>	Overlapping Rate Carteret <u>County</u>
2003	0.380	0.420
2004	0.380	0.420
2005	0.380	0.420
2006	0.380	0.420
2007	0.380	0.440
2008	0.220	0.230
2009	0.220	0.230
2010	0.220	0.230
2011	0.220	0.230
2012	0.285	0.300

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, 2012			Fiscal Year Ending June 30, 2003		
	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	\$ 21,272,864	1	1.12			
USPG Portfolio Two LLC	15,079,895	2	0.80			
Progress Energy Carolinas	14,061,554	3	0.74			
Morehead Plaza LLC ETAL	13,099,338	4	0.69			
Old Towne Yacht Club Inc	11,037,348	5	0.58			
Wal Mart Real Est Business Trust	10,936,264	6	0.58	11,815,748	1	1.31
Southstar Holding MHC LLC ETAL	10,151,061	7	0.54	8,424,749	4	0.94
Radio Island Marina Club Inc	8,846,000	8	0.47			
Carolina Telephone	8,669,236	9	0.46	9,112,249	3	1.01
Shores Development Inc.	7,954,567	10	0.42			
Glimcher Properties LTD				10,807,944	2	1.20
Carolina Power & Light Co				8,338,717	5	0.93
Harborview Enterprises Inc				7,048,000	6	0.78
Maritime Hotel LTD Partnership				5,162,835	7	0.57
Alber Investments Inc.				5,040,983	8	0.56
Bally Refrigerated Boxes Inc.				4,325,670	9	0.48
Carteret Investment Associates				4,277,833	10	0.48
	<u>\$ 121,108,127</u>		<u>6.40</u>	<u>\$ 74,354,728</u>		<u>8.26</u>

NOTES:

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

Town of Morehead City, North Carolina

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 3,224,010	\$ 3,202,279	99.33%	\$ 21,272	\$ 3,223,551	99.99%
2004	3,377,760	3,358,402	99.43%	18,766	3,377,168	99.98%
2005	3,508,734	3,496,785	99.66%	10,282	3,507,067	99.95%
2006	3,814,505	3,802,159	99.68%	11,332	3,813,491	99.97%
2007	3,925,936	3,914,535	99.71%	9,752	3,924,287	99.96%
2008	4,671,447	4,647,776	99.49%	17,644	4,665,420	99.87%
2009	4,986,367	4,956,797	99.41%	19,188	4,975,985	99.79%
2010	5,014,647	4,970,086	99.11%	40,107	5,010,193	99.91%
2011	5,015,615	4,982,951	99.35%	28,987	5,011,938	99.93%
2012	5,240,988	5,181,661	98.87%	-	5,181,661	98.87%

Source: Town of Morehead City tax reports.

Note: Excludes motor vehicle taxes

Town of Morehead City, North Carolina

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Installment Contracts	Notes Payable	Capital Leases
2003	\$ -	\$ 1,770,588	\$ -	\$ -
2004	-	1,954,733	-	-
2005	-	1,665,131	-	-
2006	-	2,488,222	377,000	30,885
2007	-	1,954,749	370,412	21,245
2008	-	1,841,615	363,553	10,965
2009	-	1,323,313	356,411	-
2010	-	7,133,343	348,974	-
2011	-	6,725,391	341,230	-
2012	-	8,531,541	333,167	-

Note: Details regarding the Town's outstanding debt may be found in the notes to the financial statements

N/A Not Available

Business-Type Activities							
General Obligation Bonds	Installment Contracts	Notes Payable	Total Primary Government	Population Estimate	Total Debt Per Capita	Total debt as Percentage of Personal Income	
\$ -	\$ 5,365,324	\$ 1,932,194	\$ 9,068,106	7,731	\$ 1,173	0.54%	
-	4,983,032	2,865,693	9,803,458	7,825	1,253	0.54%	
-	4,569,789	2,861,088	9,096,008	8,092	1,124	0.47%	
-	3,294,514	2,726,088	8,916,709	8,209	1,086	0.44%	
-	2,951,334	5,283,522	10,581,262	8,390	1,261	0.49%	
-	2,593,358	13,811,891	18,621,382	8,691	2,143	0.78%	
-	3,858,590	16,667,915	22,206,229	8,763	2,534	0.90%	
-	2,341,124	16,774,299	26,597,740	8,830	3,012	1.03%	
-	1,987,380	17,188,307	26,242,308	8,693	3,019	N/A	
-	1,620,429	16,318,704	26,803,841	8,810	3,042	N/A	

Town of Morehead City, North Carolina

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

Fiscal Year	General Bonded Debt Outstanding	Estimated Actual Taxable Value	Percentage of Actual Taxable Value of Property	Population Estimate	Total debt Per Capita
2003	\$ -	\$ 947,778,852	0.00%	7,731	\$ -
2004	-	1,007,334,137	0.00%	7,825	-
2005	-	1,104,771,797	0.00%	8,092	-
2006	-	1,318,306,906	0.00%	8,209	-
2007	-	1,715,353,314	0.00%	8,390	-
2008	-	2,119,387,966	0.00%	8,691	-
2009	-	2,506,054,275	0.00%	8,763	-
2010	-	2,096,590,115	0.00%	8,830	-
2011	-	2,382,103,664	0.00%	8,693	-
2012	-	1,895,937,520	0.00%	8,810	-

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, 2012
(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	\$ 49,760,000	15.52%	\$ 7,722,752
Subtotal, overlapping debt	<u>\$ 49,760,000</u>		<u>7,722,752</u>
Town direct debt	-	100.00%	-
Total direct and overlapping debt			<u><u>\$ 7,722,752</u></u>

Notes:

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

Town of Morehead City, North Carolina

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

	2003	2004	2005	2006
Debt limit	\$ 71,968,337	\$ 75,409,305	\$ 76,180,442	\$ 85,090,760
Total net debt applicable to limit	-	-	-	-
Legal debt margin	<u>\$ 71,968,337</u>	<u>\$ 75,409,305</u>	<u>\$ 76,180,442</u>	<u>\$ 85,090,760</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%

Legal Debt Margin Calculation for Fiscal Year 2012

Total assessed valuation	\$ 1,895,937,520
Debt limit (8% of assessed value)	<u>151,675,002</u>
Legal debt margin	<u>\$ 151,675,002</u>

2007	2008	2009	2010	2011	2012
\$ 87,871,351	\$ 176,350,885	\$ 186,156,521	\$ 186,792,225	\$ 187,144,678	\$ 151,675,002
-	-	-	-	-	-
\$ 87,871,351	\$ 176,350,885	\$ 186,156,521	\$ 186,792,225	\$ 187,144,678	\$ 151,675,002
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Town of Morehead City, North Carolina

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

Fiscal Year Ending June 30,	Population (1)	Median Age (1)	Carteret County Public School Enrollment (2)	Unemployment Rate (3)	Per Capita Personal Income (4)	Personal Income (4)
2003	7,731	44.08	8,126	6.2%	\$ 27,642	\$ 1,685,144
2004	7,825	44.64	8,181	5.4%	29,177	1,803,484
2005	8,092	45.19	8,237	5.0%	30,961	1,945,862
2006	8,209	N/A	8,056	4.6%	32,086	2,029,585
2007	8,390	N/A	8,185	4.5%	34,241	2,162,444
2008	8,691	N/A	8,371	4.3%	37,796	2,401,852
2009	8,763	N/A	8,295	7.4%	38,455	2,477,362
2010	8,830	N/A	8,353	8.4%	38,728	2,583,758
2011	8,693	N/A	8,491	8.5%	N/A	N/A
2012	8,810	N/A	8,540	9.3%	N/A	N/A

Notes:

- 1 Population and median age provided by NC Office of Planning-State Demographer
 - 2 Public school enrollment provided by the Carteret County Board of Education
 - 3 Unemployment provided by the NC Employment Security Commission
 - 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
(Unaudited)**

Employer	2012		
	Employees	Rank	Percentage of Total City Employment
Carteret County Board of Education	>1000	1	N/A
Carteret General Hospital	500-999	2	N/A
Carteret County	250-499	3	N/A
Wal-mart Associates, Inc.	250-499	3	N/A
Carteret Community College	250-499	3	N/A
Lowes Home Centers, Inc.	250-499	3	N/A
N C Dept. of Environment and Natural R	250-499	3	N/A
Food Lion, LLC	250-499	3	N/A
Big Rock Sports, LLC	250-499	3	N/A
McDonalds	100-249	3	N/A

Notes:

- 1 Information for number of employees only available in ranges.
- 2 Source of information is Employment Security Commission of North Carolina.
- 3 N/A = Information not available.

Town of Morehead City, North Carolina

**Full-Time Equivalent Town Government Employees By Functions/Programs
Last Ten Fiscal Years
(Unaudited)**

FUNCTION	Full-Time Equivalent Employees as of June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Government:										
Administration	5	5	5	4	4	4	4	4	4	4
Finance	6	6	6	6	6	6	6	6	6	6
Building & Grounds	5	7	7	7	8	6	6	6	5	5
Garage	2	1	1	1	1	1	1	1	1	1
Public Safety:										
Police	45	45	53	51	51	48	48	47	48	46
Fire/EMS	34	34	34	33	33	27	21	21	20	20
Planning & Inspections	6	6	7	7	7	7	7	6	5	5
Transportation:										
Streets	9	9	9	10	10	9	9	9	9	9
Recreation & Culture:										
Recreation	6	8	8	8	8	7	7	7	7	7
Parks	3	1	1	1	0	0	0	0	0	0
Library	4	4	4	4	4	4	2	2	2	0
Water & Sewer:										
Billing & collections	4	4	4	4	4	4	3	3	3	3
Water Distbr. & sewer collect.	15	15	14	14	14	14	13	13	13	13
Wastewater treatment	7	7	7	6	6	5	5	5	5	5
Solid Waste:										
Operations	1	1	1	1	1	1	1	1	1	1
TOTAL	152	153	161	157	157	143	133	131	129	125

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Town of Morehead City, North Carolina

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

Function/Program	Calendar Year			
	2003	2004	2005	2006
Function/Program				
Public Safety				
Police calls dispatched ##	65,118	60,180	92,714	97,205
Number of building permits issued ##	825	852	1,030	1,137
Construction value of building permits issued ##	\$ 44,094,957	\$ 60,409,802	\$ 63,685,536	\$ 85,272,028
Fire/EMS area served in square miles ##	12.25	12.25	12.47	12.51
Fire calls answered ##	625	786	855	1,156
EMS calls answered ##	1,851	1,835	1,979	2,378
Highways and Streets				
Miles of streets maintained **	41.83	43.28	43.30	44.11
Water/Sewer				
Number of customers served **	4,493	4,674	4,588	5,052
Daily avg. gallons water consumption ##	1,151,000	1,257,900	1,301,000	1,284,000
Daily avg. gallons waste water treated ##	1,117,000	1,827,000	1,544,903	1,358,846
Sanitation				
Solid waste collected annually (tons) **	3,049	3,395	3,565	3,611
Recyclables collected annually (tons) **	314	301	325	366

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

	2007	2008	2009	2010	2011	2012
	98,801	96,127	98,291	84,586	81,015	72,351
	1,000	953	890	813	943	1,050
\$	\$ 94,425,714	\$ 48,035,938	\$ 27,011,019	\$ 25,341,471	\$ 24,851,031	\$ 38,126,292
	14.17	N/A	14.20	14.20	14.20	15.73
	814	772	807	727	966	1,015
	1,433	1,619	1,665	1,893	1,801	2,058
	44.11	47.15	49.38	49.56	49.82	49.82
	5,218	5,299	5,322	5,299	5,323	5,375
	1,289,000	1,254,000	1,212,000	1,244,000	1,209,000	1,208,000
	1,416,000	1,321,000	1,156,000	1,329,000	1,199,000	1,169,000
	3,733	3,392	3,293	3,246	3,235	3,204
	321	369	434	398	397	398

Town of Morehead City, North Carolina

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

Function/Program	Calendar Year			
	2003	2004	2005	2006
General Government				
Number of cemeteries	3	3	3	3
Public Safety				
Number of police stations/substations	4	4	4	4
Number of patrol units	45	44	46	44
Number of Fire/EMS stations	2	2	2	2
Number of engines	5	5	3	4
Number of ambulances	2	2	2	3
Highways and Streets				
Miles of streets	41.83	43.28	43.30	44.11
Culture and Recreation				
Number of parks	8	9	9	9
Number of public water accesses	5	7	7	10
Park acreage	70.5	87.0	87.0	87
Tennis and multipurpose courts	6	8	8	8
Playgrounds	4	4	4	4
Ballfields	2	9	9	9
Number of libraries	0	1	1	1
Water/Sewer				
Miles of water mains	68.00	70.00	70.00	71.00
Miles of sanitary sewers	72.00	73.10	73.10	73.80
Number of water treatment plants	0	0	0	0
Number of treatment plants	1	1	2	2
Sanitation				
Number of yard waste trucks	1	1	2	2

Notes:

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

2007	2008	2009	2010	2011	2012
3	3	3	3	3	3
3	3	3	4	4	4
44	44	44	52	52	50
3	4	4	4	4	4
5	6	5	5	5	5
3	3	3	3	3	4
44.11	47.15	49.38	49.56	49.82	49.82
10	13	13	16	16	16
9	19	19	22	22	22
87	74	74	76	76	76
8	7	7	7	7	7
4	4	4	4	4	5
9	8	10	11	11	11
1	1	1	1	1	1
76.00	78.82	82.04	83.25	83.25	83.25
74.00	76.95	79.14	79.50	79.50	79.50
0	0	0	0	0	1
2	2	2	2	2	2
2	2	2	2	2	2

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COMPLIANCE SECTION

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

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**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 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, 2012, which collectively comprise Town of Morehead City's basic financial statements, and have issued our report thereon dated November 21, 2012. 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.

Internal Control Over Financial Reporting

Management of Town of Morehead City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Morehead City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Morehead City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Morehead City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, federal and State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Morehead City, North Carolina
November 21, 2012



**Independent Auditor's Report on Compliance
With Requirements That Could Have a Direct and Material
Effect on Each Major Federal Program and on Internal
Control Over Compliance in Accordance With
OMB Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited the compliance of Town of Morehead City, North Carolina, with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on Town of Morehead City's major federal programs for the year ended June 30, 2012. Town of Morehead City's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of Morehead City's management. Our responsibility is to express an opinion on Town of Morehead City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133 and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Town of Morehead City's compliance with those requirements.

In our opinion, Town of Morehead City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, federal awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Morehead City, North Carolina
November 21, 2012



**Independent Auditor's Report on Compliance
With Requirements That Could Have a Direct and Material Effect
on Each Major State Program and on Internal Control
Over Compliance in Accordance With Applicable Sections
of OMB Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited the compliance of Town of Morehead City, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2012. Town of Morehead City's major State programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Town of Morehead City's management. Our responsibility is to express an opinion on Town of Morehead City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Town of Morehead City's compliance with those requirements.

In our opinion, Town of Morehead City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Town of Morehead City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Morehead City, North Carolina
November 21, 2012

Town of Morehead City, North Carolina

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Section 1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted

_____ yes X no

Federal Awards

Internal control over major Federal programs:

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

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

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

_____ yes X no

Identification of major Federal programs:

CFDA #	Program Name
10.780	USDA Community Facilities Loans and Grants (Community Programs) - ARRA
10.781	USDA Water and Waste Disposal Systems for Rural Communities - ARRA
66.468	Capitalization Grants for Drinking Water State Revolving Loan Fund

(Continued)

Town of Morehead City, North Carolina

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2012

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

Auditee qualified as low-risk auditee? Yes

State Awards

Internal control over major State programs:

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

Type of auditor's report issued on compliance for major State programs: Unqualified

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

Identification of Major State Programs:
Non-State System Street-Aid Allocation (Powell Bill)
NC Rural Economic Development Center Lift Station Rehab Grant

Section 2. Financial Statement Findings

None

Section 3. Findings and Questioned Costs For Federal Awards

None

Section 4. Findings and Questioned Costs For State Awards

None.

Town of Morehead City, North Carolina

Corrective Action Plan
For the Year Ended June 30, 2012

Section 2. Financial Statement Findings

No corrective action plan is required in the current year.

Section 3. Findings and Questioned Costs for Federal Awards

No corrective action plan is required in the current year.

Section 4. Findings and Questioned Costs for State Awards

No corrective action plan is required in the current year.

Town of Morehead City, North Carolina

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2012

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

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2012

Page 1 of 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
Federal Awards:					
US Department of Housing and Urban Development Pass through East Carolina Regional Housing Authority Public Housing Drug Elimination Program	14.854		\$ 35,000	\$ -	\$ -
US Department of Justice Equitable Sharing Program Pass through Carteret County Board of Education: School Resource Officer Total US Department of Justice	16.922 16.594	 N/A	 566 60,686	 - -	 - -
US Department of Agriculture Direct Programs: USDA Water and Waste Disposal Systems for Rural Communities - ARRA (Water Treatment Plants) USDA Community Facilities Loans and Grants (Community Programs)- ARRA Total US Department of Agriculture	10.781 10.780	N/A N/A	M 464,161 M 879,582	- -	11,525 -
US Department of Transportation Pass-through NC Department of Transportation Comprehensive Bicycle/Pedestrian Safety Belt Performance Grants Total US Department of Transportation	20.205 20.609	NA NA	2,201 26,530	- -	- 21,368
Environmental Protection Agency Pass through: NC Department of Environment and Natural Resources - Division of Water Quality Clean Water State Revolving Loan Fund ARRA Drinking State Revolving Loan Fund Total Environmental Protection Agency	66.458 66.468		434,638 140,645	108,660 -	3,320 47,648
			575,283	108,660	50,968

(Continued)

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards (Continued)
For the Fiscal Year Ended June 30, 2012

Page 2 of 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
Federal Awards (Continued):					
US Department of Homeland Security					
Pass through Dept of Crime Control and Public Safety					
Port Security Grant	97.056		\$ 38,801	\$ -	\$ 1,123
Disaster Assistance Grant (FEMA)	97.036		173,448	57,816	44,312
Mobile Ambulance Grant	97.067		179,825	-	-
Total US Department of Homeland Security			<u>392,074</u>	<u>57,816</u>	<u>45,435</u>
State Awards:					
NC Rural Economic Development Center					
Lift Station Rehab Grant		N/A	M	-	140,008
NC Department of Environment and Natural Resources					
Division of Marine Fisheries					
Pier Design		N/A		-	6,126
Division of Environmental Assistance					
Mosquito Control Grant		N/A		-	4,910
Community Waste Reduction Grant		N/A		-	5,541
Total NC Department of Environment and Natural Resources				<u>-</u>	<u>16,577</u>
NC Department of Transportation					
Small Construction Agreement		N/A		-	19,268
Nonstate System Street Aid Allocation		N/A	M	-	238,008
Total NC Department of Transportation				<u>-</u>	<u>257,276</u>
NC Department of Health and Human Services					
Division of Child Development					
Pass through Carteret County:					
Teen Court Grant		N/A		-	49,712
Total federal expenditures				<u>\$ 2,436,083</u>	
Total state expenditures					<u>\$ 630,049</u>
Total local expenditures					<u>\$ 134,711</u>

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

Town of Morehead City, North Carolina

Notes to the Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2012

Note 1. Basis of Presentation

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

Note 2. Loans Outstanding

The Town of Morehead City has outstanding loan balances from federal and State funding sources that are not required to be presented within the schedule of expenditures of federal and State Awards because there are no continuing requirements beyond the repayment of the loan balances in accordance with loan agreement provisions. The outstanding balances of the Safe Drinking Water Revolving Loan Fund, the Drinking Water Bond, the Clean Water Revolving Loan Fund, and the Clean Water State Revolving Loan Fund at June 30, 2012 were \$935,000, \$656,386, \$650,000 and \$12,206,702, respectively. The outstanding balances of the USDA train depot loan, the 911 Building loan, and Fire/EMS Station #2 at June 30, 2012 were \$333,167, \$4,756,914, and \$2,075,000, respectively.

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