

**TOWN OF NEWPORT
NORTH CAROLINA**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2021

MAYOR

Dennis Barber

TOWN COUNCIL MEMBERS

Mark Eadie

Brenda Harris

Timothy Quillen

Tristan Thomas

Ralph Williams, Jr.

TOWN MANAGER

William Shanahan, Jr.

TOWN OF NEWPORT, NORTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2021

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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, and each major fund of the Town of Newport, North Carolina, as of and for the year ended June 30, 2021, 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, and each major fund of the Town of Newport, North Carolina, as of June 30, 2021, 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 any 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 March 1, 2024 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
March 1, 2024

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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, 2021, 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

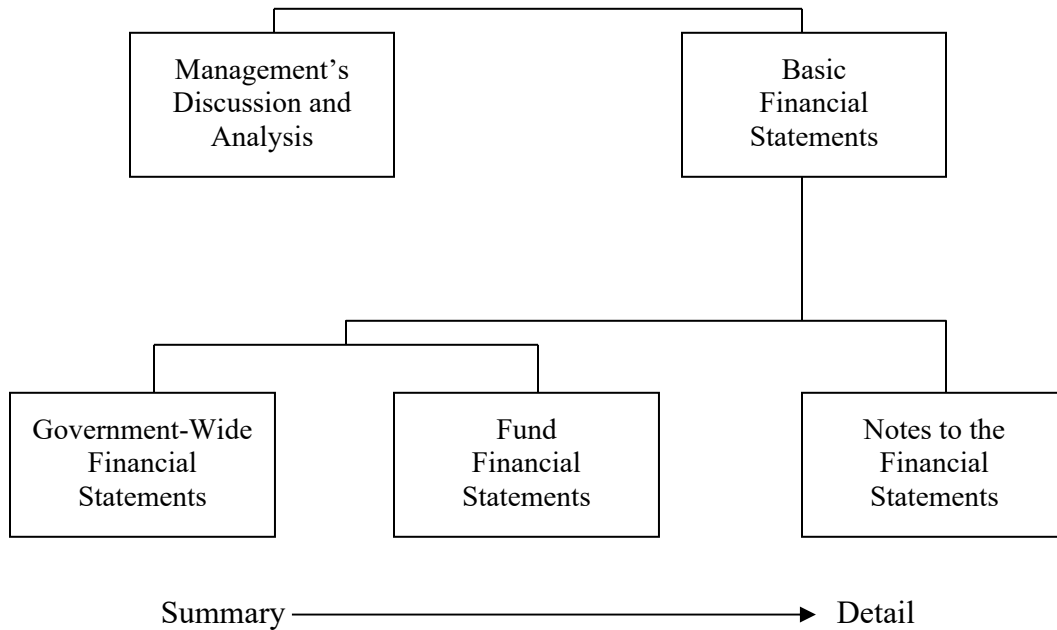
- The Town of Newport's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$9,378,542 (net position).
- The Town's total net position increased by \$434,560 with 101% of the increase coming from business activities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,217,836 with a net decrease of \$235,688 in fund balance. Approximately 32% of this total amount, or \$712,182, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,570,048, or 46%, 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 \$9,378,542 at the close of the most recent fiscal year. The Town's net position increased by \$434,560 for the fiscal year ended June 30, 2021.

A portion of the Town's net position (68%) 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 (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,301,665, may be used to meet the government's ongoing obligation to citizens and creditors.

Town of Newport's Net Position

Figure 2

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Assets:						
Current and other assets	\$ 3,040,827	\$ 2,929,077	\$ 1,204,110	\$ 943,149	\$ 4,244,937	\$ 3,872,226
Capital assets	<u>2,136,769</u>	<u>1,868,240</u>	<u>12,432,864</u>	<u>12,847,140</u>	<u>14,569,633</u>	<u>14,715,380</u>
Total assets	<u>5,177,596</u>	<u>4,797,317</u>	<u>13,636,974</u>	<u>13,790,289</u>	<u>18,814,570</u>	<u>18,587,606</u>
Deferred Outflows						
of Resources	<u>721,208</u>	<u>473,644</u>	<u>11,679</u>	<u>8,037</u>	<u>732,887</u>	<u>481,681</u>
Liabilities:						
Long-term liabilities	2,030,396	1,675,273	7,011,220	7,492,731	9,041,616	9,168,004
Other liabilities	<u>451,615</u>	<u>162,845</u>	<u>646,707</u>	<u>753,925</u>	<u>1,098,322</u>	<u>916,770</u>
Total liabilities	<u>2,482,011</u>	<u>1,838,118</u>	<u>7,657,927</u>	<u>8,246,656</u>	<u>10,139,938</u>	<u>10,084,774</u>
Deferred Inflows						
of Resources	<u>28,647</u>	<u>40,050</u>	<u>330</u>	<u>481</u>	<u>28,977</u>	<u>40,531</u>
Net Position:						
Net investment						
in capital assets	1,406,636	1,090,121	4,958,059	4,770,874	6,364,695	5,860,995
Restricted	712,182	837,243	-	-	712,182	837,243
Unrestricted	<u>1,269,328</u>	<u>1,465,429</u>	<u>1,032,337</u>	<u>780,315</u>	<u>2,301,665</u>	<u>2,245,744</u>
Total net position	<u>\$ 3,388,146</u>	<u>\$ 3,392,793</u>	<u>\$ 5,990,396</u>	<u>\$ 5,551,189</u>	<u>\$ 9,378,542</u>	<u>\$ 8,943,982</u>

Town of Newport's Changes in Net Position

Figure 3

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues:						
Program revenues:						
Charges for services	\$ 883,682	\$ 860,782	\$ 2,253,353	\$ 2,190,195	\$ 3,137,035	\$ 3,050,977
Operating grants and contributions	495,631	1,010,709	-	-	495,631	1,010,709
Capital grants and contributions	115,496	120,770	-	586,182	115,496	706,952
General revenues:						
Property taxes	2,039,592	1,733,593	-	-	2,039,592	1,733,593
Other taxes	1,071,986	1,095,466	-	-	1,071,986	1,095,466
Other	64	3,306	88	89	152	3,395
Total revenues	<u>4,606,451</u>	<u>4,824,626</u>	<u>2,253,441</u>	<u>2,776,466</u>	<u>6,859,892</u>	<u>7,601,092</u>
Expenses:						
General government	665,615	714,107	-	-	665,615	714,107
Public safety	2,724,227	2,342,212	-	-	2,724,227	2,342,212
Public works and streets	799,915	516,926	-	-	799,915	516,926
Sanitation	328,454	316,367	-	-	328,454	316,367
Culture and recreation	70,716	109,059	-	-	70,716	109,059
Interest on long-term debt	22,171	7,351	-	-	22,171	7,351
Water and sewer	-	-	1,814,234	1,815,474	1,814,234	1,815,474
Total expenses	<u>4,611,098</u>	<u>4,006,022</u>	<u>1,814,234</u>	<u>1,815,474</u>	<u>6,425,332</u>	<u>5,821,496</u>
Change in net position	(4,647)	818,604	439,207	960,992	434,560	1,779,596
Net Position:						
Beginning of year, July 1	<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>
End of year, June 30	<u>\$ 3,388,146</u>	<u>\$ 3,392,793</u>	<u>\$ 5,990,396</u>	<u>\$ 5,551,189</u>	<u>\$ 9,378,542</u>	<u>\$ 8,943,982</u>

Governmental Activities. Governmental activities decreased the Town's net position by \$4,647. Key elements of this decrease are as follows:

In part, due to the purchase of a Fire tanker, police truck and continued Hurricane Florence repairs in 2021.

Business-Type Activities. Business-type activities increased the Town of Newport's net position by \$439,207. 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 service charges for water and sewer due to a 2% rate increase.

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 \$1,989,404 and total fund balance was \$2,325,800. The Town currently has available fund balance of 57.92% of General Fund expenditures and transfers to other funds, less long-term debt issued, while total fund balance represents 68% of the same amount.

At June 30, 2021, the governmental funds of the Town of Newport reported a combined fund balance of \$2,217,836, with a net decrease in fund balance of \$235,688. Included in this change in fund balance is an increase in the General Fund of \$75,362, and a decrease in the Fire and Rescue District Special Revenue Fund of \$311,050.

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.

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 \$1,032,337. The change in net position was an increase of \$439,207. 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, 2021 totals \$14,569,633 (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 \$268,529. In the current year a fire tanker was purchased and added to vehicles. Business type activities assets, net of depreciation, decreased by \$414,276 primarily due minimal asset additions and current depreciation expense.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 402,637	\$ 352,637	\$ 312,764	\$ 312,764	\$ 715,401	\$ 665,401
Construction in progress	257,595	-	418,017	371,987	675,612	371,987
Infrastructure	14,408	16,862	-	-	14,408	16,862
Equipment and fixtures	342,649	345,090	191,543	235,878	534,192	580,968
Vehicles	816,569	823,945	30,447	42,605	847,016	866,550
Building and improvements	302,911	329,706	-	-	302,911	329,706
Plant and distribution systems	-	-	11,480,093	11,883,906	11,480,093	11,883,906
Total	\$ 2,136,769	\$ 1,868,240	\$ 12,432,864	\$ 12,847,140	\$ 14,569,633	\$ 14,715,380

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, 2021, the Town of Newport had total bonded debt outstanding of \$1,803,685. Of this, \$1,803,685 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	
	2021	2020	2021	2020	2021	2020
General obligation bonds	\$ -	\$ -	\$ 1,803,685	\$ 1,857,185	\$ 1,803,685	\$ 1,857,185
State revolving loan	-	-	5,637,314	6,039,978	5,637,314	6,039,978
Compensated absences	70,945	51,301	16,937	9,413	87,882	60,714
Direct borrowing notes payable	730,133	778,119	33,806	179,111	763,939	957,230
Net pension liability (LGERS)	951,482	647,130	19,418	13,207	970,900	660,337
Total pension liability (LEO)	407,313	302,109	-	-	407,313	302,109
Total	\$ 2,159,873	\$ 1,778,659	\$ 7,511,160	\$ 8,098,894	\$ 9,671,033	\$ 9,877,553

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 \$23,391,153.

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, 2022

Governmental Activities. Property tax revenues are expected to increase due to a rate increase to \$.440.

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, 2021

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,829,719	\$ 839,266	\$ 2,668,985
Intergovernmental receivable	78,513	-	78,513
Property taxes receivable	5,776	-	5,776
Accounts receivable	791,708	261,288	1,052,996
Restricted assets:			
Restricted cash and cash equivalents	335,111	103,556	438,667
Total current assets	<u>3,040,827</u>	<u>1,204,110</u>	<u>4,244,937</u>
Non-current assets:			
Capital assets:			
Capital assets, non-depreciable	660,232	730,781	1,391,013
Capital assets, net	<u>1,476,537</u>	<u>11,702,083</u>	<u>13,178,620</u>
Total non-current assets	<u>2,136,769</u>	<u>12,432,864</u>	<u>14,569,633</u>
Total assets	<u>5,177,596</u>	<u>13,636,974</u>	<u>18,814,570</u>
Deferred Outflows of Resources:			
Pension deferrals	500,168	4,736	504,904
Contributions to pension plan in current fiscal year	221,040	6,943	227,983
Total deferred outflows of resources	<u>721,208</u>	<u>11,679</u>	<u>732,887</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	322,138	43,211	365,349
Liabilities to be paid from restricted assets:			
Long-term debt due within one year	129,477	499,940	629,417
Total current liabilities	<u>451,615</u>	<u>646,707</u>	<u>1,098,322</u>
Long-term liabilities:			
Long-term debt due in more than one year	671,601	6,991,802	7,663,403
Net pension liability - LGERS	951,482	19,418	970,900
Total pension liability - LEO	<u>407,313</u>	-	<u>407,313</u>
Total long-term liabilities	<u>2,030,396</u>	<u>7,011,220</u>	<u>9,041,616</u>
Total liabilities	<u>2,482,011</u>	<u>7,657,927</u>	<u>10,139,938</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

**STATEMENT OF NET POSITION
JUNE 30, 2021**

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Deferred Inflows of Resources:			
Prepaid taxes	1,927	-	1,927
Pension deferrals	26,720	330	27,050
Total deferred inflows of resources	<u>28,647</u>	<u>330</u>	<u>28,977</u>
Net Position:			
Net investment in capital assets	1,406,636	4,958,059	6,364,695
Restricted for stabilization by state statute	377,071	-	377,071
Restricted for streets	335,111	-	335,111
Unrestricted	1,269,328	1,032,337	2,301,665
Total net position	<u>\$ 3,388,146</u>	<u>\$ 5,990,396</u>	<u>\$ 9,378,542</u>

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, 2021

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 665,615	\$ 146,155	\$ -	\$ -
Public safety	2,724,227	428,075	495,591	-
Public works and streets	799,915	-	-	115,496
Sanitation	328,454	309,452	-	-
Cultural and recreation	70,716	-	40	-
Interest on long-term debt	22,171	-	-	-
Total governmental activities	<u>4,611,098</u>	<u>883,682</u>	<u>495,631</u>	<u>115,496</u>
Business-Type Activities:				
Water and sewer	<u>1,814,234</u>	<u>2,253,353</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 6,425,332</u>	<u>\$ 3,137,035</u>	<u>\$ 495,631</u>	<u>\$ 115,496</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, 2021

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Functions/Programs			
Primary Government:			
Governmental Activities:			
General government	\$ (519,460)	\$ -	\$ (519,460)
Public safety	(1,800,561)	-	(1,800,561)
Public works and streets	(684,419)	-	(684,419)
Sanitation	(19,002)	-	(19,002)
Cultural and recreation	(70,676)	-	(70,676)
Interest on long-term debt	(22,171)	-	(22,171)
Total governmental activities	(3,116,289)	-	(3,116,289)
Business-Type Activities:			
Water and sewer	-	439,119	439,119
Total primary government	(3,116,289)	439,119	(2,677,170)
General Revenues:			
Property tax	2,039,592	-	2,039,592
Sales tax	616,306	-	616,306
Other taxes	455,680	-	455,680
Investment earnings	64	88	152
Total general revenues	3,111,642	88	3,111,730
Change in net position	(4,647)	439,207	434,560
Net Position:			
Beginning of year, July 1	3,392,793	5,551,189	8,943,982
End of year, June 30	\$ 3,388,146	\$ 5,990,396	\$ 9,378,542

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

TOWN OF NEWPORT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Fire and Rescue District Fund</u>	
Assets:			
Cash and cash equivalents	\$ 1,767,187	\$ 62,532	\$ 1,829,719
Property taxes receivable	5,776	-	5,776
Intergovernmental receivable	78,513	-	78,513
Accounts receivable	751,033	40,675	791,708
Restricted cash and cash equivalents	335,111	-	335,111
Total assets	<u>\$ 2,937,620</u>	<u>\$ 103,207</u>	<u>\$ 3,040,827</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	<u>\$ 110,967</u>	<u>\$ 211,171</u>	<u>\$ 322,138</u>
Deferred Inflows of Resources:			
Unavailable taxes receivable	5,776	-	5,776
Prepaid taxes	1,927	-	1,927
Grant receivable	456,317	-	456,317
Unavailable garbage fees receivable	36,833	-	36,833
Total deferred inflows of resources	<u>500,853</u>	<u>-</u>	<u>500,853</u>
Fund Balances:			
Restricted:			
Stabilization by state statute	336,396	40,675	377,071
Restricted for streets	335,111	-	335,111
Assigned:			
Subsequent year's expenditures	84,245	-	84,245
Unassigned	<u>1,570,048</u>	<u>(148,639)</u>	<u>1,421,409</u>
Total fund balances	<u>2,325,800</u>	<u>(107,964)</u>	<u>2,217,836</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,937,620</u>	<u>\$ 103,207</u>	<u>\$ 3,040,827</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

	Total Governmental Funds
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balances	\$ 2,217,836
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	2,136,769
Net pension liability	(951,482)
Total pension liability	(407,313)
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(801,078)
Pension related deferrals - deferred inflows	(26,720)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	221,040
Pension related deferrals - deferred outflows	500,168
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.	498,926
Net position of governmental activities per Exhibit A	\$ 3,388,146

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, 2021

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Fire and Rescue District Fund</u>	
Revenues:			
Taxes	\$ 1,572,687	\$ 473,833	\$ 2,046,520
Unrestricted intergovernmental	980,319	91,667	1,071,986
Restricted intergovernmental	501,248	-	501,248
Licenses, permits, and fees	99,169	-	99,169
Sales and services	309,492	438,871	748,363
Investment earnings	64	-	64
Miscellaneous	46,986	7,356	54,342
Total revenues	<u>3,509,965</u>	<u>1,011,727</u>	<u>4,521,692</u>
Expenditures:			
Current:			
General government	684,759	-	684,759
Public safety	1,231,099	1,570,262	2,801,361
Public works and streets	813,441	-	813,441
Sanitation	314,644	-	314,644
Cultural and recreation	73,018	-	73,018
Debt service:			
Principal	8,591	83,753	92,344
Interest	551	21,620	22,171
Total expenditures	<u>3,126,103</u>	<u>1,675,635</u>	<u>4,801,738</u>
Revenues over (under) expenditures	<u>383,862</u>	<u>(663,908)</u>	<u>(280,046)</u>
Other Financing Sources (Uses):			
Long-term debt issued	-	44,358	44,358
Transfers in	-	308,500	308,500
Transfers out	(308,500)	-	(308,500)
Total other financing sources (uses)	<u>(308,500)</u>	<u>352,858</u>	<u>44,358</u>
Net change in fund balances	75,362	(311,050)	(235,688)
Fund Balances:			
Beginning of year, July 1	<u>2,250,438</u>	<u>203,086</u>	<u>2,453,524</u>
End of year, June 30	<u>\$ 2,325,800</u>	<u>\$ (107,964)</u>	<u>\$ 2,217,836</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, 2021

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)	\$ (235,688)
<p>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:</p>	
Property taxes and solid waste fees	(17,724)
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.	451,885
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(183,356)
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.	92,344
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	102,483
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(19,644)
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.	(44,358)
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities.	(32,125)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	51,273
Expenses related to pensions that do not require current financial resources are not reported as expenditures in the governmental funds statement.	<u>(169,737)</u>
Total changes in net position of governmental activities per Exhibit B	<u>\$ (4,647)</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, 2021

	General Fund			Variance with Final Budget Over/Under
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 1,492,470	\$ 1,492,470	\$ 1,572,687	\$ 80,217
Unrestricted intergovernmental	815,820	815,820	980,319	164,499
Restricted intergovernmental	260,320	540,960	501,248	(39,712)
Licenses, permits, and fees	65,000	92,500	99,169	6,669
Sales and services	300,800	300,800	309,492	8,692
Investment earnings	1,500	1,500	64	(1,436)
Miscellaneous	22,060	73,677	46,986	(26,691)
Total revenues	<u>2,957,970</u>	<u>3,317,727</u>	<u>3,509,965</u>	<u>192,238</u>
Expenditures:				
Current:				
General government	596,490	683,957	684,759	(802)
Public safety	1,039,090	1,209,663	1,231,099	(21,436)
Highways and streets	705,735	1,002,857	813,441	189,416
Sanitation	299,550	299,550	314,644	(15,094)
Cultural and recreation	81,430	94,424	73,018	21,406
Debt service:				
Principal	8,595	8,594	8,591	3
Interest	550	551	551	-
Total expenditures	<u>2,731,440</u>	<u>3,299,596</u>	<u>3,126,103</u>	<u>173,493</u>
Revenues over (under) expenditures	<u>226,530</u>	<u>18,131</u>	<u>383,862</u>	<u>365,731</u>
Other Financing Sources (Uses):				
Appropriated fund balance	81,970	440,369	-	(440,369)
Long-term debt issued	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(308,500)	(458,500)	(308,500)	150,000
Total other financing sources (uses)	<u>(226,530)</u>	<u>(18,131)</u>	<u>(308,500)</u>	<u>(290,369)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	75,362	<u>\$ 75,362</u>
Fund Balances:				
Beginning of year, July 1			<u>2,250,438</u>	
End of year, June 30			<u>\$ 2,325,800</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, 2021

	<u>Fire and Rescue District Special Revenue Fund</u>			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 465,500	\$ 465,500	\$ 473,833	\$ 8,333
Unrestricted intergovernmental	100,000	100,000	91,667	(8,333)
Restricted intergovernmental	-	-	-	-
Licenses, permits, and fees	-	-	-	-
Sales and services	380,000	380,000	438,871	58,871
Investment earnings	-	-	-	-
Miscellaneous	15,300	123,062	7,356	(115,706)
Total revenues	<u>960,800</u>	<u>1,068,562</u>	<u>1,011,727</u>	<u>(56,835)</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	1,241,970	1,534,079	1,570,262	(36,183)
Highways and streets	-	-	-	-
Sanitation	-	-	-	-
Cultural and recreation	-	-	-	-
Debt service:				
Principal	69,150	68,065	83,753	(15,688)
Interest	6,740	22,531	21,620	911
Total expenditures	<u>1,317,860</u>	<u>1,624,675</u>	<u>1,675,635</u>	<u>(50,960)</u>
Revenues over (under) expenditures	<u>(357,060)</u>	<u>(556,113)</u>	<u>(663,908)</u>	<u>(107,795)</u>
Other Financing Sources (Uses):				
Appropriated fund balance	48,560	97,613	-	(97,613)
Long-term debt issued	-	-	44,358	44,358
Transfers in	308,500	458,500	308,500	(150,000)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>357,060</u>	<u>556,113</u>	<u>352,858</u>	<u>(203,255)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(311,050)</u>	<u>\$ (311,050)</u>
Fund Balances:				
Beginning of year, July 1			<u>203,086</u>	
End of year, June 30			<u>\$ (107,964)</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, 2021

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 839,266
Accounts receivable, net	261,288
Cash and cash equivalents, restricted	<u>103,556</u>
Total current assets	<u>1,204,110</u>
Non-current assets:	
Capital assets:	
Land	312,764
Construction in progress	418,017
Capital assets, net of depreciation	<u>11,702,083</u>
Total capital assets	<u>12,432,864</u>
Total non-current assets	<u>12,432,864</u>
Total assets	<u>13,636,974</u>
Deferred Outflows of Resources:	
Pension deferrals	4,736
Contributions to pension plan in current fiscal year	<u>6,943</u>
Total deferred outflows of resources	<u>11,679</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	43,211
Current portion of long-term debt	499,940
Liabilities to be paid from restricted assets:	
Customer deposits	<u>103,556</u>
Total current liabilities	<u>646,707</u>
Non-current liabilities:	
Compensated absences payable	8,468
Other long-term debt	6,983,334
Net pension liability	<u>19,418</u>
Total non-current liabilities	<u>7,011,220</u>
Total liabilities	<u>7,657,927</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>330</u>
Net Position:	
Net investment in capital assets	4,958,059
Unrestricted	<u>1,032,337</u>
Total net position	<u>\$ 5,990,396</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, 2021**

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for sales and services	\$ 2,114,353
Impact fees	131,778
Miscellaneous revenue	7,222
Total operating revenues	<u>2,253,353</u>
Operating Expenses:	
Salaries and benefits	518,801
Supplies, maintenance, and administration	725,871
Depreciation	467,673
Total operating expenses	<u>1,712,345</u>
Operating income (loss)	<u>541,008</u>
Non-Operating Revenues (Expenses):	
Interest income	88
Interest expense and fiscal charges	<u>(101,889)</u>
Total non-operating revenues (expenses)	<u>(101,801)</u>
Change in net position	439,207
Net Position:	
Beginning of year, July 1	<u>5,551,189</u>
End of year, June 30	<u>\$ 5,990,396</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, 2021

	<u>Enterprise Fund</u> <u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 2,332,178
Cash paid for goods and services	(741,262)
Cash paid to employees	<u>(508,859)</u>
Net cash provided (used) by operating activities	<u>1,082,057</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(53,397)
Principal paid on long-term debt	(601,468)
Interest paid on long-term debt	<u>(101,889)</u>
Net cash provided (used) by capital and related financing activities	<u>(756,754)</u>
Cash Flows from Investing Activities:	
Interest received from investments	<u>88</u>
Net increase (decrease) in cash and cash equivalents	325,391
Cash and Cash Equivalents:	
Beginning of year, July 1	<u>617,431</u>
End of year, June 30	<u>\$ 942,822</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 541,008
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	467,673
Changes in Assets and Liabilities:	
(Increase) decrease in accounts receivable	64,437
(Increase) decrease in deferred outflows of resources for pensions	(3,642)
Increase (decrease) in deferred inflows of resources for pensions	(151)
Increase (decrease) in net pension liability	6,211
Increase (decrease) in trade accounts payable and accrued liabilities	(7,874)
Increase (decrease) in customer deposits	<u>14,395</u>
Net cash provided (used) by operating activities	<u>\$ 1,082,057</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, 2021

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, 2021

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.

The Town reports the following major governmental funds:

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, 2021. 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.

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, 2021

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, 2021

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, 2021

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>103,556</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, 2020. 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, 2021**

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	\$ 17,324	\$ 67,500

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.

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

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

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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.

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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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.

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 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)].	\$ 336,396	\$ 40,675
<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	-
Total restricted fund balances/net position	\$ 671,507	\$ 40,675

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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.

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	\$ 2,325,800
Less:	
Stabilization by state statute	<u>(336,396)</u>
Available for appropriation	<u>\$ 1,989,404</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

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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 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, 2021, the Town's deposits had a carrying amount of \$2,804,954 and a bank balance of \$2,864,449, 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, 2021, the Town's petty cash on hand totaled \$450.

Investments

At June 30, 2021, the Town had \$302,248 invested with North Carolina Capital Management Trust Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's and AAA-mf by Moody's Investor Service as of June 30, 2021. The Town has no formal policy regarding credit risk of its investments.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Intergovernmental Receivables

Intergovernmental receivables presented in the Balance Sheet and the Statement of Net Position consisted of the following at June 30, 2021:

Sales tax refund	\$ 78,513
Total	<u>\$ 78,513</u>

Capital Assets

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

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>
By Type:				
Non-Depreciable Capital Assets:				
Land	\$ 352,637	\$ 50,000	\$ -	\$ 402,637
Construction in progress	-	257,595	-	257,595
Total non-depreciable capital assets	<u>352,637</u>	<u>307,595</u>	<u>-</u>	<u>660,232</u>
Depreciable Capital Assets:				
Buildings and improvements	1,044,052	-	-	1,044,052
Infrastructure	41,088	-	-	41,088
Computer equipment	122,465	-	-	122,465
Equipment	887,806	71,224	-	959,030
Furniture and fixtures	46,450	-	-	46,450
Vehicles	2,623,861	73,066	(276,129)	2,420,798
Total depreciable capital assets	<u>4,765,722</u>	<u>144,290</u>	<u>(276,129)</u>	<u>4,633,883</u>
Less Accumulated Depreciation:				
Buildings and improvements	714,346	26,795	-	741,141
Infrastructure	24,226	2,454	-	26,680
Computer equipment	103,118	15,625	-	118,743
Equipment	564,475	56,726	-	621,201
Furniture and fixtures	44,038	1,314	-	45,352
Vehicles	1,799,916	80,442	(276,129)	1,604,229
Total accumulated depreciation	<u>3,250,119</u>	<u>\$ 183,356</u>	<u>\$ (276,129)</u>	<u>3,157,346</u>
Depreciable capital assets, net	<u>1,515,603</u>			<u>1,476,537</u>
Capital assets, net	<u>\$ 1,868,240</u>			<u>\$ 2,136,769</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Governmental Activities:

General government	\$	3,234
Public safety		166,158
Highways and streets		13,964
Total	\$	<u>183,356</u>

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

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land and improvements	\$ 312,764	\$ -	\$ -	\$ 312,764
Construction in progress	<u>371,987</u>	<u>46,030</u>	<u>-</u>	<u>418,017</u>
Total non-depreciable capital assets	<u>684,751</u>	<u>46,030</u>	<u>-</u>	<u>730,781</u>
Depreciable Capital Assets:				
Equipment	1,013,030	7,367	-	1,020,397
Plant and distribution system	18,861,533	-	-	18,861,533
Vehicles	<u>448,469</u>	<u>-</u>	<u>-</u>	<u>448,469</u>
Total depreciable capital assets	<u>20,323,032</u>	<u>7,367</u>	<u>-</u>	<u>20,330,399</u>
Less Accumulated Depreciation:				
Equipment	777,152	51,702	-	828,854
Plant and distribution system	6,977,627	403,813	-	7,381,440
Vehicles	<u>405,864</u>	<u>12,158</u>	<u>-</u>	<u>418,022</u>
Total accumulated depreciation	<u>8,160,643</u>	<u>\$ 467,673</u>	<u>\$ -</u>	<u>8,628,316</u>
Depreciable capital assets, net	<u>12,162,389</u>			<u>11,702,083</u>
Capital assets, net	<u>\$ 12,847,140</u>			<u>\$ 12,432,864</u>

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2021 is composed of the following elements:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Capital assets, net of depreciation	\$ 2,136,769	\$ 12,432,864
Long-term debt	<u>(730,133)</u>	<u>(7,474,805)</u>
Net investment in capital assets	<u>\$ 1,406,636</u>	<u>\$ 4,958,059</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

B. Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities on the Statement of Net Position at June 30, 2021 were as follows:

<u>Type of Payable</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Trade payables	\$ 307,635	\$ 38,214	\$ 345,849
Accrued salaries and fringes	14,503	4,997	19,500
Total	<u>\$ 322,138</u>	<u>\$ 43,211</u>	<u>\$ 365,349</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, 2021

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, 2021, was 10.9% of compensation for law enforcement officers and 10.15% 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 \$217,350 for the year ended June 30, 2021.

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, 2021, the Town reported a liability of \$970,900 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 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, 2020, measurement date, the Town's proportion was 0.02717%, which was a increase of 0.00299% from its proportion measured as of June 30, 2019.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

For the year ended June 30, 2021, the Town recognized pension expense of \$338,233. At June 30, 2021, 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	\$ 122,608	\$ -
Changes in assumptions	72,254	-
Net difference between projected and actual earnings on pension plan investments	136,629	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	35,127	16,509
Town contributions subsequent to the measurement date	217,350	-
Total	\$ 583,968	\$ 16,509

\$217,350 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, 2022. 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
2022	\$ 99,053
2023	130,087
2024	80,534
2025	40,435
2026	-
Thereafter	-
Total	\$ 350,109

Actuarial Assumptions. The total pension liability in the December 31, 2019, 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, 2021

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, 2019, 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, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	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	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 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, 2021

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)	\$ 1,969,850	\$ 970,900	\$ 140,702

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, 2021

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2019, 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, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increase	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

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

The actuarial assumptions used in the December 31, 2019 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, 2019.

Mortality Assumption: All mortality rates use Pub-2010 amount-weighted tables.

Mortality Projection: All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Deaths After Retirement (Healthy): Mortality rates are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and set forward by 1 year.

Deaths After Retirement (Disabled Members at Retirement): Mortality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are set back 3 years for all ages.

Deaths After Retirement (Survivors of Deceased Members): Mortality rates are based on the Below-median Teachers Mortality Table for Contingent Survivors. Rates for male members are set forward 3 years. Rates for female members are set forward 1 year. Because the contingent survivor tables have no rates prior to age 45, the Below-median Teachers Mortality Table for Employees is used for ages less than 45.

Deaths Prior to Retirement: Mortality rates are based on the Safety Mortality Table for Employees.

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 \$16,075 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, 2021, the Town reported a total pension liability of \$407,313. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of \$48,550.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,178	\$ 3,392
Changes of assumptions and other inputs	88,354	7,149
Town benefit payments and plan administrative expense made subsequent to the measurement date	8,387	-
Total	\$ 148,919	\$ 10,541

TOWN OF NEWPORT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

The Town paid \$8,387 in benefit payments subsequent to the measurement date that are reported as deferred outflow of resources related to pensions, which will be recognized as a decrease in the total pension liability in the year ending June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2022	\$ 24,726
2023	24,771
2024	24,946
2025	24,092
2026	19,949
Thereafter	<u>11,507</u>
Total	<u>\$ 129,991</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 1.93% 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 (0.93%) or one percentage point higher (2.93%) than the current rate.

	1% Decrease (0.93%)	Current Discount Rate (1.93%)	1% Increase (2.93%)
Total pension liability	<u>\$ 448,621</u>	<u>\$ 407,313</u>	<u>\$ 369,989</u>

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

	2021
Beginning balance	\$ 302,109
Service cost	13,887
Interest on the total pension liability	9,587
Differences between expected and actual experience	8,859
Changes of assumptions or other inputs	88,946
Benefit payments	<u>(16,075)</u>
Ending balance of the total pension liability	<u>\$ 407,313</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2019, 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, 2019.

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:

	LGERS	LEOSSA	Total
Pension expense	\$ 338,233	\$ 48,550	\$ 386,783
Pension liability	970,900	407,313	1,378,213
Proportionate share of the net pension liability	0.02717%	NA	-

Deferred Outflows of Resources	LGERS	LEOSSA	Total
Differences between expected and actual experience	\$ 122,608	\$ 52,178	\$ 174,786
Changes of assumptions and other inputs	72,254	88,354	160,608
Net difference between projected and actual earnings on pension plan investments	136,629	-	136,629
Changes in proportion and difference between Town contributions and proportional share of contributions	35,127	-	35,127
Town contributions (LGERS) and benefit payments and administration costs (LEOSSA) subsequent to the measurement date	217,350	8,387	225,737
Total deferred outflows of resources	\$ 583,968	\$ 148,919	\$ 732,887

Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 3,392	\$ 3,392
Changes of assumptions and other inputs	-	7,149	7,149
Changes in proportion and differences between Town contributions and proportionate share of contributions	16,509	-	16,509
Total deferred inflows of resources	\$ 16,509	\$ 10,541	\$ 27,050

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2021 were \$35,182, which consisted of \$24,947 from the Town and \$10,235 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, 2021 were \$155,216, which consisted of \$80,102 from the Town and \$75,114 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, 2021

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:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 217,350
Benefit payments made and administrative expenses for LEOSSA	8,387
Differences between expected and actual experience	174,786
Changes of assumptions	160,608
Net difference between projected and actual earnings on pension plan investments	136,629
Changes in proportion and differences between employer contributions and proportionate share of contributions	35,127
Total	\$ 732,887

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

Source	Exhibit A	Exhibit C
Property taxes receivable	\$ -	\$ 5,776
Garbage fees receivable	-	36,833
Prepaid taxes	1,927	1,927
Grant receivable	-	456,317
Differences between expected and actual experience	3,392	-
Changes of assumptions	7,149	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	16,509	-
Total	\$ 28,977	\$ 500,853

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Long-Term Obligations

Notes Payable

Governmental Activities Long-Term Debt

The Town's outstanding note from direct placements related to governmental activities of \$565,958 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 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 \$125,745 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 \$8,858 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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The Town's outstanding note from direct placements related to governmental activities of \$29,572 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 additional 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.	\$ 565,958
\$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.	125,745
\$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.	8,858
\$44,358 note issued September 19, 2020, interest at 0%, payable in annual installments of \$14,786, including interest, with final payment due in fiscal year 2023; secured by equipment.	<u>29,572</u>
Total installment notes payable - governmental activities	<u><u>\$ 730,133</u></u>

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2021 are as follows:

Year Ending June 30	Principal	Interest	Total
2022	\$ 94,005	\$ 19,452	\$ 113,457
2023	86,029	17,227	103,256
2024	72,349	15,023	87,372
2025	73,496	12,820	86,316
2026	40,426	10,575	51,001
2027-2031	202,130	37,011	239,141
2032-2036	<u>161,698</u>	<u>10,574</u>	<u>172,272</u>
Total	<u><u>\$ 730,133</u></u>	<u><u>\$ 122,682</u></u>	<u><u>\$ 852,815</u></u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Long-Term Debt

Enterprise Fund

Installment Notes Payable

The Town's outstanding note from direct borrowings related to enterprise fund activities of \$33,806 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.

\$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>33,806</u>
Total Enterprise Fund notes payable	\$ <u><u>33,806</u></u>

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	\$ 698,500
\$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>1,105,185</u>
Total Enterprise Fund general obligation bonds	\$ <u><u>1,803,685</u></u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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
2022	\$ 33,806	\$ 574	\$ 34,380	\$ 55,000	\$ 100,346	\$ 155,346
2023	-	-	-	58,000	97,691	155,346
2024	-	-	-	60,500	94,894	155,691
2025	-	-	-	63,500	91,973	155,394
2026	-	-	-	66,000	88,909	154,909
2027-2031	-	-	-	382,500	393,409	775,909
2032-2036	-	-	-	465,000	292,523	757,523
2037-2041	-	-	-	531,000	174,645	705,645
2042-2046	-	-	-	122,185	35,639	-
Total	<u>\$ 33,806</u>	<u>\$ 574</u>	<u>\$ 34,380</u>	<u>\$ 1,803,685</u>	<u>\$ 1,370,029</u>	<u>\$ 3,015,763</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 2021 debt liability is \$5,637,314. 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.

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

Year Ending June 30	Principal	Interest	Total
2022	\$ 402,665	\$ -	\$ 402,665
2023	402,665	-	402,665
2024	402,665	-	402,665
2025	402,665	-	402,665
2026	402,665	-	402,665
2027-2031	2,013,325	-	2,013,325
2032-2036	1,610,664	-	1,610,664
Total	<u>\$ 5,637,314</u>	<u>\$ -</u>	<u>\$ 5,637,314</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2021:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Current</u> <u>Portion</u>
By Type of Debt:					
Direct borrowing notes payable	\$ 778,119	\$ 44,358	\$ (92,344)	\$ 730,133	\$ 94,005
Compensated absences	51,301	42,583	(22,939)	70,945	35,472
Net pension liability (LGERS)	647,130	304,352	-	951,482	-
Total pension liability (LEO)	302,109	105,204	-	407,313	-
Total	<u>\$ 1,778,659</u>	<u>\$ 496,497</u>	<u>\$ (115,283)</u>	<u>\$ 2,159,873</u>	<u>\$ 129,477</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, 2021 amounts to approximately \$23,391,153. Could change with tax levy recon.

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

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Current</u> <u>Portion</u>
By Type of Debt:					
Bonds payable	\$ 1,857,185	\$ -	\$ (53,500)	\$ 1,803,685	\$ 55,000
Direct borrowing notes payable	179,111	-	(145,305)	33,806	33,806
Revolving loan payable	6,039,978	-	(402,664)	5,637,314	402,665
Compensated absences	9,413	8,240	(716)	16,937	8,469
Net pension liability (LGERS)	13,207	6,211	-	19,418	-
Total	<u>\$ 8,098,894</u>	<u>\$ 14,451</u>	<u>\$ (602,185)</u>	<u>\$ 7,511,160</u>	<u>\$ 499,940</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2021 consisted of the following:

	<u>Amount</u>
From the General Fund to the Fire and Rescue District Fund to fund operations	<u>\$ 308,500</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, 2021

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, 2021 is as follows:

Excess of Expenditures Over Appropriations	
General Fund:	
Administration	\$ 29,534
Police	24,480
Sanitation	15,094
Special Revenue Fund:	
Public Safety	36,183
Debt Service	14,777
Enterprise Fund	
Debt Service	7,872

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 2021 audit was significantly delayed due to turnover in the finance officer position. Please refer to finding 2021-005 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 2021-003 for further information.

5. Significant Effects of Subsequent Events

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 EIGHT FISCAL YEARS ***

	Local Governmental Employees' Retirement System			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Town's proportion of the net pension liability (asset) (%)	0.02717%	0.02418%	0.02680%	0.02705%
Town's proportion of the net pension liability (asset) (\$)	\$ 970,900	\$ 660,337	\$ 635,788	\$ 413,249
Town's covered payroll	\$ 1,806,101	\$ 1,702,317	\$ 1,624,735	\$ 1,469,405
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	53.76%	38.79%	39.13%	28.12%
Plan fiduciary net position as a percentage of the total pension liability**	88.61%	90.86%	91.63%	94.18%

* 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 EIGHT FISCAL YEARS ***

	Local Governmental Employees' Retirement System			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.02524%	0.02620%	0.02276%	0.02700%
Town's proportion of the net pension liability (asset) (\$)	\$ 535,677	\$ 117,583	\$ (134,227)	\$ 325,454
Town's covered payroll	\$ 1,522,380	\$ 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	35.19%	7.53%	(10.39%)	25.46%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

TOWN OF NEWPORT, NORTH CAROLINA

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

Local Governmental Employees' Retirement System				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 217,350	\$ 165,031	\$ 135,041	\$ 124,989
Contributions in relation to the contractually required contribution	<u>217,350</u>	<u>165,031</u>	<u>135,041</u>	<u>124,989</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Newport's covered payroll	\$ 2,103,638	\$ 1,806,101	\$ 1,702,317	\$ 1,624,735
Contributions as a percentage of covered payroll	10.33%	9.14%	7.93%	7.69%

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 EIGHT FISCAL YEARS**

Local Governmental Employees' Retirement System				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 109,149	\$ 103,312	\$ 136,470	\$ 92,121
Contributions in relation to the contractually required contribution	<u>109,149</u>	<u>103,312</u>	<u>136,470</u>	<u>92,121</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Newport's covered payroll	\$ 1,469,405	\$ 1,522,380	\$ 1,562,175	\$ 1,292,155
Contributions as a percentage of covered payroll	7.43%	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 FIVE FISCAL YEARS

	Law Enforcement Officers' Special Separation Allowance				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 302,109	\$ 235,928	\$ 218,541	\$ 196,413	\$ 185,658
Service cost at end of year	13,887	12,183	14,530	10,983	9,647
Interest on the total pension liability	9,587	8,271	6,779	7,544	6,628
Differences between expected and actual experience	8,859	53,018	15,023	(9,192)	-
Changes of assumptions or other inputs	88,946	10,124	(10,908)	14,742	(5,520)
Benefit payments	(16,075)	(17,415)	(8,037)	(1,949)	-
Ending balance of the total pension liability	<u>\$ 407,313</u>	<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 FIVE FISCAL YEARS**

	Law Enforcement Officers' Special Separation Allowance				
	2021	2020	2019	2018	2017
Total pension liability	\$ 407,313	\$ 302,109	\$ 235,928	\$ 218,541	\$ 196,413
Covered employee payroll	409,944	391,681	421,727	390,455	349,126
Total pension liability as a percentage of covered employee payroll	99.36%	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, 2021
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021		Variance Over/Under	2020
	Budget	Actual		Actual
Revenues:				
Taxes:				
Ad Valorem Taxes:				
Current year property tax	\$ 1,214,955	\$ 1,227,862	\$ 12,907	\$ 1,057,574
Motor vehicle tax - current and delinquent	275,515	331,953	56,438	249,847
Prior year's property tax	2,000	12,872	10,872	6,082
Total ad valorem taxes	<u>1,492,470</u>	<u>1,572,687</u>	<u>80,217</u>	<u>1,313,503</u>
Unrestricted Intergovernmental Revenues:				
Franchise tax	260,000	258,252	(1,748)	274,836
Room occupancy tax	-	2,956	2,956	1,396
Beer and wine tax	24,000	20,027	(3,973)	20,460
Local option sales tax	470,000	616,306	146,306	628,667
Solid waste disposal tax	1,820	4,448	2,628	3,600
Carteret County ABC revenues	60,000	78,330	18,330	67,340
Total unrestricted intergovernmental revenues	<u>815,820</u>	<u>980,319</u>	<u>164,499</u>	<u>996,299</u>
Restricted Intergovernmental Revenues:				
Powell Bill	125,150	115,496	(9,654)	120,770
Federal, state, and local grants	415,810	385,752	(30,058)	592,692
Total restricted intergovernmental revenues	<u>540,960</u>	<u>501,248</u>	<u>(39,712)</u>	<u>713,462</u>
Licenses, Permits, and Fees:				
Building permits	92,500	99,169	6,669	102,271
Sales and Services:				
Commission - trash stickers	500	2,400	1,900	871
Contribution from recreation	300	40	(260)	-
Fees for garbage pickup	300,000	307,052	7,052	286,867
Facility fees	-	-	-	1,400
Total sales and services	<u>300,800</u>	<u>309,492</u>	<u>8,692</u>	<u>289,138</u>
Interest:				
Investment earnings	1,500	64	(1,436)	3,306
Miscellaneous Revenues:				
Contributions from private sources	20,000	21,100	1,100	100
Court facility fees and refunds	500	1,275	775	1,008
Insurance proceeds	23,260	176	(23,084)	48,648
Sale of surplus	9,357	11,470	2,113	-
Miscellaneous	20,560	12,965	(7,595)	28,571
Total miscellaneous revenues	<u>73,677</u>	<u>46,986</u>	<u>(26,691)</u>	<u>78,327</u>
Total revenues	<u>3,317,727</u>	<u>3,509,965</u>	<u>192,238</u>	<u>3,496,306</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, 2021
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021		Variance Over/Under	2020
	Budget	Actual		Actual
Expenditures:				
Current:				
General Government:				
Governing Body:				
Fees paid to elected officials	582	581	1	16,828
Operating expenses	70,718	41,987	28,731	102,284
Capital outlay	50,000	50,000	-	-
Total governing body	121,300	92,568	28,732	119,112
Administration:				
Salaries and benefits	384,900	389,508	(4,608)	385,102
Operating expenses	177,757	202,683	(24,926)	184,384
Total administration	562,657	592,191	(29,534)	569,486
Total general government	683,957	684,759	(802)	688,598
Public Safety:				
Police:				
Salaries and benefits	722,629	726,717	(4,088)	610,077
Operating expenses	141,889	163,215	(21,326)	99,370
Capital outlay	74,000	73,066	934	21,360
Total police	938,518	962,998	(24,480)	730,807
Planning and Inspections:				
Salaries and benefits	250,810	247,905	2,905	164,009
Operating expenses	20,335	20,196	139	8,711
Total planning and inspections	271,145	268,101	3,044	172,720
Total public safety	1,209,663	1,231,099	(21,436)	903,527
Public Works and Streets:				
Public Works:				
Salaries and benefits	215,205	206,329	8,876	147,536
Operating expenses	384,207	306,740	77,467	87,000
Capital outlay	-	-	-	3,050
Total public works	599,412	513,069	86,343	237,586
Fleet Maintenance:				
Salaries and benefits	23,512	23,127	385	41,244
Operating expenses	19,698	11,897	7,801	79,013
Total fleet maintenance	43,210	35,024	8,186	120,257
Powell Bill Funds:				
Salaries and benefits	27,203	27,534	(331)	22,253
Operating expenses	111,892	94,948	16,944	20,867
Capital outlay	91,040	32,806	58,234	46,218
Total Powell Bill funds	230,135	155,288	74,847	89,338

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, 2021
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021		Variance Over/Under	2020
	Budget	Actual		Actual
Non-Powell Bill Funds:				
Operating expenses	60,000	57,030	2,970	73,792
DOT Railroad project capital outlay	70,100	53,030	17,070	26,157
Total non-Powell Bill funds	<u>130,100</u>	<u>110,060</u>	<u>20,040</u>	<u>99,949</u>
Total public works and streets	<u>1,002,857</u>	<u>813,441</u>	<u>189,416</u>	<u>547,130</u>
Sanitation:				
Operating expenses	<u>299,550</u>	<u>314,644</u>	<u>(15,094)</u>	<u>305,168</u>
Cultural and Recreation:				
Cultural:				
Library operations	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>90,114</u>
Recreation:				
Salaries and benefits	53,120	41,192	11,928	-
Special projects	8,395	3,797	4,598	5,257
Operating expenses	21,202	18,822	2,380	8,089
Capital outlay	<u>9,207</u>	<u>9,207</u>	<u>-</u>	<u>-</u>
Total recreation	<u>91,924</u>	<u>73,018</u>	<u>18,906</u>	<u>13,346</u>
Total cultural and recreation	<u>94,424</u>	<u>73,018</u>	<u>21,406</u>	<u>103,460</u>
Debt Service:				
Principal	8,594	8,591	3	8,326
Interest	<u>551</u>	<u>551</u>	<u>-</u>	<u>817</u>
Total debt service	<u>9,145</u>	<u>9,142</u>	<u>3</u>	<u>9,143</u>
Total expenditures	<u>3,299,596</u>	<u>3,126,103</u>	<u>173,493</u>	<u>2,557,026</u>
Revenues over (under) expenditures	<u>18,131</u>	<u>383,862</u>	<u>365,731</u>	<u>939,280</u>
Other Financing Sources (Uses):				
Transfers in	-	-	-	17,699
Transfers out	(458,500)	(308,500)	150,000	(279,000)
Appropriated fund balance	<u>440,369</u>	<u>-</u>	<u>(440,369)</u>	<u>-</u>
Total other financing sources (uses)	<u>(18,131)</u>	<u>(308,500)</u>	<u>(290,369)</u>	<u>(261,301)</u>
Net change in fund balance	<u>\$ -</u>	<u>75,362</u>	<u>\$ 75,362</u>	<u>677,979</u>
Fund Balance:				
Beginning of year, July 1		<u>2,250,438</u>		<u>1,572,459</u>
End of year, June 30		<u>\$ 2,325,800</u>		<u>\$ 2,250,438</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, 2021

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021			2020
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad valorem taxes	\$ 465,500	\$ 473,833	\$ 8,333	\$ 421,278
Local option sales tax	100,000	91,667	(8,333)	99,167
Ambulance transport fees	380,000	438,871	58,871	395,877
Federal, state, and local grants	-	-	-	27,356
Miscellaneous income	123,062	7,356	(115,706)	36,827
Total revenues	<u>1,068,562</u>	<u>1,011,727</u>	<u>(56,835)</u>	<u>980,505</u>
Expenditures:				
Public Safety:				
Salaries and benefits	930,180	908,990	21,190	806,066
Operating expenses	381,080	359,315	21,765	414,658
Capital outlay	222,819	301,957	(79,138)	674,749
Total public safety	<u>1,534,079</u>	<u>1,570,262</u>	<u>(36,183)</u>	<u>1,895,473</u>
Debt Service:				
Principal	68,065	83,753	(15,688)	27,723
Interest	22,531	21,620	911	6,534
Total debt service	<u>90,596</u>	<u>105,373</u>	<u>(14,777)</u>	<u>34,257</u>
Total expenditures	<u>1,624,675</u>	<u>1,675,635</u>	<u>(50,960)</u>	<u>1,929,730</u>
Revenues over (under) expenditures	<u>(556,113)</u>	<u>(663,908)</u>	<u>(107,795)</u>	<u>(949,225)</u>
Other Financing Sources (Uses):				
Transfer from General Fund	458,500	308,500	(150,000)	279,000
Long-term debt issued	-	44,358	44,358	606,384
Appropriated fund balance	97,613	-	(97,613)	-
Total other financing sources (uses)	<u>556,113</u>	<u>352,858</u>	<u>(203,255)</u>	<u>885,384</u>
Net change in fund balance	<u>\$ -</u>	<u>(311,050)</u>	<u>\$ (311,050)</u>	<u>(63,841)</u>
Fund Balance:				
Beginning of year - July 1		<u>203,086</u>		<u>266,927</u>
End of year - June 30		<u>\$ (107,964)</u>		<u>\$ 203,086</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, 2021

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021		Variance Over/Under	2020
	Budget	Actual		Actual
Revenues:				
Operating Revenues:				
Charges for sales and services:				
Water charges	\$ 2,079,260	\$ 2,114,353	\$ 35,093	\$ 1,939,263
Miscellaneous	1,500	7,222	5,722	43,407
Total operating revenues	<u>2,080,760</u>	<u>2,121,575</u>	<u>40,815</u>	<u>1,982,670</u>
Non-Operating Revenues:				
Grant - FEMA reimbursement	46,479	-	(46,479)	-
Impact fees	119,100	131,778	12,678	207,525
Interest income	500	88	(412)	89
Total non-operating revenues	<u>166,079</u>	<u>131,866</u>	<u>(34,213)</u>	<u>207,614</u>
Total revenues	<u>2,246,839</u>	<u>2,253,441</u>	<u>6,602</u>	<u>2,190,284</u>
Operating Expenditures:				
Salaries and employee benefits	576,461	530,118	46,343	505,532
Supplies, maintenance, and administration	611,924	513,322	98,602	543,565
Maintenance and repairs	303,575	212,549	91,026	191,018
Capital outlay	59,394	53,397	5,997	346,472
Total operating expenditures	<u>1,551,354</u>	<u>1,309,386</u>	<u>241,968</u>	<u>1,586,587</u>
Debt Service:				
Principal repayment	601,468	601,468	-	598,443
Interest	94,017	101,889	(7,872)	108,909
Total debt service	<u>695,485</u>	<u>703,357</u>	<u>(7,872)</u>	<u>707,352</u>
Total expenditures	<u>2,246,839</u>	<u>2,012,743</u>	<u>234,096</u>	<u>2,293,939</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>240,698</u>	<u>\$ 240,698</u>	<u>\$ (103,655)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:				
Capital outlay		53,397		
Depreciation		(467,673)		
Change in deferred outflows of resources - pensions		3,642		
Change in deferred inflows of resources - pensions		151		
Principal payment		601,468		
Change in accrued vacation		7,524		
Change in net position		<u>\$ 439,207</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, 2021

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total</u>	<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>		
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	<u>\$ -</u>	<u>\$ 23,427</u>	<u>\$ -</u>	<u>\$ 23,427</u>	<u>\$ 23,427</u>

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2021

Fiscal Year	Uncollected Balance July 1, 2020	Additions	Collections and Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 1,562,167	\$ 1,555,033	7,134
2019-2020	8,811	-	6,541	2,270
2018-2019	5,006	-	3,810	1,196
2017-2018	2,040	-	2,040	-
2016-2017	983	-	983	-
2015-2016	135	-	135	-
2014-2015	553	-	553	-
Total	\$ 17,528	\$ 1,562,167	\$ 1,569,095	10,600
Less allowance for uncollectible ad valorem taxes receivable				(4,824)
Ad Valorem Taxes Receivable, Net				\$ 5,776
Reconciliation with Revenues:				
Taxes, ad valorem - General Fund			\$ 1,572,687	
Penalties and interest			(4,153)	
Miscellaneous adjustments			561	
Total collections and credits			\$ 1,569,095	

TOWN OF NEWPORT, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2021

	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	\$ 0.395	\$ 1,223,098	\$ 1,223,098	\$ -
Exemptions	(3,112,678)	0.395	(12,295)	(12,295)	-
Utility levy	5,019,000	0.395	19,826	19,826	-
Motor vehicle levy	83,399,747	0.395	331,538	-	331,538
Total property valuation	<u>\$ 394,951,139</u>				
Net Levy			1,562,167	1,230,629	331,538
Uncollected taxes at June 30, 2021			<u>7,134</u>	<u>7,134</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,555,033</u>	<u>\$ 1,223,495</u>	<u>\$ 331,538</u>
Current Levy Collection Percentage			<u>99.54%</u>	<u>99.42%</u>	<u>100.00%</u>
Prior Year Levy Collection Percentage			<u>99.34%</u>	<u>99.18%</u>	<u>100.00%</u>

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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 financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Newport, North Carolina, as of and for the year ended June 30, 2021, 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 March 1, 2024.

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 2021-001, 2021-002, 2021-003, 2021-004, 2021-005 and 2021-006 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 2021-003 and 2021-005.

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
March 1, 2024

TOWN OF NEWPORT, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

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, 2021

2. Financial Statement Findings

Material Weakness

Finding 2021-001

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, with the help of the consultant, 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, 2020-001.

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, 2021

2. Financial Statement Findings (continued)

Material Weakness

Finding 2021-002:

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, 2020-002.

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, 2021

2. Financial Statement Findings (continued)

Material Weakness, Non-Compliance

Finding 2021-003:

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, 2020-003.

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, 2021

2. Financial Statement Findings (continued)

Material Weakness

Finding 2021-004:

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, 2020-004.

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, 2021

2. Financial Statement Findings (continued)

Material Weakness, Non-Compliance

Finding 2021-005:

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's 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, 2020-005.

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, 2021

2. Financial Statement Findings (continued)

Material Weakness

Finding 2021-006:

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, 2020-006.

Recommendation: The 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
Mark Eadie, Mayor Pro Tem

Council Members
Brenda C. Harris
Timmy Quillen
Tristan Thomas
Ralph Williams, Jr.



William P. Shanahan Jr.
Town Manager

Kelley A. Caldwell
Town Clerk

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

www.newportnc.gov

Financial Statement Findings:

02/20/2024

Material Weakness:

Finding 2021 – 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 financial statements.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2021 – 002 – Segregation of Duties

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

Corrective Action: The Town employs less than forty-five people on a fulltime 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. An additional person was hired in the spring of 2023. However, this person left in the fall. As of February 2024, the Finance Department is fully staffed. (4 Employees)

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2021 – 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. With assistance from our outside consultant, we are catching up on prior year accounting matters which will allow staff to more closely monitor current budget compliance.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2021 – 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. This has been an area of focus for our outside consultant. Much work has been completed to correct prior year reconciliations to allow us to become current with reconciliations.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2021 – 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 being resolved. Our consultant and staff are working diligently to get accounting records prepared for audit so that we can return to a timely schedule for the annual audit.

Proposed Completion Date: The above procedure has been implemented.

Material Weakness:

Finding 2021 – 006– Errors in Financial Reporting

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

Corrective Action: Management has scheduled training for the financial software and set up a policy for record retention. Internal controls are monitored to ensure that daily, monthly, and annual work is completed correctly and in a timely manner. Management will also contract with a CPA to assist with year-end closing and audit prep as needed. The Finance Department is now fully staffed which will allow more timely completion of daily activity.

Proposed Completion Date: The above procedure has been implemented.

Sincerely,

A handwritten signature in blue ink, appearing to read 'W.P. Shanahan Jr.', written over the printed name.

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, 2021**

Finding 2020-001:

Status: Modified and repeated as 2021-001

Finding 2020-002:

Status: Repeated as 2021-002

Finding 2020-003

Status: Repeated as 2021-003

Finding 2020-004

Status: Repeated as 2021-004

Finding 2020-005

Status: Repeated as 2021-005

Finding 2020-006

Status: Repeated as 2021-006