

City of New Bern, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of New Bern, North Carolina (the "City") have been prepared in conformity with accounting principals 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 City's significant accounting policies are described below.

A. Reporting Entity

Founded in 1710 and chartered under the laws of the State of North Carolina, the City of New Bern, North Carolina is governed by an elected mayor and a six-member board of aldermen. The government provides such services as police and fire protection , cultural and recreational activities, public works, water, sewer, and electric services. The City is managed by a City Manager who is hired directly by the Board. The City does not report any component units.

B. Basis of Presentation

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of net position includes non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to those who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provide for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers most revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes which uses a 60 day period. At June 30, 2019, taxes receivable for property other than motor vehicles are materially past due and are not considered to be available resources except as noted above 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 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to other long-term liabilities, such as compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes and related items, sales taxes, franchise taxes, licenses, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

In accordance with GASB Statement No. 34, individual major funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **FEMA Hurricane Florence Fund** is used to account for all FEMA reimbursable revenues resulting from recovery efforts following Hurricane Florence in September 2018.

The City reports the following major enterprise funds:

The **Electric Fund** accounts for the operation, maintenance and development of the City's electric system and services.

The **Water Fund** accounts for the operation, maintenance and development of the City's water system and services.

The **Sewer Fund** accounts for the operation, maintenance and development of the City's sewer system and services.

Additionally, the City reports the following fund types:

The **special revenue funds** are used to account for specific revenues, such as various grants and contributions, which are legally restricted or committed to expenditures for particular purposes.

The **capital projects funds** accounts for financial resources to be used for the acquisition and construction of major capital projects.

The **Stormwater fund** accounts for the maintenance and development of the City's stormwater system.

The **Solid Waste Fund** accounts for the City's solid waste collection services.

The **Internal Service Fund** accounts for the City's partially self-insured health benefits plan and workers compensation program which charges the other funds of the City for the insurance claims.

In accounting and reporting for its proprietary operations, the governmental applies all GASB pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, any inter-fund services provided and used are not eliminated as this process would distort the direct costs and program revenues reported in the various functions.

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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 City's enterprise funds are include the cost of these goods 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.

D. Budgets

The City's budgets are adopted as required by the North Carolina General Statues. Annual appropriated budgets are adopted for all funds, with the exception of capital projects funds and grant-related special revenue funds, for which project length budgets are adopted. In accordance with state law, the budgets adopted for the enterprise funds are adopted on the modified accrual basis of accounting, and a reconciliation is provided along with the budget schedule to reconcile from the modified accrual basis to the accrual basis. The enterprise capital project funds are consolidated with their respective operating fund for reporting purposes. The governmental funds' budgets are adopted on a basis other than accounting principles generally accepted in the United States of America. Budgets are adopted to show use of fund balance as another financing source for both governmental and proprietary funds, as well as the proprietary funds are budgeted on the modified accrual basis of accounting. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General fund, special revenue funds, and the enterprise funds. During the fiscal year ended June 30, 2019, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedules. All annual budget appropriations lapse at the end of each year.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. As of June 30, 2019 the General Fund is reporting \$2,112,516 of open encumbrances.

E. Deposits

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Any deposit in excess of the federal depository insured amounts must be collateralized by an equivalent amount of state or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of less than 90 days are considered to be cash equivalents.

State law [G.S. 159-30(c)] authorizes the City and the ABC Board 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 City's investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

F. Restricted cash and cash equivalents

The City has restricted cash and cash equivalents related to unspent proceeds from long-term debt issued by the General Fund, City Market Workforce Development, 2017 Roadway Improvement Project, ERP Project Fund, Garage Relocation Project Fund, Water Fund, Sewer Fund, Electric Fund, Solid Waste Fund and Stormwater Fund . These proceeds are held to be disbursed as costs are incurred on the financed construction projects. Customer deposits held by the City are restricted to the service for which the deposits are collected. Additionally, the cash of the Municipal Service District (MSD) are restricted for improvements within the special district.

G. Receivables

All receivables are reported at their gross value and, where appropriated, are reduced by the estimated portion that is expected to be uncollectible. In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1.

An estimate amount has been recorded for utility services provided but not billed as of the end of the fiscal year, and is included in accounts receivable, net of uncollected amounts.

H. Allowances

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.

I. Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government wide financial statements as "internal balances."

J. Inventories

All inventories are valued at average cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories of the enterprise funds are recorded as expenses when consumed rather than when purchased.

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2019, are recorded as prepaid items in both government-wide and fund financial statements.

L. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and intangible assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial estimated useful life in excess of two years and individual cost capitalization thresholds as follows: land of more than \$1, infrastructure of more than \$100,000; building and land improvements of greater than \$25,000; and equipment of more than \$5,000. 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives to cost of the assets:

Buildings	25-60 years
Improvements	20-50 years
Infrastructure	30-50 years
Plants and distribution systems	30-50 years
Vehicles and service equipment	3-10 years
Furniture and equipment	5-10 years

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City reports several deferred outflows related to the pension plans and total other postemployment benefit (OPEB) liability; one type of deferred outflow of resources being recognized is a deferred outflow of resources for the City's actual contributions to the pension plan and OPEB plan during the fiscal year ended June 30, 2018, which was subsequent to the measurement date of the net pension liability and total OPEB liability. The deferred outflows will be applied to future measurement periods. The City has four (4) items that qualify for reporting in this category which occurs in the governmental activities and in the individual proprietary funds. The City reports deferred outflows of resources for the: (1) difference between expected and actual experience of the pension plan and OPEB plan, (2) net difference between projected and actual investment earnings on the pension plan assets, (3) changes in proportion and the difference between the City's actual contributions towards the pension plan and the City's proportionate share of contributions, and (4) changes in the plan assumptions. The net difference between projected and actual investment earnings on the pension plan assets are amortized over five (5) years, while the remaining deferred outflows of resources will be amortized over the remaining service period of plan members.

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 position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two (2) items that qualify for reporting in this category which occurs in the governmental activities and in the individual proprietary funds. The City reports a deferred inflow of resources for the: (1) differences between expected and actual experience of the pension plan, (2) the difference between the City's actual contributions towards the pension plan and the City's proportionate share of contributions, and (3) changes in the assumptions and other inputs of the pension plan and OPEB plan. The deferred inflows of resources will be amortized over the remaining service period of plan members. Additionally, the City reports one (1) item which is reported as a deferred inflow of resources which arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from the accrual of ad valorem taxes and intergovernmental revenues which are earned by the City but are not considered available for the liquidation of current expenditures. Additionally, deferred inflows of resources are reported for outstanding lien receivables which are not collected within 90 days of the City's fiscal year-end.

N. Compensated Absences

The vacation policy of the City provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the City'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 City 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. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

O. Long-Term Obligations

In the government-wide and proprietary 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. Bond premiums and discounts are accrued and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable discount or premium. Bond issuance costs are expensed in the year of issuance.

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

P. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance - Generally, fund balance represents the difference between the assets and liabilities and deferred inflows of resources under the current financial resources management focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

Fund balances are classified as follows:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either: (a) not in spendable form (i.e., items that are not expected to be converted to cash), or (b) legally or contractually required to be maintained intact.