

**TOWN OF NEWPORT
NORTH CAROLINA**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

MAYOR

Dennis Barber

TOWN COUNCIL MEMBERS

Jeanne Benedict

Mark Eadie

Danny Fornes

Rhonda Shinn

TOWN MANAGER

William Shanahan, Jr.

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TOWN OF NEWPORT, NORTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2020

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Newport, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Newport, North Carolina, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and the Fire and Rescue District Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Local Governmental Employees' Retirement System Schedules of the Town's Proportionate Share of Net Pension Liability (Asset) and Town Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Change in Total Pension Liability and Total Pension Liability as a Percentage of Covered Employee Payroll be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Newport, North Carolina's basic financial statements. The budget and actual schedules and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget and actual schedules and supplemental ad valorem tax schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget and actual schedules and supplemental ad valorem tax schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2023 on our consideration of the Town of Newport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Newport's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Newport's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
April 25, 2023

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Management's Discussion and Analysis

As management of the Town of Newport, we offer readers of the Town of Newport's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020, with comparisons to the prior year, where appropriate. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

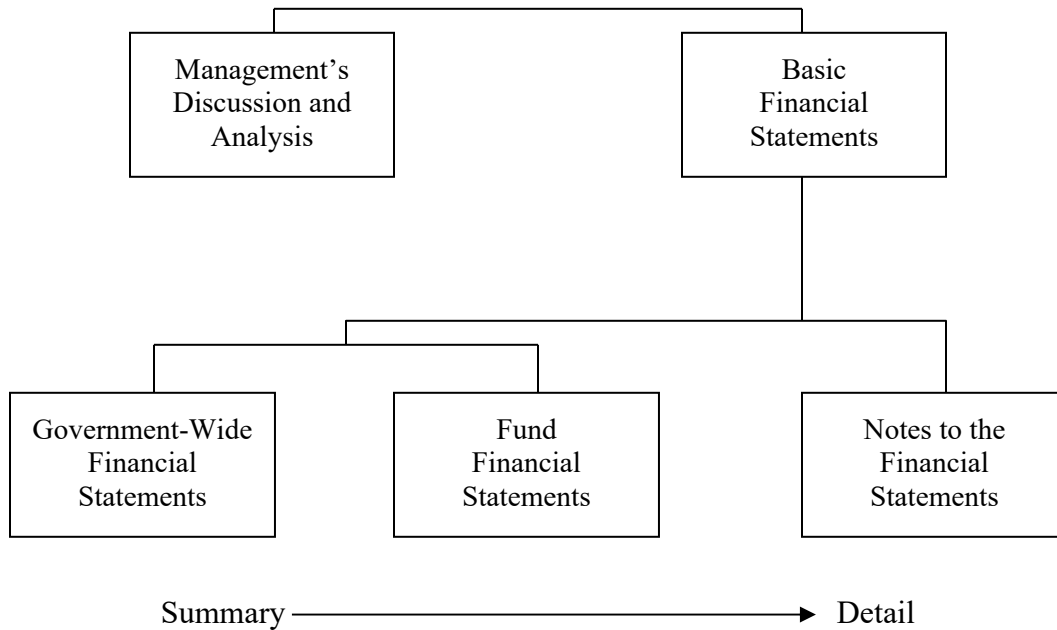
- The Town of Newport's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$8,943,982 (net position).
- The Town's total net position increased by \$1,779,596 with 46% of the increase coming from governmental activities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,453,524 with a net increase of \$596,439 in fund balance. Approximately 36% of this total amount, or \$878,566, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,458,148, or 51%, of total General Fund expenditures and transfers to other funds for the year, less long-term debt issued.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Newport's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Newport.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through I) are **fund financial statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, cultural and recreation, public works, and general government. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Newport. The final category is the component unit. In accordance with the Governmental Accounting Standards Board criteria for inclusion in the reporting entity, the Town of Newport has no component units that must be included in this report.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Newport adopts an annual budget for its General Fund and the Fire and Rescue District Special Revenue Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund and the Fire and Rescue District Special Revenue Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The Town of Newport maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer operations. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town does not have any fiduciary funds.

Notes to the 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 financial statements can be found after Exhibit I of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Newport's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 56 of this report.

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

Government-Wide Financial Analysis

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial condition. The Town's assets and deferred outflows exceeded liabilities and deferred inflows by \$8,943,982 at the close of the most recent fiscal year. The Town's net position increased by \$1,779,596 for the fiscal year ended June 30, 2020.

A portion of the Town's net position (66%) reflects its net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. 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, it should be noted that the resources needed to repay that debt must be provided from other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,245,744, may be used to meet the government's ongoing obligation to citizens and creditors.

Town of Newport's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$ 2,929,077	\$ 2,070,790	\$ 943,149	\$ 1,239,467	\$ 3,872,226	\$ 3,310,257
Capital assets	<u>1,868,240</u>	<u>1,298,181</u>	<u>12,847,140</u>	<u>12,371,385</u>	<u>14,715,380</u>	<u>13,669,566</u>
Total assets	<u>4,797,317</u>	<u>3,368,971</u>	<u>13,790,289</u>	<u>13,610,852</u>	<u>18,587,606</u>	<u>16,979,823</u>
Deferred Outflows of Resources	<u>473,644</u>	<u>516,258</u>	<u>8,037</u>	<u>9,901</u>	<u>481,681</u>	<u>526,159</u>
Liabilities:						
Long-term liabilities	1,675,273	1,063,131	7,492,731	8,097,431	9,168,004	9,160,562
Other liabilities	<u>162,845</u>	<u>215,472</u>	<u>753,925</u>	<u>932,849</u>	<u>916,770</u>	<u>1,148,321</u>
Total liabilities	<u>1,838,118</u>	<u>1,278,603</u>	<u>8,246,656</u>	<u>9,030,280</u>	<u>10,084,774</u>	<u>10,308,883</u>
Deferred Inflows of Resources	<u>40,050</u>	<u>32,437</u>	<u>481</u>	<u>276</u>	<u>40,531</u>	<u>32,713</u>
Net Position:						
Net investment						
in capital assets	1,090,121	1,090,397	4,770,874	3,696,676	5,860,995	4,787,073
Restricted	837,243	907,343	-	-	837,243	907,343
Unrestricted	<u>1,465,429</u>	<u>576,449</u>	<u>780,315</u>	<u>893,521</u>	<u>2,245,744</u>	<u>1,469,970</u>
Total net position	<u>\$ 3,392,793</u>	<u>\$ 2,574,189</u>	<u>\$ 5,551,189</u>	<u>\$ 4,590,197</u>	<u>\$ 8,943,982</u>	<u>\$ 7,164,386</u>

Town of Newport's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 860,782	\$ 766,335	\$ 2,190,195	\$ 2,050,003	\$ 3,050,977	\$ 2,816,338
Operating grants and contributions	1,010,709	97,069	-	-	1,010,709	97,069
Capital grants and contributions	120,770	123,484	586,182	-	706,952	123,484
General revenues:						
Property taxes	1,733,593	1,708,173	-	-	1,733,593	1,708,173
Other taxes	1,095,466	1,022,547	-	-	1,095,466	1,022,547
Other	3,306	5,659	89	88	3,395	5,747
Total revenues	<u>4,824,626</u>	<u>3,723,267</u>	<u>2,776,466</u>	<u>2,050,091</u>	<u>7,601,092</u>	<u>5,773,358</u>
Expenses:						
General government	714,107	570,092	-	-	714,107	570,092
Public safety	2,342,212	2,473,491	-	-	2,342,212	2,473,491
Public works and streets	516,926	516,602	-	-	516,926	516,602
Sanitation	316,367	284,691	-	-	316,367	284,691
Culture and recreation	109,059	171,834	-	-	109,059	171,834
Interest on long-term debt	7,351	1,058	-	-	7,351	1,058
Water and sewer	-	-	1,815,474	2,226,260	1,815,474	2,226,260
Total expenses	<u>4,006,022</u>	<u>4,017,768</u>	<u>1,815,474</u>	<u>2,226,260</u>	<u>5,821,496</u>	<u>6,244,028</u>
Change in net position	818,604	(294,501)	960,992	(176,169)	1,779,596	(470,670)
Net Position:						
Beginning of year, July 1	<u>2,574,189</u>	<u>2,868,690</u>	<u>4,590,197</u>	<u>4,766,366</u>	<u>7,164,386</u>	<u>7,635,056</u>
End of year, June 30	<u>\$ 3,392,793</u>	<u>\$ 2,574,189</u>	<u>\$ 5,551,189</u>	<u>\$ 4,590,197</u>	<u>\$ 8,943,982</u>	<u>\$ 7,164,386</u>

Governmental Activities. Governmental activities increased the Town's net position by \$818,064. Key elements of this increase are as follows:

- FEMA reimbursements for Hurricane Florence were received in the fiscal year.
- Building permits increased due to cleanup after the hurricane.

Business-Type Activities. Business-type activities increased the Town of Newport's net position by \$960,992. Key elements of this increase are as follows:

- Decrease in operation costs due to prior year hurricane expenses that did not carry over into the new fiscal year.
- Increase in revenue due to capital contribution from contractor.

Financial Analysis of the Town's Funds

As noted earlier, the Town of Newport uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Newport'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 Newport's financing requirements.

The General Fund is the chief operating fund of the Town of Newport. At the end of the current fiscal year, available fund balance of the General Fund was \$1,861,519 and total fund balance was \$2,250,438. The Town currently has available fund balance of 65.64% of General Fund expenditures and transfers to other funds, less long-term debt issued, while total fund balance represents 79% of the same amount.

At June 30, 2020, the governmental funds of the Town of Newport reported a combined fund balance of \$2,453,524, with a net increase in fund balance of \$596,439. Included in this change in fund balance is an increase in the General Fund of \$677,979, a decrease in the Fire and Rescue District Special Revenue Fund of \$63,841 and an decrease in the Recreation Fund of \$17,699.

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.

Expenditures were more than the budgeted amounts primarily due to the increased payroll cost.

Proprietary Funds. The Town of Newport's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$780,315. The change in net position was an increase of \$960,992. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Newport's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Newport's investment in capital assets for its governmental and business-type activities as of June 30, 2020 totals \$14,715,380 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. Capital assets changed significantly during the year for the governmental funds. Governmental capital assets, net of depreciation, increased by \$570,059. In the current year a fire pumper was purchased and added to vehicles. Business type activities assets, net of depreciation, increased by \$475,755 primarily due to additions capital contribution to plant and distribution system.

**Town of Newport's Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 352,637	\$ 352,637	\$ 312,764	\$ 312,764	\$ 665,401	\$ 665,401
Construction in progress	-	-	371,987	351,573	371,987	351,573
Infrastructure	16,862	19,316	-	-	16,862	19,316
Equipment and fixtures	345,090	318,934	235,878	286,615	580,968	605,549
Vehicles	823,945	250,793	42,605	24,505	866,550	275,298
Building and improvements	329,706	356,501	-	-	329,706	356,501
Plant and distribution systems	-	-	11,883,906	11,395,928	11,883,906	11,395,928
Total	<u>\$ 1,868,240</u>	<u>\$ 1,298,181</u>	<u>\$ 12,847,140</u>	<u>\$ 12,371,385</u>	<u>\$ 14,715,380</u>	<u>\$ 13,669,566</u>

Additional information on the Town's capital assets can be found in Note 2.A. of the basic financial statements.

Long-Term Debt. As of June 30, 2020, the Town of Newport had total bonded debt outstanding of \$1,857,185. Of this, \$1,857,185 is debt backed by the full faith and credit of the Town.

Town of Newport's Long-Term Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ -	\$ -	\$ 1,857,185	\$ 1,908,685	\$ 1,857,185	\$ 1,908,685
State revolving loan	-	-	6,039,978	6,442,644	6,039,978	6,442,644
Compensated absences	51,301	64,792	9,413	16,896	60,714	81,688
Direct borrowing notes payable	778,119	207,784	179,103	323,380	957,222	531,164
Net pension liability (LGERS)	647,130	623,072	13,207	12,716	660,337	635,788
Total pension liability (LEO)	302,109	235,928	-	-	302,109	235,928
Total	<u>\$ 1,778,659</u>	<u>\$ 1,131,576</u>	<u>\$ 8,098,886</u>	<u>\$ 8,704,321</u>	<u>\$ 9,877,545</u>	<u>\$ 9,835,897</u>

Town of Newport's Outstanding Debt

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Newport is approximately \$20,863,600.

Additional information regarding the Town of Newport's long-term debt can be found in Note 2.B. of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town:

- Continued residential construction with new housing subdivisions
- Continued growth in the Water Fund from new customers
- New Interstate 42 corridor will promote commercial and residential growth in the coming years

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities. Property tax revenues are expected to remain at the same rate of \$.357.

Based on the current economic situation and revenue projections from the state, budgeted expenditures in the General Fund are flat from the prior year.

Business-Type Activities. The water and sewer revenues in the Town are expected to remain flat from the prior year. General operating expenses are expected to remain flat.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Town of Newport, 200 Howard Blvd., P.O. Box 1869, Newport, North Carolina 28570.

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TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF NET POSITION **JUNE 30, 2020**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,746,505	\$ 528,270	\$ 2,274,775
Intergovernmental receivable	686,942	-	686,942
Property taxes receivable	12,704	-	12,704
Accounts receivable	106,502	325,718	432,220
Prepaid items	41,313	-	41,313
Restricted assets:			
Restricted cash and cash equivalents	335,111	89,161	424,272
Total current assets	<u>2,929,077</u>	<u>943,149</u>	<u>3,872,226</u>
Non-current assets:			
Capital assets:			
Capital assets, non-depreciable	352,637	684,751	1,037,388
Capital assets, net	<u>1,515,603</u>	<u>12,162,389</u>	<u>13,677,992</u>
Total non-current assets	<u>1,868,240</u>	<u>12,847,140</u>	<u>14,715,380</u>
Total assets	<u>4,797,317</u>	<u>13,790,289</u>	<u>18,587,606</u>
Deferred Outflows of Resources:			
Pension deferrals	303,527	4,736	308,263
Contributions to pension plan in current fiscal year	<u>170,117</u>	<u>3,301</u>	<u>173,418</u>
Total deferred outflows of resources	<u>473,644</u>	<u>8,037</u>	<u>481,681</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	59,459	58,609	118,068
Liabilities to be paid from restricted assets:			
Customer deposits	-	89,161	89,161
Long-term debt due within one year	<u>103,386</u>	<u>606,155</u>	<u>709,541</u>
Total current liabilities	<u>162,845</u>	<u>753,925</u>	<u>916,770</u>
Long-term liabilities:			
Long-term debt due in more than one year	726,034	7,479,524	8,205,558
Net pension liability - LGERS	647,130	13,207	660,337
Total pension liability - LEO	<u>302,109</u>	<u>-</u>	<u>302,109</u>
Total long-term liabilities	<u>1,675,273</u>	<u>7,492,731</u>	<u>9,168,004</u>
Total liabilities	<u>1,838,118</u>	<u>8,246,656</u>	<u>10,084,774</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF NET POSITION JUNE 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Deferred Inflows of Resources:			
Prepaid taxes	1,927	-	1,927
Pension deferrals	38,123	481	38,604
Total deferred inflows of resources	40,050	481	40,531
Net Position:			
Net investment in capital assets	1,090,121	4,770,874	5,860,995
Restricted for stabilization by state statute	391,981	-	391,981
Restricted for streets	335,111	-	335,111
Restricted for public safety	110,151	-	110,151
Unrestricted	1,465,429	780,315	2,245,744
Total net position	\$ 3,392,793	\$ 5,551,189	\$ 8,943,982

The accompanying notes are an integral part of the financial statements.

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TOWN OF NEWPORT, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 714,107	\$ 180,597	\$ 353,834	\$ -
Public safety	2,342,212	391,047	656,875	-
Public works and streets	516,926	-	-	120,770
Sanitation	316,367	289,138	-	-
Cultural and recreation	109,059	-	-	-
Interest on long-term debt	7,351	-	-	-
Total governmental activities	<u>4,006,022</u>	<u>860,782</u>	<u>1,010,709</u>	<u>120,770</u>
Business-Type Activities:				
Water and sewer	<u>1,815,474</u>	<u>2,190,195</u>	<u>-</u>	<u>586,182</u>
Total primary government	<u>\$ 5,821,496</u>	<u>\$ 3,050,977</u>	<u>\$ 1,010,709</u>	<u>\$ 706,952</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs			
Primary Government:			
Governmental Activities:			
General government	\$ (179,676)	\$ -	\$ (179,676)
Public safety	(1,294,290)	-	(1,294,290)
Public works and streets	(396,156)	-	(396,156)
Sanitation	(27,229)	-	(27,229)
Cultural and recreation	(109,059)	-	(109,059)
Interest on long-term debt	(7,351)	-	(7,351)
Total governmental activities	<u>(2,013,761)</u>	<u>-</u>	<u>(2,013,761)</u>
Business-Type Activities:			
Water and sewer	<u>-</u>	<u>960,903</u>	<u>960,903</u>
Total primary government	<u>(2,013,761)</u>	<u>960,903</u>	<u>(1,052,858)</u>
General Revenues:			
Property tax	1,733,593	-	1,733,593
Sales tax	628,667	-	628,667
Other taxes	466,799	-	466,799
Investment earnings	3,306	89	3,395
Total general revenues	<u>2,832,365</u>	<u>89</u>	<u>2,832,454</u>
Change in net position	818,604	960,992	1,779,596
Net Position:			
Beginning of year, July 1	<u>2,574,189</u>	<u>4,590,197</u>	<u>7,164,386</u>
End of year, June 30	<u>\$ 3,392,793</u>	<u>\$ 5,551,189</u>	<u>\$ 8,943,982</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020**

	Major Funds			
	General Fund	Fire and Rescue District Fund	Nonmajor Recreation Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,574,959	\$ 171,546	\$ -	\$ 1,746,505
Property taxes receivable	12,704	-	-	12,704
Intergovernmental receivable	686,942	-	-	686,942
Accounts receivable	62,127	44,375	-	106,502
Prepaid items	41,313	-	-	41,313
Restricted cash and cash equivalents	335,111	-	-	335,111
Total assets	<u>\$ 2,713,156</u>	<u>\$ 215,921</u>	<u>\$ -</u>	<u>\$ 2,929,077</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 46,624	\$ 12,835	\$ -	\$ 59,459
Deferred Inflows of Resources:				
Unavailable taxes receivable	12,704	-	-	12,704
Prepaid taxes	1,927	-	-	1,927
Grant receivable	353,834	-	-	353,834
Unavailable garbage fees receivable	47,629	-	-	47,629
Total deferred inflows of resources	<u>416,094</u>	<u>-</u>	<u>-</u>	<u>416,094</u>
Fund Balances:				
Non-spendable:				
Prepays	41,313	-	-	41,313
Restricted:				
Stabilization by state statute	347,606	44,375	-	391,981
Restricted for streets	335,111	-	-	335,111
Restricted for public safety	-	110,151	-	110,151
Assigned:				
Subsequent year's expenditures	68,260	48,560	-	116,820
Unassigned	1,458,148	-	-	1,458,148
Total fund balances	<u>2,250,438</u>	<u>203,086</u>	<u>-</u>	<u>2,453,524</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,713,156</u>	<u>\$ 215,921</u>	<u>\$ -</u>	<u>\$ 2,929,077</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020**

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balances	\$ 2,453,524
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	1,868,240
Net pension liability	(647,130)
Total pension liability	(302,109)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	170,117
Pension related deferrals - deferred outflows	303,527
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(829,420)
Pension related deferrals - deferred inflows	(38,123)
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net position in the Statement of Net Position.	<u>414,167</u>
Net position of governmental activities per Exhibit A	<u>\$ 3,392,793</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Major Funds		Nonmajor	Total
	General	Fire and	Recreation	Governmental
	Fund	Rescue District	Fund	Funds
		Fund		
Revenues:				
Taxes	\$ 1,313,503	\$ 421,278	\$ -	\$ 1,734,781
Unrestricted intergovernmental	996,299	99,167	-	1,095,466
Restricted intergovernmental	713,462	27,356	-	740,818
Licenses, permits, and fees	102,271	-	-	102,271
Sales and services	289,138	395,877	-	685,015
Investment earnings	3,306	-	-	3,306
Miscellaneous	78,327	36,827	-	115,154
Total revenues	<u>3,496,306</u>	<u>980,505</u>	<u>-</u>	<u>4,476,811</u>
Expenditures:				
Current:				
General government	688,598	-	-	688,598
Public safety	903,527	1,895,473	-	2,799,000
Public works and streets	547,130	-	-	547,130
Sanitation	305,168	-	-	305,168
Cultural and recreation	103,460	-	-	103,460
Debt service:				
Principal	8,326	27,723	-	36,049
Interest	817	6,534	-	7,351
Total expenditures	<u>2,557,026</u>	<u>1,929,730</u>	<u>-</u>	<u>4,486,756</u>
Revenues over (under) expenditures	<u>939,280</u>	<u>(949,225)</u>	<u>-</u>	<u>(9,945)</u>
Other Financing Sources (Uses):				
Long-term debt issued	-	606,384	-	606,384
Transfers in	17,699	279,000	-	296,699
Transfers out	(279,000)	-	(17,699)	(296,699)
Total other financing sources (uses)	<u>(261,301)</u>	<u>885,384</u>	<u>(17,699)</u>	<u>606,384</u>
Net change in fund balances	677,979	(63,841)	(17,699)	596,439
Fund Balances:				
Beginning of year, July 1	<u>1,572,459</u>	<u>266,927</u>	<u>17,699</u>	<u>1,857,085</u>
End of year, June 30	<u>\$ 2,250,438</u>	<u>\$ 203,086</u>	<u>\$ -</u>	<u>\$ 2,453,524</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL ACTIVITIES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 596,439
Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:	
Property taxes and solid waste fees	(6,018)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	746,377
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(176,318)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	36,049
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	353,834
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	13,491
Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	(606,384)
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities.	(13,384)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	29,389
Expenses related to pensions that do not require current financial resources are not reported as expenditures in the governmental funds statement.	<u>(154,871)</u>
Total changes in net position of governmental activities per Exhibit B	<u>\$ 818,604</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

**GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND -
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund			
	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over/Under
Revenues:				
Ad valorem taxes	\$ 1,242,333	\$ 1,273,283	\$ 1,313,503	\$ 40,220
Unrestricted intergovernmental	904,000	923,160	996,299	73,139
Restricted intergovernmental	125,150	125,150	713,462	588,312
Licenses, permits, and fees	35,000	97,145	102,271	5,126
Sales and services	293,150	293,925	289,138	(4,787)
Investment earnings	1,500	1,500	3,306	1,806
Miscellaneous	6,250	19,270	78,327	59,057
Total revenues	<u>2,607,383</u>	<u>2,733,433</u>	<u>3,496,306</u>	<u>762,873</u>
Expenditures:				
Current:				
General government	471,042	692,594	688,598	3,996
Public safety	895,126	942,100	903,527	38,573
Highways and streets	562,754	604,728	547,130	57,598
Sanitation	290,250	290,250	305,168	(14,918)
Cultural and recreation	98,990	105,415	103,460	1,955
Debt service:				
Principal	9,387	9,387	8,326	1,061
Interest	834	834	817	17
Total expenditures	<u>2,328,383</u>	<u>2,645,308</u>	<u>2,557,026</u>	<u>88,282</u>
Revenues over (under) expenditures	<u>279,000</u>	<u>88,125</u>	<u>939,280</u>	<u>851,155</u>
Other Financing Sources (Uses):				
Appropriated fund balance	-	190,875	-	(190,875)
Long-term debt issued	-	-	-	-
Transfers in	-	-	17,699	17,699
Transfers out	(279,000)	(279,000)	(279,000)	-
Total other financing sources (uses)	<u>(279,000)</u>	<u>(88,125)</u>	<u>(261,301)</u>	<u>(173,176)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>677,979</u>	<u>\$ 677,979</u>
Fund Balances:				
Beginning of year, July 1			<u>1,572,459</u>	
End of year, June 30			<u>\$ 2,250,438</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

**GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND -
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	Fire and Rescue District Special Revenue Fund			
	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over/Under
Revenues:				
Ad valorem taxes	\$ 420,500	\$ 420,500	\$ 421,278	\$ 778
Unrestricted intergovernmental	100,000	100,000	99,167	(833)
Restricted intergovernmental	-	27,355	27,356	1
Licenses, permits, and fees	-	-	-	-
Sales and services	427,564	427,564	395,877	(31,687)
Investment earnings	-	-	-	-
Miscellaneous	450	33,130	36,827	3,697
Total revenues	<u>948,514</u>	<u>1,008,549</u>	<u>980,505</u>	<u>(28,044)</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	1,828,257	1,925,307	1,895,473	29,834
Highways and streets	-	-	-	-
Sanitation	-	-	-	-
Cultural and recreation	-	-	-	-
Debt service:				
Principal	27,723	27,723	27,723	-
Interest	6,534	6,534	6,534	-
Total expenditures	<u>1,862,514</u>	<u>1,959,564</u>	<u>1,929,730</u>	<u>29,834</u>
Revenues over (under) expenditures	<u>(914,000)</u>	<u>(951,015)</u>	<u>(949,225)</u>	<u>1,790</u>
Other Financing Sources (Uses):				
Appropriated fund balance	35,000	72,015	-	(72,015)
Long-term debt issued	600,000	600,000	606,384	6,384
Transfers in	279,000	279,000	279,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>914,000</u>	<u>951,015</u>	<u>885,384</u>	<u>(65,631)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(63,841)</u>	<u>\$ (63,841)</u>
Fund Balances:				
Beginning of year, July 1			<u>266,927</u>	
End of year, June 30			<u>\$ 203,086</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2020

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 528,270
Accounts receivable, net	325,718
Cash and cash equivalents, restricted	89,161
Total current assets	<u>943,149</u>
Non-current assets:	
Capital assets:	
Land	312,764
Construction in progress	371,987
Capital assets, net of depreciation	<u>12,162,389</u>
Total capital assets	<u>12,847,140</u>
Total non-current assets	<u>12,847,140</u>
Total assets	<u>13,790,289</u>
Deferred Outflows of Resources:	
Pension deferrals	4,736
Contributions to pension plan in current fiscal year	<u>3,301</u>
Total deferred outflows of resources	<u>8,037</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	58,609
Compensated absences - current portion	4,707
Current portion of long-term debt	601,448
Liabilities to be paid from restricted assets:	
Customer deposits	<u>89,161</u>
Total current liabilities	<u>753,925</u>
Non-current liabilities:	
Compensated absences payable	4,706
Other long-term debt	7,474,818
Net pension liability	<u>13,207</u>
Total non-current liabilities	<u>7,492,731</u>
Total liabilities	<u>8,246,656</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>481</u>
Net Position:	
Net investment in capital assets	4,770,874
Unrestricted	<u>780,315</u>
Total net position	<u>\$ 5,551,189</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for sales and services	\$ 1,939,263
Impact fees	207,525
Miscellaneous revenue	43,407
Total operating revenues	<u>2,190,195</u>
Operating Expenses:	
Salaries and benefits	515,083
Supplies, maintenance, and administration	734,583
Depreciation	456,898
Total operating expenses	<u>1,706,564</u>
Operating income (loss)	<u>483,631</u>
Non-Operating Revenues (Expenses):	
Interest income	89
Interest expense and fiscal charges	(108,910)
Total non-operating revenues (expenses)	<u>(108,821)</u>
Income (loss) before capital contributions	374,810
Capital contributions	<u>586,182</u>
Change in net position	960,992
Net Position:	
Beginning of year, July 1	<u>4,590,197</u>
End of year, June 30	<u>\$ 5,551,189</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 2,221,940
Cash paid for goods and services	(932,812)
Cash paid to employees	(520,006)
Net cash provided (used) by operating activities	<u>769,122</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(346,472)
Principal paid on long-term debt	(598,443)
Interest paid on long-term debt	(108,910)
Net cash provided (used) by capital and related financing activities	<u>(1,053,825)</u>
Cash Flows from Investing Activities:	
Interest received from investments	<u>89</u>
Net increase (decrease) in cash and cash equivalents	(284,614)
Cash and Cash Equivalents:	
Beginning of year, July 1	<u>902,045</u>
End of year, June 30	<u><u>\$ 617,431</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 483,631
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	456,898
Changes in Assets and Liabilities:	
(Increase) decrease in accounts receivable	11,705
(Increase) decrease in deferred outflows of resources for pensions	1,864
Increase (decrease) in deferred inflows of resources for pensions	205
Increase (decrease) in net pension liability	491
Increase (decrease) in trade accounts payable and accrued liabilities	(205,712)
Increase (decrease) in customer deposits	<u>20,040</u>
Net cash provided (used) by operating activities	<u><u>\$ 769,122</u></u>
Non-Cash Transactions:	
Capital contribution	<u><u>\$ 586,182</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

1. Summary of Significant Accounting Policies

A. Nature of Operations

The financial statements of the Town of Newport, North Carolina, (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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 government's accounting policies are described below.

B. Reporting Entity

The Town is a municipal corporation governed by an elected Mayor and a five-member Town Council. As required by generally accepted accounting principles, these financial statements present the Town and all legally separate entity for which the Town is financially accountable. The Town has no component units or entities for which the government is considered financially accountable.

C. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government. Eliminations have been made to minimize the double counting of internal activities. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

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

Fund Financial Statements. The fund financial statements provide information about the Town's funds. Separate financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Major individual governmental funds and major individual enterprise funds each are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Major Funds

The General Fund, Fire and Rescue District Special Revenue Fund, and Water and Sewer Fund are the major funds of the Town for the year ended June 30, 2020. The General Fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales tax, state grant, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and recreation. The Fire and Rescue District Special Revenue Fund accounts for fire services provided by the Town to the Town as well as the fire district, which extends beyond the Town limits. The Water and Sewer Fund provides utility services to the citizens of Newport.

Nonmajor Funds

The nonmajor Recreation Special Revenue Fund accounts for fees charged to developers assigned to providing recreational services or functions.

D. Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Newport because the tax is levied by Carteret County and then remitted to and distributed by the state. Most intergovernmental revenues and sales and services are not susceptible to accrual, because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position 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 revenues.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

F. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, special revenue funds, and the enterprise funds. Multi-year budgets are adopted for enterprise capital project funds. All annual appropriations lapse at fiscal year-end. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for multi-year funds. Budgets are susceptible to amendment at any time and are amended as necessary by the governing board. The Town's budget, however, is prepared in greater detail by individual accounts. The Town's management may adjust these accounts within a department without affecting the department's total appropriation. Management cannot make changes to a department's total appropriation without Council's approval. 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.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Town are made in Board-designated official depositories and are secured 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 (6)(8)] 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 non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at-cost. The NCCMT - Government Portfolio, an SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

Cash and Cash Equivalents

The Town pools monies 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 and cash equivalents. Investment earnings are allocated to all funds based on the individual fund's cash balance outstanding at the end of each month.

Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S 136-41.1 through 136-41.4. Security deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

	<u>Restricted Cash</u>
General Fund:	
Governmental activities:	
General Fund - streets	<u>\$ 335,111</u>
Business-type activities:	
Water and Sewer Fund - customer deposits	<u>\$ 89,161</u>

Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2019. 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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. Allowance for doubtful accounts for all funds is as follows:

	General Fund	Water and Sewer Enterprise Fund
Garbage fees receivable	\$ 12,500	\$ -
Taxes receivable	4,824	-
Water receivable	-	43,300
Sewer receivable	-	24,200
Total	<u>\$ 17,324</u>	<u>\$ 67,500</u>

Prepaid Items

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and 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 government as assets with an initial, individual cost of more than \$5,000 (amount not rounded), and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Capital assets are depreciated on the straight-line basis over the estimated useful lives of the assets as follows:

<u>Asset</u>	<u>Estimated Useful Lives</u>
Water and sewer system plants	40 years
Buildings	40 years
Equipment and fixtures	5-15 years
Vehicles	5-25 years
Computer equipment	3 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criteria – pension related deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as revenue until then. The Town has two items that meets the criteria for this category – prepaid taxes and pension related deferrals.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave 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.

The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The 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 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 for the Town employees has been made.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Long-Term Obligations

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

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-Spendable 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 - 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.

Restricted Fund Balance

This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State Statute (RSS) is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "Restricted by State Statute". Appropriated fund balance in any fund shall not

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net Position and Restricted Fund Balance on the face of the balance sheet.

	General Fund	Fire and Rescue District Fund
<i>Restricted for Stabilization by State Statute</i> – portion of fund balance that is restricted by state statute [G.S. 159-8(a)].	\$ 347,606	\$ 44,375
<i>Restricted for Streets – Powell Bill</i> - portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.	335,111	-
<i>Restricted for Public Safety</i> – portion of fund balance that is restricted by revenue source for fire and rescue services provided by the Town to the Town, as well as the fire district, which extends beyond the Town limits.	-	110,151
Total restricted fund balances/net position	<u>\$ 682,717</u>	<u>\$ 154,526</u>

Committed Fund Balance

This classification includes amounts of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Newport’s governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the Town intends to use for specific purposes.

Assigned for subsequent year’s expenditures is the portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. Only the General Fund may report a negative fund balance.

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

The Town has not adopted a formal fund balance policy.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 2,250,438
Less:	
Non-spendable	(41,313)
Stabilization by state statute	<u>(347,606)</u>
Available for appropriation	<u>\$ 1,902,832</u>

Defined Benefit Cost-Sharing Plans

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

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. Under the

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the 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 amount of collateral pledged for the Town under the Pooling Method, 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 depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The Town complies with G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the Town's deposits had a carrying amount of \$2,405,895 and a bank balance of \$2,474,299, of which \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2020, the Town's petty cash on hand totaled \$450.

Investments

At June 30, 2020, the Town had \$292,702 invested with North Carolina Capital Management Trust Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's as of June 30, 2020. The Town has no formal policy regarding credit risk of its investments.

Intergovernmental Receivables

Intergovernmental receivables presented in the Balance Sheet and the Statement of Net Position consisted of the following at June 30, 2020:

Sales tax	\$	146,190
Utility franchise tax		66,544
Taxes due - Carteret County		39,059
Grant receivable		353,834
Sales tax refund		81,315
Total	\$	<u>686,942</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Capital Assets

The following is a summary of changes in the governmental capital assets during the fiscal year:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2020</u>
By Type:				
Non-Depreciable Capital Assets:				
Land	\$ 352,637	\$ -	\$ -	\$ 352,637
Depreciable Capital Assets:				
Buildings and improvements	1,044,052	-	-	1,044,052
Infrastructure	41,088	-	-	41,088
Computer equipment	122,465	-	-	122,465
Equipment	815,088	72,718	-	887,806
Furniture and fixtures	46,450	-	-	46,450
Vehicles	<u>1,950,202</u>	<u>673,659</u>	-	<u>2,623,861</u>
Total depreciable capital assets	<u>4,019,345</u>	<u>746,377</u>	-	<u>4,765,722</u>
Less Accumulated Depreciation:				
Buildings and improvements	687,551	26,795	-	714,346
Infrastructure	21,772	2,454	-	24,226
Computer equipment	87,101	16,017	-	103,118
Equipment	535,244	29,231	-	564,475
Furniture and fixtures	42,724	1,314	-	44,038
Vehicles	<u>1,699,409</u>	<u>100,507</u>	-	<u>1,799,916</u>
Total accumulated depreciation	<u>3,073,801</u>	<u>\$ 176,318</u>	<u>\$ -</u>	<u>3,250,119</u>
Depreciable capital assets, net	<u>945,544</u>			<u>1,515,603</u>
Capital assets, net	<u>\$ 1,298,181</u>			<u>\$ 1,868,240</u>

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

Governmental Activities:

General government	\$ 3,110
Public safety	159,780
Highways and streets	<u>13,428</u>
Total	<u>\$ 176,318</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The following is summary of changes in the enterprise fund-type capital assets for the fiscal year:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2020</u>
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land and improvements	\$ 312,764	\$ -	\$ -	\$ 312,764
Construction in progress	351,573	20,414	-	371,987
Total non-depreciable capital assets	<u>664,337</u>	<u>20,414</u>	<u>-</u>	<u>684,751</u>
Depreciable Capital Assets:				
Equipment	1,013,030	-	-	1,013,030
Plant and distribution system	17,975,991	885,542	-	18,861,533
Vehicles	421,771	26,698	-	448,469
Total depreciable capital assets	<u>19,410,792</u>	<u>912,240</u>	<u>-</u>	<u>20,323,032</u>
Less Accumulated Depreciation:				
Equipment	726,415	50,737	-	777,152
Plant and distribution system	6,580,065	397,562	-	6,977,627
Vehicles	397,265	8,599	-	405,864
Total accumulated depreciation	<u>7,703,745</u>	<u>\$ 456,898</u>	<u>\$ -</u>	<u>8,160,643</u>
Depreciable capital assets, net	<u>11,707,047</u>			<u>12,162,389</u>
Capital assets, net	<u>\$ 12,371,384</u>			<u>\$ 12,847,140</u>

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2020 is composed of the following elements:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Capital assets, net of depreciation	\$ 1,868,240	\$ 12,847,140
Long-term debt	<u>(778,119)</u>	<u>(8,076,266)</u>
Net investment in capital assets	<u>\$ 1,090,121</u>	<u>\$ 4,770,874</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

B. Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2020 were as follows:

Type of Payable	Governmental Activities	Business-Type Activities	Total
Trade payables	\$ 51,794	\$ 56,349	\$ 108,143
Accrued salaries and fringes	7,665	2,260	9,925
Total	<u>\$ 59,459</u>	<u>\$ 58,609</u>	<u>\$ 118,068</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The LGERS is included in the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The state's ACFR 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, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Newport employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$165,031 for the year ended June 30, 2020.

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

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

At June 30, 2020, the Town reported a liability of \$660,337 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, measurement date, the Town's proportion was 0.02418%, which was a decrease of 0.00262% from its proportion measured as of June 30, 2018.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

For the year ended June 30, 2020, the Town recognized pension expense of \$293,072. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 113,066	\$ -
Changes in assumptions	107,624	-
Net difference between projected and actual earnings on pension plan investments	16,107	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	24,050
Town contributions subsequent to the measurement date	165,031	-
Total	<u>\$ 401,828</u>	<u>\$ 24,050</u>

\$165,031 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2021	110,459
2022	30,308
2023	57,939
2024	14,041
Thereafter	-
Total	<u>\$ 212,747</u>

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

Inflation	3.0 percent
Salary increase	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	Long-Term	
	Target	Expected Real
	Allocation	Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contribution from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 1,510,311</u>	<u>\$ 660,337</u>	<u>\$ (46,164)</u>

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

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town 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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>8</u>
Total	<u><u>9</u></u>

Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the criteria, which are outlined in GASB Statement 73.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2018 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increase	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index.

Mortality rates are as follows:

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths Before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$17,415 as benefits came due for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$302,109. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$31,147.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 55,114	\$ 4,842
Changes of assumptions and other inputs	16,352	9,712
Town benefit payments and plan administrative expense made subsequent to the measurement date	8,387	-
Total	<u>\$ 79,853</u>	<u>\$ 14,554</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The \$8,387 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease in the total pension liability in the year ending June 30, 2021. Other amount reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2021	\$ 10,343
2022	10,343
2023	10,388
2024	10,563
2025	9,709
Thereafter	5,566
Total	<u><u>\$ 56,912</u></u>

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents to Town's total pension liability calculated using the discount rate of 3.26% as well as what the Town's total pension liability would be if they were calculated using a discount rate that is one percentage point lower (2.26%) or one percentage point higher (4.26%) than the current rate.

	1% Decrease (2.26%)	Current Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	<u><u>\$ 330,708</u></u>	<u><u>\$ 302,109</u></u>	<u><u>\$ 276,306</u></u>

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

	2020
Beginning balance	\$ 235,928
Service cost	12,183
Interest on the total pension liability	8,271
Differences between expected and actual experience in the measurement of the total pension liability	53,018
Changes of assumptions or other inputs	10,124
Benefit payments	<u>(17,415)</u>
Ending balance of the total pension liability	<u><u>\$ 302,109</u></u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an experience study completed by the Actuary for the Local Governmental Employees' Retirement System for the five-year period ending December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 293,072	\$ 31,147	\$ 324,219
Pension liability	660,337	302,109	962,446
Proportionate share of the net pension liability	0.02418%	NA	-

<u>Deferred Outflows of Resources</u>	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Differences between expected and actual experience	\$ 113,066	\$ 55,114	\$ 168,180
Changes of assumptions and other inputs	107,624	16,352	123,976
Net difference between projected and actual earnings on pension plan investments	16,107	-	16,107
Town contributions (LGERS) and benefit payments and administration costs (LEOSSA) subsequent to the measurement date	165,031	8,387	173,418
Total deferred outflows of resources	<u>\$ 401,828</u>	<u>\$ 79,853</u>	<u>\$ 481,681</u>

<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$ -	\$ 4,842	\$ 4,842
Changes of assumptions and other inputs	-	9,712	9,712
Changes in proportion and differences between Town contributions and proportionate share of contributions	24,050	-	24,050
Total deferred inflows of resources	<u>\$ 24,050</u>	<u>\$ 14,554</u>	<u>\$ 38,604</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan for Law Enforcement Officers (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 Plan is included in the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's ACFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) Plan that includes the Plan. 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% of each officer's salary, and all amounts contributed are vested immediately. Employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2020 were \$27,277, which consisted of \$21,415 from the Town and \$5,862 from the employees. No amounts were forfeited.

Supplemental Retirement Income Plan for Non-Law Enforcement Employees

All non-law enforcement employees employed by the Town participate in the Supplemental Retirement Income Plan, a defined contribution pension plan. Participation begins upon employment. The Town has no requirement or obligation under state statutes to contribute to this Plan; however, the Town has adopted the Supplemental Retirement Plan of North Carolina 401(k) for its non-law enforcement employees. The Town contributes five percent of each employee's salary, and all amounts contributed are vested immediately. Also, employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2020 were \$113,132, which consisted of \$64,814 from the Town and \$48,318 from the non-law enforcement employees. No amounts were forfeited.

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. Currently, the Town has no retirees and terminated employees who are eligible to receive death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Contributions are determined as a percentage of monthly payroll based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources are comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 165,031
Benefit payments made and administrative expenses for LEOSSA	8,387
Differences between expected and actual experience	168,180
Changes of assumptions	123,976
Net difference between projected and actual earnings on pension plan investments	16,107
Total	<u>\$ 481,681</u>

Deferred inflows of resources at year-end are comprised of the following:

<u>Source</u>	<u>Exhibit A</u>	<u>Exhibit C</u>
Property taxes receivable	\$ -	\$ 12,704
Garbage fees receivable	-	47,629
Prepaid taxes	1,927	1,927
Grant receivable	-	353,834
Differences between expected and actual experience	4,842	-
Changes of assumptions	9,712	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	24,050	-
Total	<u>\$ 40,531</u>	<u>\$ 416,094</u>

Long-Term Obligations

Notes Payable

Governmental Activities Long-Term Debt

The Town's outstanding note from direct placements related to governmental activities of \$606,384 is secured by a security interest in equipment. In the event of default, the lender may : (a) Declare the unpaid principal components of the installment payments immediately due and payable, including any prepayment penalty; (b) recover attorney's fees and other expenses (c) collect the collateral (d) appoint receiver to collect the collateral (e) if the lender chooses to sell collateral, lender may obtain a judgment against the Town for any deficiency remaining on the

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

amount due to lender. Upon continuation of any event of default and in addition to all other remedies granted in the agreement, the lender shall have all the rights and remedies of a secured party under the UCC and may proceed to execute upon the equipment.

The Town's outstanding note from direct placements related to governmental activities of \$154,277 is secured by a security interest in equipment. Upon the occurrence of any event of default, the bank may exercise any one or more of the following remedies as the Bank in its sole discretion shall elect: a) Subject to Article 5, declare the entire principal amount of the payments and all accrued interest and other charges immediately due and payable without notice or demand to the borrower; (b) Proceed by appropriate court action to enforce performance by the borrower of the applicable covenants of this contract or to recover for the breach thereof; (c) Exercise all the rights and remedies at law or in equity, including those rights and remedies of a secured party or creditor under the Uniform Commercial Code and the general laws of the State with respect to the enforcement of the security interest granted or reserved hereunder; and (d) Terminate this contract and give notice to the borrower to surrender possession of the bank equipment and use, operate, lease or hold all or any part of the bank equipment in its sole discretion. If borrower remains in possession of the bank equipment or any portion thereof, more than five business days following termination of the Contract in accordance with this subsection (d), the borrower is deemed a lessee-at-will and will pay to the Bank a fair and reasonable amount as rental for the use of the bank equipment during such period, as determined by the bank.

The Town's outstanding note from direct placements related to governmental activities of \$17,458 is secured by a security interest in equipment. In the event of default, the lender may without any further demand or notice, exercise any one or more of the following remedies: (a) Declare the unpaid principal components of the installment payments immediately due and payable; (b) Proceed by appropriate court action to enforce the Town's performance of the applicable covenants of this Agreement or to recover for the breach thereof; (c) Avail itself of all available remedies under this Agreement or at law or in equity, including execution as provide in section 6.03, and recover of attorney's fees and other expenses. Upon continuation of any event of default and in addition to all other remedies granted in the agreement, the lender shall have all the rights and remedies of a secured party under the UCC and may proceed to execute upon the equipment.

\$606,384 note issued November 22, 2019, interest at 2.58%, payable in annual installments of \$40,425, including interest, with a final payment due in fiscal year 2034, secured by vehicle.	\$ 606,384
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\$182,000 note issued December 19, 2018, interest at 3.15%, payable in annual installments of \$9,142, including interest, with a final payment due in fiscal year 2022, secured by vehicle.	154,277
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\$25,784 note issued May 29, 2019, interest at 3.15%, payable in annual installments of \$9,142, including interest, with a final payment due in fiscal year 2022; secured by vehicle	<u>17,458</u>
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Total installment notes payable - governmental activities	<u>\$ 778,119</u>
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TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2020 are as follows:

Year Ending June 30	Principal	Interest	Total
2021	\$ 77,736	\$ 21,871	\$ 99,607
2022	79,041	19,452	98,493
2023	71,243	17,227	88,470
2024	72,349	15,023	87,372
2025	73,496	12,820	86,316
2026-2030	202,130	58,160	260,290
2031-2035	202,124	58,160	260,284
Total	<u>\$ 778,119</u>	<u>\$ 202,713</u>	<u>\$ 980,832</u>

Long-Term Debt

Enterprise Fund

Installment Notes Payable

The Town's outstanding note from direct borrowing related to enterprise fund activities of \$112,500 is secured by a security interest in plant and equipment. Upon the occurrence of any event of default, the bank may exercise any one or more of the following: the Town's outstanding notes from direct borrowings related to business-type activities contain provisions that an event of default would result in: (1) the timing of repayment of outstanding amounts become immediately due; (2) enforce the Town's performance of the applicable covenants of the agreement or recover for the breach thereof; (3) pay over any balance remaining in the Project Fund to be applied against outstanding required payments in any manner the bank may reasonably deem appropriate; and (4) avail itself of all available remedies under the agreement, including execution and foreclosure under execution on personal property or foreclosure and recovery of attorneys' fees and other expenses.

The Town's outstanding note from direct borrowings related to enterprise fund activities of \$66,603 is secured by a security interest in equipment. Upon the occurrence of any event of default, the lender may declare the entire unpaid principal balance under the note and all accrued unpaid interest immediately due.

\$2,250,000 NCDEQ loan issued May 1991, interest at 2.60%, payable in annual principal installments of \$112,500 and semi-annual interest payments through fiscal year November 2021; secured by plant and equipment	\$ 112,500
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\$98,380 note issued June 5, 2019, interest at 3.12%, payable in annual principal and installments of \$34,395; secured by John Deere backhoe	<u>66,603</u>
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Total Enterprise Fund notes payable	<u>\$ 179,103</u>
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TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

General Obligation Bonds

Enterprise Funds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds since they are expected to be repaid from proprietary revenues. All general obligation bonds are collateralized by the faith, credit, and taxing power of the Town.

\$1,000,000 - 1998 USDA water and sewer bond issued July 2001; interest at 5.25%; due in annual installments (\$62,500 - \$42,100), including interest; final payment due June 2041	\$ 722,000
\$1,700,000 - 2008 USDA water and sewer bond issued October 2007; interest at 4.5%; due in annual installments (\$95,590 - \$46,528.77), including interest; final payment due June 2046	<u>1,135,185</u>
Total Enterprise Fund general obligation bonds	<u><u>\$ 1,857,185</u></u>

Annual debt service requirements to maturity of general obligation bonds are as follows:

Year Ending June 30	Installment Notes Payable			Bonds Payable		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 145,283	\$ 4,537	\$ 149,820	\$ 53,500	\$ 102,930	\$ 156,430
2022	33,820	574	34,394	55,000	100,346	156,430
2023	-	-	-	58,000	97,691	155,346
2024	-	-	-	60,500	94,894	155,691
2025	-	-	-	63,500	427,808	491,308
2026-2030	-	-	-	364,500	335,340	699,840
2031-2035	-	-	-	451,000	223,545	674,545
2036-2040	-	-	-	517,000	122,805	639,805
2041-2045	-	-	-	234,185	-	-
Total	<u>\$ 179,103</u>	<u>\$ 5,111</u>	<u>\$ 184,214</u>	<u>\$ 1,857,185</u>	<u>\$ 1,505,359</u>	<u>\$ 3,129,395</u>

The Town of Newport was approved for a loan up to the amount of \$8,053,304 from the Clean Water State Revolving Fund. The 2020 debt liability is \$6,039,979. The funds were utilized for the Wastewater Treatment Plan Expansion project. The loan is payable to the Department of Environment and Natural Resources – Division of Water Quality and Loans. The loan carries a zero-interest rate. The loan is due in annual installments of \$402,665, beginning in 2016, for a period of 20 years.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Annual debt service requirements to maturity of the state revolving loan are as follows:

Year Ending June 30	Principal	Interest	Total
2021	\$ 402,665	\$ -	\$ 402,665
2022	402,665	-	402,665
2023	402,665	-	402,665
2024	402,665	-	402,665
2025	402,665	-	402,665
2026-2030	2,013,325	-	2,013,325
2031-2035	2,013,329	-	2,013,329
Total	<u>\$ 6,039,979</u>	<u>\$ -</u>	<u>\$ 6,039,979</u>

Long-Term Debt Obligation Activity

The following is a summary of the changes in the governmental activities long-term debt or obligations as of June 30, 2020:

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Current Portion
By Type of Debt:					
Direct borrowing notes payable	\$ 207,784	\$ 606,384	\$ (36,049)	\$ 778,119	\$ 77,736
Compensated absences	64,792	15,429	(28,920)	51,301	25,650
Net pension liability (LGERS)	623,072	24,058	-	647,130	-
Total pension liability (LEO)	235,928	66,181	-	302,109	-
Total	<u>\$ 1,131,576</u>	<u>\$ 712,052</u>	<u>\$ (64,969)</u>	<u>\$ 1,778,659</u>	<u>\$ 103,386</u>

The General Fund provides the resources for the retirement of compensated absences payable and pensions. The Town's legal debt limit is 8% of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2020 amounts to approximately \$20,863,600.

The following is a summary of changes in the Town's business-type activities long-term debt:

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Current Portion
By Type of Debt:					
Bonds payable	\$ 1,908,685	\$ -	\$ (51,500)	\$ 1,857,185	\$ 53,500
Direct borrowing notes payable	323,380	-	(144,277)	179,103	145,283
Revolving loan payable	6,442,644	-	(402,666)	6,039,978	402,665
Compensated absences	16,896	5,655	(13,138)	9,413	4,707
Net pension liability (LGERS)	12,716	491	-	13,207	-
Total	<u>\$ 8,704,321</u>	<u>\$ 6,146</u>	<u>\$ (611,581)</u>	<u>\$ 8,098,886</u>	<u>\$ 606,155</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of reinsurance, excess stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial insurance for all other risks of loss. The Town does not carry flood insurance. There have been no significant reductions in insurance coverage in the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

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 Town Clerk/Tax Collector and Finance Officer are individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds during the year ended June 30, 2020 consisted of the following:

	<u>Amount</u>
From the General Fund to the Fire and Rescue District Fund to fund operations	<u>\$ 279,000</u>
From the Recreation Fund to the General Fund to close the Recreation Fund	<u>\$ 17,699</u>

3. Federal and State-Assisted Programs

The Town has received proceeds from 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 will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

4. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations are in violation of state law [G159-28(b)]. Violation as of June 30, 2020 is as follows:

Excess of Expenditures Over Appropriations	
General Fund:	
Governing Body	\$ 12,669
Sanitation	14,918
Non Powell-Bill funds	14,749
Cultural	3,299
Special Revenue Fund:	
Recreation	17,699

Management concurs. Management and the Board will more closely review the budget reports to ensure compliance in future years.

B. Significant Violations of Finance-Related Legal and Contractual Provisions

Non-Compliance with North Carolina General Statutes

N.C. General Statutes 159-34 requires the Town to have an audit as soon as possible after the close of each fiscal year. The 2020 audit was significantly delayed due to turnover in the finance officer position. Please refer to finding 2020-005 for further information. In addition, N.C. General Statute 159-28(a) requires that all money received and expended by a local government should be included in the budget ordinance. N.C. General Statute 159-28(b) requires the finance officer to determine that a balance remains in the appropriations sufficient to pay the amount to be disbursed. Please refer to finding 2020-003 for further information.

5. Significant Effects of Subsequent Events

On August 25, 2020, the Town entered into a loan for \$225,000. In March 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19), a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the Town revenues. At the current time, we are unable to quantify the potential effect of this pandemic.

In addition, for fiscal year 2021, the Town was estimated to be awarded approximately \$1.3 million from the Federal American Rescue Plan. The award is expected to be received in two distributions. The first \$731,570 was received in July 2021 and the second distribution was received July 2022.

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TOWN OF NEWPORT, NORTH CAROLINA

PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) REQUIRED SUPPLEMENTARY INFORMATION LAST SEVEN FISCAL YEARS *

Local Governmental Employees' Retirement System				
	2020	2019	2018	2017
Town's proportion of the net pension liability (asset) (%)	0.02418%	0.02680%	0.02705%	0.02524%
Town's proportion of the net pension liability (asset) (\$)	\$ 660,337	\$ 635,788	\$ 413,249	\$ 535,677
Town's covered payroll	\$ 1,702,317	\$ 1,624,735	\$ 1,469,405	\$ 1,522,380
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	38.79%	39.13%	28.12%	35.19%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

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

This statement is intended to show information for 10 years. Additional years information will be presented as it becomes available.

TOWN OF NEWPORT, NORTH CAROLINA

**PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST SEVEN FISCAL YEARS ***

	Local Governmental Employees' Retirement System		
	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.02620%	0.02276%	0.02700%
Town's proportion of the net pension liability (asset) (\$)	\$ 117,583	\$ (134,227)	\$ 325,454
Town's covered payroll	\$ 1,562,175	\$ 1,292,155	\$ 1,278,495
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	7.53%	(10.39%)	25.46%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

TOWN OF NEWPORT, NORTH CAROLINA

**TOWN OF NEWPORT'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SEVEN FISCAL YEARS**

Local Governmental Employees' Retirement System				
	2020	2019	2018	2017
Contractually required contribution	\$ 165,031	\$ 135,041	\$ 124,989	\$ 109,149
Contributions in relation to the contractually required contribution	<u>165,031</u>	<u>135,041</u>	<u>124,989</u>	<u>109,149</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Newport's covered payroll	\$ 1,806,101	\$ 1,702,317	\$ 1,624,735	\$ 1,469,405
Contributions as a percentage of covered payroll	9.14%	7.93%	7.69%	7.43%

This statement is intended to show information for 10 years. Additional years information will be presented as it becomes available.

TOWN OF NEWPORT, NORTH CAROLINA

**TOWN OF NEWPORT'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SEVEN FISCAL YEARS**

Local Governmental Employees' Retirement System			
	2016	2015	2014
Contractually required contribution	\$ 103,312	\$ 136,470	\$ 92,121
Contributions in relation to the contractually required contribution	<u>103,312</u>	<u>136,470</u>	<u>92,121</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Newport's covered payroll	\$ 1,522,380	\$ 1,562,175	\$ 1,292,155
Contributions as a percentage of covered payroll	6.79%	8.74%	7.13%

TOWN OF NEWPORT, NORTH CAROLINA**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY****LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE****LAST FOUR FISCAL YEARS**

	Law Enforcement Officers' Special Separation Allowance			
	2020	2019	2018	2017
Beginning balance	\$ 235,928	\$ 218,541	\$ 196,413	\$ 185,658
Service cost at end of year	12,183	14,530	10,983	9,647
Interest on the total pension liability	8,271	6,779	7,544	6,628
Differences between expected and actual experience in the measurement of the total pension liability	53,018	15,023	(9,192)	-
Changes of assumptions or other inputs	10,124	(10,908)	14,742	(5,520)
Benefit payments	(17,415)	(8,037)	(1,949)	-
Ending balance of the total pension liability	<u>\$ 302,109</u>	<u>\$ 235,928</u>	<u>\$ 218,541</u>	<u>\$ 196,413</u>

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

This schedule is intended to show information for 10 years. Additional years information will be presented as it becomes available.

TOWN OF NEWPORT, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A
 PERCENTAGE OF COVERED EMPLOYEE PAYROLL
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 LAST FOUR FISCAL YEARS**

	Law Enforcement Officers' Special Separation Allowance			
	2020	2019	2018	2017
Total pension liability	\$ 302,109	\$ 235,928	\$ 218,541	\$ 196,413
Covered employee payroll	391,681	421,727	390,455	349,126
Total pension liability as a percentage of covered employee payroll	77.13%	55.94%	55.97%	56.26%

Notes to the Schedules:

The Town of Newport has no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

This schedule is intended to show information for 10 years. Additional years information will be presented as it becomes available.

TOWN OF NEWPORT, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2020

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	<u>2020</u>			<u>2019</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Taxes:				
Ad Valorem Taxes:				
Current year property tax	\$ 1,047,333	\$ 1,057,574	\$ 10,241	\$ 1,054,323
Motor vehicle tax - current and delinquent	221,000	249,847	28,847	244,863
Prior year's property tax	4,950	6,082	1,132	2,212
Total ad valorem taxes	<u>1,273,283</u>	<u>1,313,503</u>	<u>40,220</u>	<u>1,301,398</u>
Unrestricted Intergovernmental Revenues:				
Franchise tax	280,000	274,836	(5,164)	272,278
Room occupancy tax	-	1,396	1,396	-
Beer and wine tax	24,000	20,460	(3,540)	20,900
Local option sales tax	550,000	628,667	78,667	567,609
Solid waste disposal tax	1,820	3,600	1,780	1,812
Carteret County ABC revenues	67,340	67,340	-	49,948
Total unrestricted intergovernmental revenues	<u>923,160</u>	<u>996,299</u>	<u>73,139</u>	<u>912,547</u>
Restricted Intergovernmental Revenues:				
Powell Bill	125,150	120,770	(4,380)	123,484
Federal, state, and local grants	-	592,692	592,692	3,492
Total restricted intergovernmental revenues	<u>125,150</u>	<u>713,462</u>	<u>588,312</u>	<u>126,976</u>
Licenses, Permits, and Fees:				
Building permits	<u>97,145</u>	<u>102,271</u>	<u>5,126</u>	<u>70,588</u>
Sales and Services:				
Commission - trash stickers	875	871	(4)	450
Contribution from recreation	300	-	(300)	370
Fees for garbage pickup	290,250	286,867	(3,383)	286,346
Facility fees	2,500	1,400	(1,100)	8,740
Total sales and services	<u>293,925</u>	<u>289,138</u>	<u>(4,787)</u>	<u>295,906</u>
Interest:				
Investment earnings	<u>1,500</u>	<u>3,306</u>	<u>1,806</u>	<u>5,659</u>
Miscellaneous Revenues:				
Contributions from private sources	-	100	100	455
Court facility fees and refunds	250	1,008	758	928
Insurance proceeds	10,585	48,648	38,063	-
Sale of surplus	1,000	-	(1,000)	-
Miscellaneous	7,435	28,571	21,136	16,637
Total miscellaneous revenues	<u>19,270</u>	<u>78,327</u>	<u>59,057</u>	<u>18,020</u>
Total revenues	<u>2,733,433</u>	<u>3,496,306</u>	<u>762,873</u>	<u>2,731,094</u>

TOWN OF NEWPORT, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019**

	2020			2019
	Budget	Actual	Variance Over/Under	Actual
Expenditures:				
Current:				
General Government:				
Governing Body:				
Fees paid to elected officials	18,343	16,828	1,515	17,375
Operating expenses	88,100	102,284	(14,184)	60,562
Total governing body	106,443	119,112	(12,669)	77,937
Administration:				
Salaries and benefits	398,001	385,102	12,899	287,724
Operating expenses	188,150	184,384	3,766	165,456
Capital outlay	-	-	-	18,173
Total administration	586,151	569,486	16,665	471,353
Total general government	692,594	688,598	3,996	549,290
Public Safety:				
Police:				
Salaries and benefits	649,663	610,077	39,586	600,201
Operating expenses	116,675	99,370	17,305	73,250
Capital outlay	-	21,360	(21,360)	46,584
Total police	766,338	730,807	35,531	720,035
Planning and Inspections:				
Salaries and benefits	164,262	164,009	253	130,864
Operating expenses	11,500	8,711	2,789	8,959
Total planning and inspections	175,762	172,720	3,042	139,823
Emergency Management:				
Operating expenses	-	-	-	337,783
Total public safety	942,100	903,527	38,573	1,197,641
Public Works and Streets:				
Public Works:				
Salaries and benefits	188,582	147,536	41,046	214,386
Operating expenses	86,135	87,000	(865)	54,897
Capital outlay	3,300	3,050	250	13,983
Total public works	278,017	237,586	40,431	283,266
Fleet Maintenance:				
Salaries and benefits	41,671	41,244	427	32,698
Operating expenses	81,650	79,013	2,637	64,679
Capital outlay	-	-	-	4,673
Total fleet maintenance	123,321	120,257	3,064	102,050

TOWN OF NEWPORT, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2020

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	2020			2019
	Budget	Actual	Variance Over/Under	Actual
Powell Bill Funds:				
Salaries and benefits	22,335	22,253	82	30,944
Operating expenses	20,221	20,867	(646)	24,002
Capital outlay	75,634	46,218	29,416	10,875
Total Powell Bill funds	118,190	89,338	28,852	65,821
Non-Powell Bill Funds:				
Operating expenses	60,000	73,792	(13,792)	57,809
DOT Railroad project capital outlay	25,200	26,157	(957)	-
Total non-Powell Bill funds	85,200	99,949	(14,749)	57,809
Total public works and streets	604,728	547,130	57,598	508,946
Sanitation:				
Operating expenses	290,250	305,168	(14,918)	283,889
Cultural and Recreation:				
Cultural:				
Library operations	86,815	90,114	(3,299)	80,390
Recreation:				
Special projects	5,550	5,257	293	67,894
Operating expenses	13,050	8,089	4,961	14,745
Total recreation	18,600	13,346	5,254	82,639
Total cultural and recreation	105,415	103,460	1,955	163,029
Debt Service:				
Principal	9,387	8,326	1,061	14,065
Interest	834	817	17	1,056
Total debt service	10,221	9,143	1,078	15,121
Total expenditures	2,645,308	2,557,026	88,282	2,717,916
Revenues over (under) expenditures	88,125	939,280	851,155	13,178
Other Financing Sources (Uses):				
Long-term debt issued	-	-	-	25,784
Transfers in	-	17,699	17,699	-
Transfers out	(279,000)	(279,000)	-	(279,000)
Appropriated fund balance	190,875	-	(190,875)	-
Total other financing sources (uses)	(88,125)	(261,301)	(173,176)	(253,216)

TOWN OF NEWPORT, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2020

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	<u>2020</u>			<u>2019</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Net change in fund balance	\$ <u>-</u>	677,979	\$ <u>677,979</u>	(240,038)
Fund Balance:				
Beginning of year, July 1		<u>1,572,459</u>		<u>1,812,497</u>
End of year, June 30		\$ <u>2,250,438</u>		\$ <u>1,572,459</u>

TOWN OF NEWPORT, NORTH CAROLINA

FIRE AND RESCUE DISTRICT - MAJOR SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2020

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	2020			2019
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad valorem taxes	\$ 420,500	\$ 421,278	\$ 778	\$ 412,740
Local option sales tax	100,000	99,167	(833)	110,000
Ambulance transport fees	427,564	395,877	(31,687)	362,584
Federal, state, and local grants	27,355	27,356	1	-
Miscellaneous income	33,130	36,827	3,697	86,835
Total revenues	<u>1,008,549</u>	<u>980,505</u>	<u>(28,044)</u>	<u>972,159</u>
Expenditures:				
Public Safety:				
Salaries and benefits	829,903	806,066	23,837	826,851
Operating expenses	432,702	414,658	18,044	371,105
Capital outlay	662,702	674,749	(12,047)	222,947
Total public safety	<u>1,925,307</u>	<u>1,895,473</u>	<u>29,834</u>	<u>1,420,903</u>
Debt Service:				
Principal	27,723	27,723	-	-
Interest	6,534	6,534	-	-
Total debt service	<u>34,257</u>	<u>34,257</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,959,564</u>	<u>1,929,730</u>	<u>29,834</u>	<u>1,420,903</u>
Revenues over (under) expenditures	<u>(951,015)</u>	<u>(949,225)</u>	<u>1,790</u>	<u>(448,744)</u>
Other Financing Sources (Uses):				
Transfer from General Fund	279,000	279,000	-	279,000
Long-term debt issued	600,000	606,384	6,384	182,000
Appropriated fund balance	72,015	-	(72,015)	-
Total other financing sources (uses)	<u>951,015</u>	<u>885,384</u>	<u>(65,631)</u>	<u>461,000</u>
Net change in fund balance	<u>\$ -</u>	<u>(63,841)</u>	<u>\$ (63,841)</u>	12,256
Fund Balance:				
Beginning of year - July 1		<u>266,927</u>		<u>254,671</u>
End of year - June 30		<u>\$ 203,086</u>		<u>\$ 266,927</u>

TOWN OF NEWPORT, NORTH CAROLINA**RECREATION FUND - NONMAJOR SPECIAL REVENUE FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FOR THE YEAR ENDED JUNE 30, 2020****WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019**

	2020			2019
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Miscellaneous	\$ 4,960	\$ -	\$ (4,960)	\$ 6,372
Expenditures:				
Recreation:				
Operating expenses	20,010	-	20,010	16,556
Revenues over (under) expenditures	(15,050)	-	15,050	(10,184)
Other Financing Sources (Uses):				
Appropriated fund balance	2,000	-	(2,000)	-
Transfers in	13,050	-	(13,050)	14,745
Transfers out	-	(17,699)	(17,699)	-
Total other financing sources (uses)	15,050	(17,699)	(32,749)	14,745
Net change in fund balance	\$ -	(17,699)	\$ (17,699)	4,561
Fund Balance:				
Beginning of year - July 1		17,699		13,138
End of year - June 30		\$ -		\$ 17,699

TOWN OF NEWPORT, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND

SCHEDULE OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2020

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	2020			2019
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Operating Revenues:				
Charges for sales and services:				
Water charges	\$ 2,185,089	\$ 1,939,263	\$ (245,826)	\$ 1,928,385
Miscellaneous	-	43,407	43,407	38,722
Total operating revenues	<u>2,185,089</u>	<u>1,982,670</u>	<u>(202,419)</u>	<u>1,967,107</u>
Non-Operating Revenues:				
Impact fees	14,000	207,525	193,525	87,786
Interest income	-	89	89	88
Total non-operating revenues	<u>14,000</u>	<u>207,614</u>	<u>193,614</u>	<u>87,874</u>
Total revenues	<u>2,199,089</u>	<u>2,190,284</u>	<u>(8,805)</u>	<u>2,054,981</u>
Operating Expenditures:				
Salaries and employee benefits	641,256	505,532	135,724	551,120
Supplies, maintenance, and administration	720,565	543,565	177,000	824,648
Maintenance and repairs	276,300	191,018	85,282	268,595
Capital outlay	<u>314,242</u>	<u>346,472</u>	<u>(32,230)</u>	<u>279,315</u>
Total operating expenditures	<u>1,952,363</u>	<u>1,586,587</u>	<u>365,776</u>	<u>1,923,678</u>
Debt Service:				
Principal repayment	598,443	598,443	-	616,600
Interest	<u>137,958</u>	<u>108,909</u>	<u>29,049</u>	<u>111,041</u>
Total debt service	<u>736,401</u>	<u>707,352</u>	<u>29,049</u>	<u>727,641</u>
Total expenditures	<u>2,688,764</u>	<u>2,293,939</u>	<u>394,825</u>	<u>2,651,319</u>
Revenues over (under) expenditures	<u>(489,675)</u>	<u>(103,655)</u>	<u>386,020</u>	<u>(596,338)</u>
Other Financing Sources (Uses):				
Long-term debt issued	-	-	-	98,380
Transfer from Water and Sewer Capital Project Fund	34,900	-	(34,900)	-
Appropriated fund balance	<u>454,775</u>	-	<u>(454,775)</u>	-
Total other financing sources (uses)	<u>489,675</u>	-	<u>(489,675)</u>	<u>98,380</u>

TOWN OF NEWPORT, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)**

FOR THE YEAR ENDED JUNE 30, 2020

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	<u>2020</u>			<u>2019</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	(103,655)	<u>\$ (103,655)</u>	<u>\$ (497,958)</u>

Reconciliation from Budgetary Basis

(Modified Accrual) to Full Accrual Basis:

Capital outlay	346,472
Depreciation	(456,898)
Capital contribution	586,182
Change in deferred outflows of resources - pensions	(1,864)
Change in deferred inflows of resources - pensions	(205)
Principal payment	598,443
Change in accrued vacation	<u>(7,483)</u>
Change in net position	<u>\$ 960,992</u>

TOWN OF NEWPORT, NORTH CAROLINA**WATER AND SEWER CAPITAL PROJECT FUND****CAPITAL PROJECT FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020**

		Actual			
	Project Authorization	Prior Years	Current Year	Total	Variance Over/Under
Expenditures:					
Contracted services	\$ 285,000	\$ 261,573	\$ -	\$ 261,573	\$ 23,427
Revenues over (under) expenditures	(285,000)	(261,573)	-	(261,573)	23,427
Other Financing Sources (Uses):					
Transfers in	285,000	285,000	-	285,000	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 23,427	\$ -	\$ 23,427	\$ 23,427

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2020

Fiscal Year	Uncollected Balance July 1, 2019	Additions	Collections and Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 1,327,865	\$ 1,319,054	\$ 8,811
2018-2019	10,398	-	5,392	5,006
2017-2018	3,881	-	1,841	2,040
2016-2017	2,929	-	1,946	983
2015-2016	258	-	123	135
2014-2015	553	-	-	553
Total	<u>\$ 18,019</u>	<u>\$ 1,327,865</u>	<u>\$ 1,328,356</u>	17,528
Less allowance for uncollectible ad valorem taxes receivable				<u>(4,824)</u>
Ad Valorem Taxes Receivable, Net				<u>\$ 12,704</u>
Reconciliation with Revenues:				
Taxes, ad valorem - General Fund				\$ 1,313,503
Penalties and interest				(4,648)
Taxes written off				9,663
Miscellaneous adjustments				<u>9,838</u>
Total collections and credits				<u>\$ 1,328,356</u>

TOWN OF NEWPORT, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2020

	Town-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	\$ 309,645,070	\$ 0.357	\$ 1,105,433	\$ 1,105,433	\$ -
Utility levy	4,798,343	0.357	17,130	17,130	-
Motor vehicle levy	72,270,028	0.357	259,703	-	259,703
Discoveries	-	0.357	-	-	-
Releases	(12,125,770)		(43,289)	(43,289)	-
Exemptions	(3,112,678)	0.357	(11,112)	(11,112)	-
Total property valuation	<u>\$ 371,474,993</u>				
Net Levy			1,327,865	1,068,162	259,703
Uncollected taxes at June 30, 2020			<u>8,811</u>	<u>8,811</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,319,054</u>	<u>\$ 1,059,351</u>	<u>\$ 259,703</u>
Current Levy Collection Percentage			<u>99.34%</u>	<u>99.18%</u>	<u>100.00%</u>
Prior Year Levy Collection Percentage			<u>99.21%</u>	<u>99.02%</u>	<u>100.00%</u>

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Newport, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Newport's basic financial statements, and have issued our report thereon dated April 25, 2023.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Findings 2020-001, 2020-002, 2020-003, 2020-004, 2020-005 and 2020-006 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Newport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. 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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2020-003 and 2020-005.

Town of Newport's Responses to Findings

The Town of Newport's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Town of Newport's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
April 25, 2023

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

1. Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether
the financial statements audited were
prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(s) identified? None reported
- Non-compliance material to financial
statements noted? Yes

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings

Material Weakness:

Finding 2020-001

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules. Town management has hired a consultant to assist with bookkeeping, year-end closing entries and to assist with future audits. Management of the Town does accept responsibility for the preparation and fair presentation of the financial statements and they possess the skills and knowledge to adequately oversee and perform a detail review of the drafted full accrual, full disclosure financial statements and reconcile the financial statements to the records of the Town.

Effect: Errors in financial reporting could occur.

Cause: Computer system problems as well as turnover and short staffing in financial positions has delayed audits and many adjusting journal entries were made after the audit commenced.

Identification of a Repeat Finding: This is a repeat, modified, finding from the immediate previous audit, 2019-001.

Recommendation: The Town should exercise due care in overseeing drafting services, reconciling, and reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Name of Contact Person: William Shanahan, Town Manager

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness

Finding 2020-002:

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: Due to staff turnover and limited number of personnel in the Town office, there are inherent limitations to segregation of duties. Presently, the same individual can open the mail, prepare deposits, and post cash receipts. Bank reconciliations and journal entries are prepared by an individual that has full access to the accounting software. The finance office reports journal entries to the Board monthly and includes a monthly report of all general ledger journal entries. The payroll processing is performed by an individual having access to the human resource files. However, payroll processing is reviewed by the Finance Officer.

Effect: Adjustments could be made without oversight.

Cause: There are a limited number of personnel for certain functions.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2019-002.

Recommendation: Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. To the extent possible, alternative controls should be used to compensate for any lack of segregation of duties.

Name of Contact Person: William Shanahan, Town Manager

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness, Non-Compliance

Finding 2020-003:

Criteria: N.C. General Statute 159-28(a) requires that all money received and expended by a local government should be included in the budget ordinance. N.C. General Statute 159-28(b) requires the finance officer to determine that a balance remains in the appropriations sufficient to pay the amount to be disbursed. The statutes require that funds be appropriated before incurring the obligation for funds. These requirements imply that the Town has a responsibility to design a system to monitor its compliance with the budget ordinance and the General Statutes pertaining to local government finance.

Condition: There is over expenditure in several of the Town's funds. A detailed note of the excess of expenditures over appropriations is found in the notes to the financial statements of the Town's audit report.

Effect: Expenditures exceed budget amounts.

Cause: Lack of budgetary control, employee turnover and new software system.

Identification of a Repeat Finding: This is a modified repeat finding from the immediate previous audit, 2019-003.

Recommendation: Management and the Board should review the budget reports to ensure compliance in future years.

Name of Contact Person: William Shanahan, Town Manager

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness

Finding 2020-004:

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting and to safeguard assets.

Condition: Cash reconciliations were not prepared and balanced to the general ledger in a timely manner during the year. Internal control over the bank reconciliation process is critical.

Effect: Lack of proper implementation of internal control policies greatly increases the risk of an error or irregularity going undetected and can result in improper financial reporting. Cash was not balanced in a timely manner and errors in the conversion to a new software were not quickly detected.

Cause: The Town's policies over cash reconciliations are not being followed.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2019-004.

Recommendation: Require cash reconciliations be prepared and balanced to the general ledger control accounts on a monthly basis.

Name of Contact Person: William Shanahan, Town Manager

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness, Non-Compliance

Finding 2020-005:

Criteria: N.C. General Statutes 159-34 requires the Town to have an audit as soon as possible after the close of each fiscal year. N.C. General Statutes 159-33.1 requires the Town to submit annual and semi-annual reports on a timely basis.

Condition: The Town had a new software system, and the finance officer position has turned over several times. The Town did not have reconciliations prepared that tied to the general ledger and was not ready for its annual audit which caused the audit report to be issued late. In addition, the Town was not timely with other annual and semi-annual required reports.

Effect: The conditions above caused a delay in the issuance of the Town's audit and other required reports.

Cause: The Town changed financial software which caused bank reconciliation and trial balance errors. Also, the finance officer position was turned over several times.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2019-005.

Recommendation: Establish policies in the finance department to maintain an audit folder containing the prior year audit documentation needed. Establish internal controls that require cash reconciliations to be complete within a certain time period.

Name of Contact Person: William Shanahan, Town Manager

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Correction Action Plan in this audit report.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2. Financial Statement Findings (continued)

Material Weakness

Finding 2020-006:

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Numerous errors were noted in the current year. Bank reconciliations were not timely, support for transactions were not in evidence, and reconciliations from subsidiary ledgers to the general ledger were not timely.

Effect: Lack of proper implementation of internal control policies, training on software, record retention policy, and turnover greatly increase the risk of an error or irregularity going undetected and can result in improper financial reporting.

Cause: The Town's internal control policies are not being followed and training on software is needed.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2019-006.

Recommendation: Finance officer should be trained on software, set up a policy for record retention, and monitor internal controls so that daily, monthly and annual work is completed. Because of the turnover and staff shortage, support with year-end closing and audit preparation is recommended.

Name of Contact Person: William Shanahan, Town Manager

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

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TOWN OF NEWPORT

Dennis Barber, Mayor
David Heath, Mayor Pro Tem

Council Members
Mark Eadie
Danny Fornes
Rhonda Shinn
Jeanne Benedict



www.newportnc.gov

William P. Shanahan Jr.
Town Manager

Kelley A. Caldwell
Town Clerk

200 Howard Blvd.
Newport, NC 28570
252-223-4749

Financial Statement Findings

Material Weakness:

Finding 2020 – 001 – Financial Reporting Requirements

Contact Person: William P. Shanahan Jr., Town Manager

Corrective Action: Management is aware of this weakness; but, due to the cost-benefit analysis, the Town will continue to rely on the external auditor to draft the year-end financial statements. The Town will exercise due care in reviewing the financial statements drafted by the external auditor as it is responsible for the accuracy of the audited financial statements.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2020 – 002 – Segregation of Duties

Contact Person: William P. Shanahan Jr., Town Manager

Corrective Action: The Town employs less than forty-five people on a full-time basis with over two-thirds of these employees in a Police, Fire, Utility, or Public Works capacity. The Town's ability to segregate duties in the Finance Department is limited by staffing levels; however, the following actions will be taken in the future to further establish strong internal controls. Increase credentialed staffing for core financial and administrative functions. Enhance staff cross-training in the Finance area. Until the Town can address staffing levels at Town Hall, this will continue to be an issue.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness, Non-Compliance:

Finding 2020 – 003 – Excess of Expenditures over appropriations

Contact Person: William P. Shanahan Jr., Town Manager

Corrective Action: Management and the Council will more closely review the budget reports to ensure compliance in future years.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2020 – 004 – Bank Reconciliations

Contact Person: William P. Shanahan Jr., Town Manager

Corrective Action: Management is aware of the problem regarding lack of timely bank reconciliations. Management will implement an improved frequency of bank reconciliations as well as additional oversight going forward to ensure required monthly reconciliations are completed by a specific date each month.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2020 – 005 – Delayed Audit Completion

Contact Person: William P. Shanahan Jr., Town Manager

Corrective Action: Management is aware of the problem regarding the late audit report. Management will exercise additional oversight going forward to ensure future audits are submitted in a timely manner. Significant changes have occurred since the last audit submission including new software and a new Finance Director. Management believes these problems are resolved. The new Finance Director carries significant certification and local government finance acumen that will immediately resolve responsiveness to audit completion and overall fiscal health of the town.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2020 – 006– Errors in Financial Reporting

Contact Person: William P. Shanahan Jr., Town Manager

Corrective Action: Management will schedule training for the financial software and set up a policy for record retention. Internal controls will be monitored to ensure that daily, monthly, and annual work is completed in a timely manner. The Town will also contract with a CPA to assist with year-end closing and audit prep as needed.

Proposed Completion Date: The above procedure has been implemented.

Sincerely,



William P. Shanahan Jr.
Town Manager
Town of Newport, NC
252-223-4749, ext 204

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2020

Finding 2019-001:

Status: Modified and repeated as 2020-001

Finding 2019-002:

Status: Repeated as 2020-002

Finding 2019-003

Status: Repeated as 2020-003

Finding 2019-004

Status: Repeated as 2020-004

Finding 2019-005

Status: Repeated as 2020-005

Finding 2019-006

Status: Repeated as 2020-006

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