

Town of North Topsail Beach
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2021

BOARD OF ALDERMAN

Joan McDermon – Mayor
Mike Benson – Mayor Pro Tem
Tom Leonard
Connie Pletl
Richard Grant
Susan Meyer

OFFICIALS

Town Manager
Alice Derian

Finance Officer
Caitlin Elliott

Town Clerk
Danyale Lundy

**Town of North Topsail Beach
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June 30, 2021**

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Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Commissioners
North Topsail Beach, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Topsail Beach, 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 of 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 financial statement 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Topsail Beach, North Carolina, as of June 30, 2021, and the respective changes in financial position, where appropriate, thereof and the respective budgetary comparison for the General Fund and Shoreline Protection 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, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of North Topsail Beach's basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules as well as the accompanying schedule of expenditures of federal and state awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, and the schedule of expenditures of federal awards, and other 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 November 24, 2021 on our consideration of the Town of North Topsail Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of North Topsail Beach's internal control over financial reporting and compliance.

Thompson, Price, Scott, Adams & Co., PA

Wilmington, North Carolina

November 24, 2021

Management’s Discussion and Analysis

As management of the Town of North Topsail Beach, we offer readers of the Town of North Topsail Beach’s financial statements this narrative overview and analysis of the financial activities of the Town of North Topsail Beach for the fiscal year ended June 30, 2021. 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.

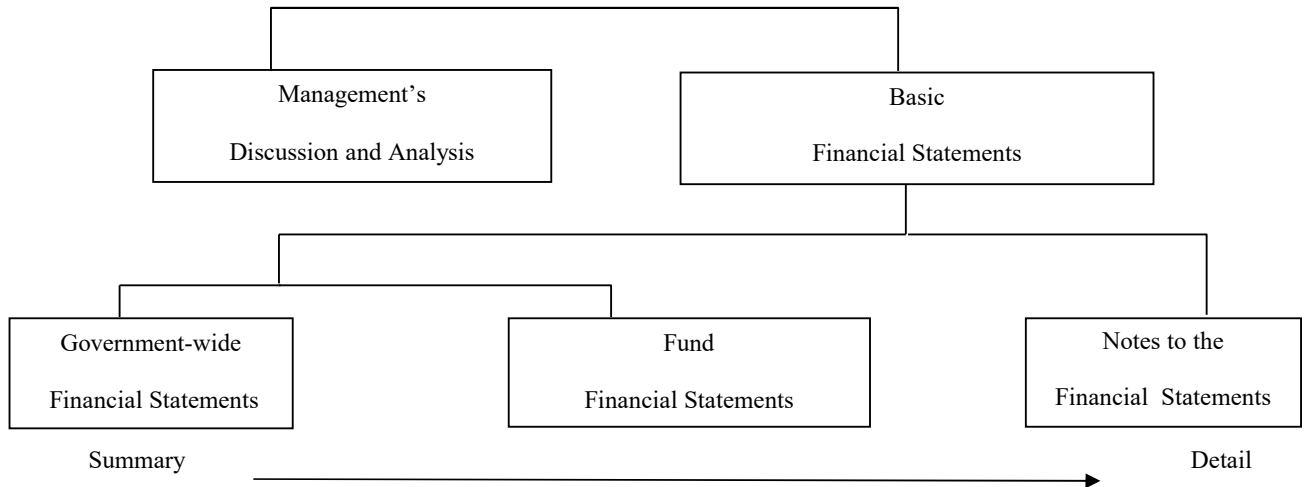
Financial Highlights

- The assets and deferred outflows of resources of the Town of North Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$25,739,228 (net position).
- The government's total net position increased by \$53,557.
- As of the close of the current fiscal year, the Town of North Topsail Beach's governmental funds reported combined ending fund balances of \$14,535,469, with an increase of \$625,892 in fund balance.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,648,104 or 67.78 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Town of North Topsail Beach’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 North Topsail Beach.

**Required Components of Annual Financial Report
Figure 1**



Basic Financial Statements

The first two statements (Exhibits 1 and 2) 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 3 through 6) 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 two parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison 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 additional details about the Town's individual funds. Budgetary information required by the North Carolina General Statutes can also 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 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. The governmental activities include most of the Town's basic services such as public safety, environmental protection, and general administration. Property taxes and State and federal grant funds finance most of these activities.

The government-wide financial statements are on Exhibits 1 and 2 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 of North Topsail Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the North Carolina General Statutes or the Town's budget ordinance. All of the funds of the Town of North Topsail Beach are governmental 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 North Topsail Beach adopts an annual budget for its General 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 4) the difference or variance between the final budget and the actual resources and charges.

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 follow Exhibit 6 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 North Topsail Beach’s progress in funding its obligation to provide pension benefits to its employees.

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 governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

**The Town of North Topsail Beach's Net Position
 Figure 2**

| | Governmental Activities | |
|---|--------------------------------|----------------------|
| | 2021 | 2020 |
| Current and other assets | \$ 14,801,678 | \$ 14,343,959 |
| Capital assets | 26,684,344 | 27,544,355 |
| Deferred outflows of resources | 668,071 | 574,523 |
| Total assets and deferred outflows of resources | <u>42,154,093</u> | <u>42,462,837</u> |
| Long-term liabilities outstanding | 15,520,221 | 15,876,803 |
| Other liabilities | 786,919 | 808,930 |
| Deferred inflows of resources | 107,725 | 91,433 |
| Total liabilities and deferred inflows of resources | <u>16,414,865</u> | <u>16,777,166</u> |
| Net position: | | |
| Net Investment in Capital Assets | 12,018,527 | 12,354,833 |
| Restricted | 7,403,858 | 6,484,167 |
| Unrestricted | 6,316,843 | 6,846,671 |
| Total net position | <u>\$ 25,739,228</u> | <u>\$ 25,685,671</u> |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of North Topsail Beach exceeded liabilities and deferred inflows by \$25,739,228 as of June 30, 2021. The Town's net position increased by \$53,557 for the fiscal year ended June 30, 2021. However, the largest portion (46.69%) reflects the Town's net investments in capital assets (e.g. land, buildings, machinery, and equipment, less any related debt still outstanding that was issued to acquire those items.) The Town of North Topsail Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of North Topsail Beach's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of North Topsail Beach's net position of \$7,419,282 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$6,316,843 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.37%.

The Town of North Topsail Beach's Changes in Net Position
Figure 3

| | <u>Governmental Activities</u> | |
|--------------------------------------|--------------------------------|----------------------|
| | <u>2021</u> | <u>2020</u> |
| Revenues | | |
| Program Revenues: | | |
| Charges for Services | \$ 1,184,587 | \$ 715,322 |
| Operating grants and contributions | 1,057,836 | 8,217,760 |
| Capital grants and contributions | - | - |
| General revenues: | | |
| Property taxes | 3,979,374 | 3,875,915 |
| Other taxes | 4,866,549 | 3,178,194 |
| Investment earnings | 20,196 | 139,557 |
| Miscellaneous | | 22,295 |
| Total revenues | <u>11,108,542</u> | <u>16,149,043</u> |
| Expenses | | |
| General Government | 1,657,160 | 1,651,802 |
| Public Safety | 2,661,652 | 2,518,947 |
| Sanitation | 510,664 | 452,837 |
| Street Department | 124,193 | 93,296 |
| Environmental Protection | 5,446,073 | 9,235,094 |
| Community Development | 13,569 | 35,050 |
| Beach and Strand | 880 | 4,890 |
| Beach Nourishment/Dune Stabilization | 153,020 | 291,532 |
| Interest on long-term debt | 487,774 | 505,074 |
| Total expenses | <u>11,054,985</u> | <u>14,788,522</u> |
| Change in net position | 53,557 | 1,360,521 |
| Net Position, beginning | <u>\$ 25,685,671</u> | <u>\$ 24,325,150</u> |
| Net Position, June 30 | <u>\$ 25,739,228</u> | <u>\$ 24,325,150</u> |

Governmental activities. Governmental activities increased the Town's net position by \$53,557. Key element of this increase is as follows:

- Increase in grant and contribution revenues and property taxes.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of North Topsail Beach'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 North Topsail Beach's financing requirements.

The general fund is the chief operating fund of Town of North Topsail Beach. At the end of the current fiscal year, Town of North Topsail Beach's fund balance available in the General Fund was \$4,327,524, while total fund balance reached \$4,555,219. The Town currently has an available fund balance of 80.07 percent of total General Fund expenditures, while total fund balance represents 84.28 percent of the same amount.

At June 30, 2021, the governmental funds of Town of North Topsail Beach reported a combined fund balance of \$14,535,469, with a net increase in fund balance of \$625,892. Included in this change in fund balance are increases in fund balance in the General Fund.

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

Revenues were greater than budget amounts primarily because the Town received more unrestricted intergovernmental funds than anticipated. Overall, expenditures were less than budgeted amounts.

Capital Asset and Debt Administration

Capital assets. The Town of North Topsail Beach's investment in capital assets for its governmental type activities as of June 30, 2021 total \$26,684,344 (net of accumulated depreciation). These assets include buildings, land, vehicles, infrastructure, and equipment.

Major capital asset transactions during the year include the following:

- Brush truck in the amount of \$22,408.
- Construction in progress in the amount of \$595,379.

**Town of North Topsail Beach's Capital Assets
 (Net of depreciation)**

Figure 4

| | Governmental Activities | |
|--------------------------|-------------------------|----------------------|
| | 2021 | 2020 |
| Land | \$ 1,082,341 | \$ 1,082,341 |
| Construction in Progress | 1,708,441 | 1,113,062 |
| Buildings | 366,306 | 400,419 |
| Vehicles & equipment | 487,517 | 668,459 |
| Infrastructure | 23,039,739 | 24,280,074 |
| Total | <u>\$ 26,684,344</u> | <u>\$ 27,544,355</u> |

Additional information on the Town's capital assets can be found in note III, A, 3 of the Notes to the Financial Statements.

Long-term Debt. As of June 30, 2021, the Town of North Topsail Beach had total debt outstanding of \$16,087,131. Of this, \$14,521,000 is debt backed by the full faith and credit of the Town of North Topsail Beach.

**Outstanding Debt
 Figure 5**

Town of North Topsail Beach's Outstanding Debt

| | Governmental Activities | |
|-------------------------------|-------------------------|----------------------|
| | 2021 | 2020 |
| Installment Purchases | \$ 144,817 | \$ 254,522 |
| Special Obligation Bonds | 14,521,000 | 14,935,000 |
| Compensated Absences | 94,135 | 90,992 |
| Net Pension Liability (LGERS) | 969,828 | 834,024 |
| Total Pension Liability (LEO) | 357,351 | 286,631 |
| Total | <u>\$ 16,087,131</u> | <u>\$ 16,401,169</u> |

The Town of North Topsail Beach's total debt decreased by \$314,038 during the fiscal year.

Economic Factors for Next Year's Budgets and Rates

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

Population growth - The 2020 Census information relayed a permanent population of 1,005 persons. This is a 35% increase from the previous Census in 2010. This number continues to grow as more secondary homeowners become permanent residents. Total housing units are 2,675 as provided by the Census. Our seasonal population continues to increase annually, and we anticipate our Accommodation Tax revenues to increase by 25% this Fiscal Year.

The Town will continue monitoring the balances of each fund and make every effort to stay within the realm of the adopted Budget, with appropriate amendments approved by the Governing Body as necessary. The Town did approve to continue moving forward with ongoing Shoreline and Beach related projects in progress, which include the Hardened Structure and Hurricane Florence and Dorian dune and beach restoration projects. The Town is working with the Army Corps of Engineers in preparation for the Federal beach project.

Budget Highlights for the Fiscal Year Ending June 30, 2022

Governmental Activities. Property tax rates were increased by \$0.05 this year, totaling \$0.46 per \$100 valuation. This increase will allow the Town to continue to provide and expand necessary services as well as plan for upcoming improvements and purchases.

Business-type Activities. The Town has enhanced the paid parking program, working with a third-party vendor, Otto Connect, expecting that this will increase revenues. The Town does not own or operate any electrical, water or sewer facilities.

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 following:

**Caitlin Elliott
Finance Officer
Town of North Topsail Beach
2008 Loggerhead Court
North Topsail Beach, NC 28460**

Town of North Topsail Beach, North Carolina
Statement of Net Position
June 30, 2021

| | Primary Government | |
|---|------------------------------------|----------------------|
| | Governmental Activities | Total |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 7,461,672 | \$ 7,461,672 |
| Restricted cash and cash equivalents | 5,036,576 | 5,036,576 |
| Taxes Receivable (net) | 49,114 | 49,114 |
| Accounts Receivable (net) | 513,751 | 513,751 |
| Due from Other Governmental Agencies | 1,727,185 | 1,727,185 |
| Accrued Interest Receivable on Taxes | 13,380 | 13,380 |
| Total current assets | <u>14,801,678</u> | <u>14,801,678</u> |
| Non-current assets: | | |
| Capital Assets | | |
| Land and improvements | 2,790,782 | 2,790,782 |
| Other capital assets, net of depreciation | 23,893,562 | 23,893,562 |
| Total capital assets | <u>26,684,344</u> | <u>26,684,344</u> |
| Total assets | <u>41,486,022</u> | <u>41,486,022</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension deferrals - LGERS | 569,608 | 569,608 |
| Pension deferrals - LEO | 98,463 | 98,463 |
| Total deferred outflows of resources | <u>668,071</u> | <u>668,071</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | 180,681 | 180,681 |
| Accrued interest payable | 39,328 | 39,328 |
| Current portion of long-term liabilities | 566,910 | 566,910 |
| Total current liabilities | <u>786,919</u> | <u>786,919</u> |
| Long-term liabilities: | | |
| Direct placement notes | 47,531 | 47,531 |
| Special obligation bonds | 14,093,545 | 14,093,545 |
| Compensated absences | 51,966 | 51,966 |
| Net pension liability | 969,828 | 969,828 |
| Total pension liability | <u>357,351</u> | <u>357,351</u> |
| Total liabilities | <u>16,307,140</u> | <u>16,307,140</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension deferrals - LGERS | 36,625 | 36,625 |
| Pension deferrals - LEO | 71,100 | 71,100 |
| Total deferred inflows of resources | <u>107,725</u> | <u>107,725</u> |
| NET POSITION | | |
| Net investment in capital assets | 12,018,527 | 12,018,527 |
| Restricted for: | | |
| Stabilization by state statute | 2,367,282 | 2,367,282 |
| Economic development | 5,022,000 | 5,022,000 |
| Transportation | 14,576 | 14,576 |
| Unrestricted | 6,316,843 | 6,316,843 |
| Total net position | <u>\$ 25,739,228</u> | <u>\$ 25,739,228</u> |

The notes to the financial statements are an integral part of this statement.

Town of North Topsail Beach, North Carolina
Statement of Activities
For the Year Ended June 30, 2021

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | |
|--|----------------------|---------------------------------|---|---|--|-------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Government Total |
| Primary government: | | | | | | |
| Governmental Activities: | | | | | | |
| General government | \$ 1,657,160 | \$ 237,165 | \$ - | \$ - | \$ (1,419,995) | \$ (1,419,995) |
| Public safety | 2,661,652 | 19,471 | - | - | (2,642,181) | (2,642,181) |
| Street department | 124,193 | - | 24,788 | - | (99,405) | (99,405) |
| Sanitation | 510,664 | 482,207 | - | - | (28,457) | (28,457) |
| Environmental protection | 5,446,073 | 445,744 | 1,033,048 | - | (3,967,281) | (3,967,281) |
| Community development | 13,569 | - | - | - | (13,569) | (13,569) |
| Beach and Strand | 880 | - | - | - | (880) | (880) |
| Beach Renourishment/Dune Stabilizat | 153,020 | - | - | - | (153,020) | (153,020) |
| Interest on long-term debt | 487,774 | - | - | - | (487,774) | (487,774) |
| Total governmental activities | <u>\$ 11,054,985</u> | <u>\$ 1,184,587</u> | <u>\$ 1,057,836</u> | <u>\$ -</u> | <u>(8,812,562)</u> | <u>(8,812,562)</u> |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Property taxes, levied for general purpose | | | | | 3,979,374 | 3,979,374 |
| Other taxes | | | | | 4,866,549 | 4,866,549 |
| Unrestricted investment earnings | | | | | 20,196 | 20,196 |
| Total general revenues | | | | | <u>8,866,119</u> | <u>8,866,119</u> |
| Change in net position | | | | | 53,557 | 53,557 |
| Net position-beginning | | | | | 25,685,671 | 25,685,671 |
| Net position-ending | | | | | <u>\$ 25,739,228</u> | <u>\$ 25,739,228</u> |

The notes to the financial statements are an integral part of this statement.

Town of North Topsail Beach, North Carolina
Balance Sheet
Governmental Fund
June 30, 2021

| | Major Funds | | Total Governmental Funds |
|---|---------------------|------------------------------|--------------------------------|
| | General Fund | Shoreline Protection Fund | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,812,109 | \$ 3,649,563 | \$ 7,461,672 |
| Restricted cash | 14,576 | 5,022,000 | 5,036,576 |
| Taxes receivable | 49,114 | - | 49,114 |
| Receivables, net | 52,390 | 461,361 | 513,751 |
| Receivable from other governments | 447,650 | 1,279,535 | 1,727,185 |
| Due from other funds | 179,380 | | 179,380 |
| Total assets | <u>4,555,219</u> | <u>10,412,459</u> | <u>14,967,678</u> |
| LIABILITIES | | | |
| Accounts payable | 178,581 | 2,100 | 180,681 |
| Due to other funds | - | 179,380 | 179,380 |
| Total liabilities | <u>178,581</u> | <u>181,480</u> | <u>360,061</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes receivable | 49,114 | - | 49,114 |
| Assessment receivable | - | 23,034 | 23,034 |
| Total deferred inflows of resources | <u>49,114</u> | <u>23,034</u> | <u>49,114</u> |
| FUND BALANCES | | | |
| Restricted | | | |
| Stabilization by State Statute | 649,420 | 1,717,862 | 2,367,282 |
| Economic development | - | 5,022,000 | 5,022,000 |
| Streets | 14,576 | - | 14,576 |
| Unassigned | <u>3,663,528</u> | <u>3,468,083</u> | <u>7,131,611</u> |
| Total fund balances | 4,327,524 | 10,207,945 | 14,535,469 |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 4,555,219</u> | <u>\$ 10,412,459</u> | <u>\$ 14,967,678</u> |
| Total fund balance, governmental funds | | | 14,535,469 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. | | | |
| Gross capital assets at historical cost | | 39,154,497 | |
| Accumulated depreciation | | <u>(12,470,153)</u> | 26,684,344 |
| Deferred outflows of resources related to pensions are not reported in the funds | | | |
| Pension deferrals - LGERS | | 569,608 | |
| Pension deferrals - LEO | | <u>98,463</u> | 668,071 |
| Other long-term assets (accrued interest receivable from taxes) are not available to pay for current period expenditures and therefore are inflows of resources in the funds. | | | 13,380 |
| Liabilities for earned revenues considered deferred inflows of resources in fund statements | | | |
| Ad valorem taxes | | 49,114 | |
| Assessments | | <u>23,034</u> | 72,148 |
| Deferred inflows of resources related to pensions are not reported in the funds | | | |
| Pension deferrals - LGERS | | (36,625) | |
| Pension deferrals - LEO | | <u>(71,100)</u> | (107,725) |
| Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. | | | |
| Installment purchases | | | (144,817) |
| Bonds payable | | | (14,521,000) |
| Compensated absences | | | (94,135) |
| Accrued interest | | | (39,328) |
| Net pension liability | | | (969,828) |
| Total pension liability | | | <u>(357,351)</u> |
| Net position of governmental activities | | | <u>\$ 25,739,228</u> |

Town of North Topsail Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2021

| | Major Funds | | Total Governmental Funds |
|---|---------------------|--------------------------------------|---|
| | General Fund | Shoreline Protection Fund | |
| REVENUES | | | |
| Ad valorem taxes | \$ 2,651,663 | \$ 1,330,654 | \$ 3,982,317 |
| Accommodations tax | - | 1,828,238 | 1,828,238 |
| Permits and Fees | 155,315 | 396,028 | 551,343 |
| Sales and Services | 738,843 | | 738,843 |
| Unrestricted intergovernmental revenues | 2,219,795 | 651,001 | 2,870,796 |
| Restricted intergovernmental revenue: | 142,594 | 1,033,048 | 1,175,642 |
| Miscellaneous | - | 49,716 | 49,716 |
| Interest Income | 15,420 | 4,776 | 20,196 |
| Total revenues | <u>5,923,630</u> | <u>5,293,461</u> | <u>11,217,091</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 2,137,719 | - | 2,137,719 |
| Public safety | 2,403,169 | - | 2,403,169 |
| Street department | 90,189 | - | 90,189 |
| Sanitation | 466,664 | - | 466,664 |
| Environmental protection | - | 4,287,171 | 4,287,171 |
| Community development | 35,977 | - | 35,977 |
| Beach and Strand | 880 | - | 880 |
| Beach Renourishment/Dune Stabilization | 153,020 | - | 153,020 |
| Debt Service | 117,022 | 899,388 | 1,016,410 |
| Total expenditures | <u>5,404,640</u> | <u>5,186,559</u> | <u>10,591,199</u> |
| Excess (deficiency) of revenues over expenditures | <u>518,990</u> | <u>106,902</u> | <u>625,892</u> |
| Net change in fund balance | 518,990 | 106,902 | 625,892 |
| Fund balances-beginning | 3,808,534 | 10,101,043 | 13,909,577 |
| Fund balances-ending | <u>\$ 4,327,524</u> | <u>\$ 10,207,945</u> | <u>\$ 14,535,469</u> |

The notes to the financial statements are an integral part of this statement.

Town of North Topsail Beach, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2021

| | | |
|---|--------------------|----------------|
| Net change in fund balances - total governmental funds | \$ | 625,892 |
| <p>Amounts reported to Governmental Activities in the Statement of Activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period.</p> | | |
| Capital Outlay | 617,787 | |
| Depreciation | <u>(1,477,798)</u> | (860,011) |
| <p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</p> | | |
| | | 217,996 |
| <p>Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.</p> | | |
| Change in unavailable revenue for tax revenues | | (7,781) |
| Change in accrued interest receivable on taxes | | 4,838 |
| Change in unavailable revenue for special assessment | | (105,606) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| Principal payments | | 523,705 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:</p> | | |
| Accrued interest not reflected on Governmental fund | | 4,931 |
| Pension expense | | (347,264) |
| Compensated absences | | <u>(3,143)</u> |
| Change in net position of governmental activities | \$ | <u>53,557</u> |

The notes to the financial statements are an integral part of this statement.

Town of North Topsail Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended June 30, 2021

| | General Fund | | | Variance With Final Budget Positive (Negative) |
|---|------------------|------------------|---------------------|---|
| | Budget Amounts | | Actual Amounts | |
| | Original | Final | | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 3,102,203 | \$ 2,703,043 | \$ 2,651,663 | \$ (51,380) |
| Permits and fees | 264,450 | 264,450 | 155,315 | (109,135) |
| Sales and services | 628,569 | 759,228 | 738,843 | (20,385) |
| Unrestricted intergovernmental revenues | 1,471,500 | 1,740,301 | 2,219,795 | 479,494 |
| Restricted intergovernmental revenue: | 229,000 | 179,500 | 142,594 | (36,906) |
| Interest income | 75,000 | 75,000 | 15,420 | (59,580) |
| Total revenues | <u>5,770,722</u> | <u>5,721,522</u> | <u>5,923,630</u> | <u>202,108</u> |
| Expenditures | | | | |
| General government | 2,158,124 | 2,158,124 | 2,137,719 | 20,405 |
| Public safety | 2,679,407 | 2,616,976 | 2,403,169 | 213,807 |
| Street department | 110 | 110,000 | 90,189 | 19,811 |
| Sanitation | 482,706 | 482,706 | 466,664 | 16,042 |
| Community development | 15,000 | 15,000 | 35,977 | (20,977) |
| Beach and Strand | 2,000 | 2,000 | 880 | 1,120 |
| Beach Renourishment/Dune Stabilization | 316,159 | 219,500 | 153,020 | 66,480 |
| Debt Service | 117,216 | 117,216 | 117,022 | 194 |
| Total expenditures | <u>5,770,722</u> | <u>5,721,522</u> | <u>5,404,640</u> | <u>270,065</u> |
| Excess (deficiency) of revenues over expenditures | <u>-</u> | <u>-</u> | <u>518,990</u> | <u>472,173</u> |
| Other financing sources (uses): | | | | |
| Fund balance appropriated | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>518,990</u> | <u>\$ 518,990</u> |
| Fund balance - beginning | | | <u>3,808,534</u> | |
| Fund balance - ending | | | <u>\$ 4,327,524</u> | |

The notes to the financial statements are an integral part of this statement.

Town of North Topsail Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - Shoreline Protection Fund
For the Year Ended June 30, 2021

| | Shoreline Protection Fund | | | Variance With Final Budget Positive (Negative) |
|------------------------------------|---------------------------|------------------|----------------------|---|
| | Budget Amounts | | Actual Amounts | |
| | Original | Final | | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 997,901 | \$ 1,397,061 | \$ 1,330,654 | \$ (66,407) |
| Accommodations tax | 1,200,000 | 1,200,000 | 1,828,238 | 628,238 |
| Unrestricted intergovernmental | 400,000 | 478,692 | 651,001 | 172,309 |
| Restricted intergovernmental | - | - | 1,033,048 | 1,033,048 |
| Permits and fees | - | - | 396,028 | 396,028 |
| Investment earnings | 14,000 | 14,000 | 4,776 | (9,224) |
| Miscellaneous | 25,000 | 25,000 | 49,716 | 24,716 |
| Total Revenues | <u>2,636,901</u> | <u>3,114,753</u> | <u>5,293,461</u> | <u>2,178,708</u> |
| Expenditures: | | | | |
| Environmental Protection | | | | |
| Operating expenditures | 1,736,786 | 2,112,126 | 4,287,171 | (2,175,045) |
| Debt service | | | | |
| Principal retirement | 414,000 | 414,000 | 414,000 | - |
| Interest and other charges | 486,115 | 486,115 | 485,388 | 727 |
| Total Expenditures | <u>2,636,901</u> | <u>3,012,241</u> | <u>5,186,559</u> | <u>(2,174,318)</u> |
| Revenues over (under) expenditures | <u>-</u> | <u>102,512</u> | <u>106,902</u> | <u>4,390</u> |
| Appropriated Fund Balance | - | (102,512) | - | 102,512 |
| Net Change in Fund Balance | <u>\$ -</u> | <u>\$ -</u> | 106,902 | <u>\$ 106,902</u> |
| Fund Balance, beginning of year | | | <u>10,101,043</u> | |
| Fund Balance, end of year | | | <u>\$ 10,207,945</u> | |

Town of North Topsail Beach, North Carolina

Notes to the Financial Statements

June 30, 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of North Topsail Beach, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of North Topsail Beach (the "Town") is a municipal corporation that is governed by an elected mayor and a five member council. As required by generally accepted accounting principles, these financial statements present the Town.

B. 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 report the *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements : The fund financial statements provide information about the Town's funds. The Town currently maintains only one fund category - governmental. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

General Fund. This fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, general government, street maintenance and construction, and sanitation services.

Shoreline Protection Fund - This is a special revenue fund used to account for shoreline and beach protection.

C. 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 Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide 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.

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 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 North Topsail Beach because the tax is levied by Onslow 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. 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 is 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 general revenues.

D. 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 and Beach Nourishment Fund. All annual appropriations lapse at the fiscal year end. Project length ordinances are utilized in capital project funds whereby appropriations lapse at project completion. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The finance officer is authorized by the budget ordinance to transfer appropriations between departmental areas within a fund up to \$2,500; however, any revisions that alter total expenditures of any fund or that change departmental appropriations by more than \$2,500 must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. 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(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority; obligations of certain 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. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, 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, 2021, The Term portfolio has a duration of .15 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.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

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

3. Restricted Assets

The USDA requires that three years of debt service payments be restricted per the loan agreement for the bond issued. Also, the Town must deposit into a restricted special savings account ten percent of the annual payment with each payment. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Restricted Cash

Governmental Activities

| | |
|-------------------------------|---------------------|
| General Fund | |
| Streets | \$ 14,576 |
| Shoreline Protection Fund | |
| Pursuant to Loan Requirments | 5,022,000 |
| Total Governmental Activities | <u>5,036,576</u> |
| Total Restricted Cash | <u>\$ 5,036,576</u> |

4. 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 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, 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. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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.

6. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The minimum capitalization cost is \$5,000. 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. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and drainage system assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | Estimated Useful Lives |
|------------------------|---------------------------|
| Infrastructure | 20 |
| Buildings | 40 |
| Vehicles and Equipment | 5-10 |

8. 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 a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2021 fiscal year. In addition to liabilities, the statement of financial 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 a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - property taxes receivable, assessments receivable, and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to 30 days of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide 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 Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Prepaid Expense - portion of fund balance that is not an available resource because it represents the year-end balance of expense prepaid for future use, which are not spendable resources.

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

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 nonspendable. 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.

Restricted for Economic development - portion of the fund balance that is restricted by the USDA for future debt service.

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of unexpended Powell Bill funds.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of North Topsail Beach'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.

Committed for Shoreline Protection - portion of fund balance assigned by the Board for Shoreline Protection.

Assigned Fund Balance - portion of fund balance that the Town of North Topsail Beach intends to use for specific purposes.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

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

12. 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 (LERS) and additions to/deductions from LERS' fiduciary net position have been determined on the same basis as they are reported by LERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of North Topsail Beach's employer contributions are recognized when due and the Town of North Topsail Beach has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LERS. Investments are reported at fair value.

II. Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes

Noncompliance with budget.

2. Contractual Violations

None.

B. Deficit in Fund Balance or Net Position of Individual Funds

None.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2021, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board in the general government activities by \$20,977. The Town also made expenditures that exceeded authorized appropriations in the Shoreline Protection Fund by \$2,175,045. Management and the Board will more closely review the budget reports to ensure compliance in future years.

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. 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 agents in these units' names. 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 agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. 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 the provisions of 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 \$1,920,598 and a bank balance of \$1,927,398. The total balance was fully covered by federal depository insurance, and the remainder was covered by collateral held under the pooling method. Cash on hand at June 30, 2021 was \$15.

2. Investments

At June 30, 2021, the Town of North Topsail Beach had \$6,005,520 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town had \$4,572,115 invested with the North Carolina Management Trust's Term Portfolio which is unrated. The Term Portfolio is authorized to invest in obligation of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The Town has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2021 are net of the following allowances for doubtful accounts:

| Fund | 6/30/2021 |
|----------------|-----------------|
| General Fund | |
| Property Taxes | \$ 6,000 |
| Total | <u>\$ 6,000</u> |

4. Capital Assets**Primary Government**

Capital asset activity for the year ended June 30, 2021, was as follows:

| GOVERNMENTAL ACTIVITIES | Beginning | Increase | Decrease | Ending |
|--|----------------------|------------------|----------------|----------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 1,082,341 | - | - | \$ 1,082,341 |
| Construction in Progress | 1,113,062 | 595,379 | - | 1,708,441 |
| Total capital assets not being depreciated | <u>2,195,403</u> | <u>595,379</u> | <u>-</u> | <u>2,790,782</u> |
| Capital assets being depreciated | | | | |
| Buildings and structures | 1,364,535 | - | - | 1,364,535 |
| Vehicles and motor equipment | 3,449,059 | 22,408 | 731,876 | 2,739,591 |
| Infrastructure | 32,259,589 | - | - | 32,259,589 |
| Total capital assets being depreciated | <u>37,073,183</u> | <u>22,408</u> | <u>731,876</u> | <u>36,363,715</u> |
| Less accumulated depreciation | | | | |
| Buildings and structures | 964,116 | 34,113 | - | 998,229 |
| Vehicles and motor equipment | 2,780,600 | 203,350 | 731,876 | 2,252,074 |
| Infrastructure | 7,979,515 | 1,240,335 | - | 9,219,850 |
| Total capital assets being depreciated | <u>11,724,231</u> | <u>1,477,798</u> | <u>731,876</u> | <u>12,470,153</u> |
| Total capital assets being depreciated | <u>25,348,952</u> | | | <u>23,893,562</u> |
| Governmental activity capital assets, net | <u>\$ 27,544,355</u> | | | <u>\$ 26,684,344</u> |

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

| | |
|--------------------------|---------------------|
| General government | \$ 111,677 |
| Public Safety | 213,483 |
| Environmental Protection | 1,152,638 |
| Total | <u>\$ 1,477,798</u> |

B. Liabilities**1. Pension Plan Obligations****a. Local Governmental Employees' Retirement System**

Plan Description. The Town of North Topsail Beach is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental 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 Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, 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. 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 or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2020, was 8.95% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$21,328 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 \$969,828 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 asset 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 0.02714%, which was a decrease of .0034% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$322,554. 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 | \$ 122,472 | \$ - |
| Changes of assumptions | 72,174 | - |
| Net difference between projected and actual earnings on pension plan investments | 136,477 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 17,624 | 36,625 |
| Town contributions subsequent to the measurement date | 220,861 | - |
| Total | \$ 569,608 | \$ 36,625 |

\$220,861 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|------------|
| 2022 | \$ 86,500 |
| 2023 | 118,488 |
| 2024 | 66,744 |
| 2025 | 40,390 |
| 2026 | - |
| Thereafter | - |
| | \$ 312,122 |

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 Increases | 3.50 to 8.10 percent, including inflation and productivity factor |
| Investment rate of return | 7.00 percent, net of position plan investment expense, including inflation |

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|---|
| Fixed Income | 29.0% | 1.4% |
| Global Equity | 42.0% | 5.3% |
| Real Estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation Protection | 6.0% | 4.0% |
| Total | <u>100%</u> | |

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

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

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) 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) | \$1,967,675 | \$969,828 | \$140,547 |

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

The Town of North Topsail Beach 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 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.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2019 the Separation Allowance's membership consisted of:

| | |
|---|-----------|
| Inactive members currently receiving benefits | 1 |
| Active plan members | 12 |
| Total | <u>13</u> |

2. Summary of Significant Accounting Policies

Basis of Accounting - The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits 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.

3. Actuarial Assumptions

The entry age 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 | 3.0 percent |
| Salary Increases | 3.50 to 8.10 percent, including inflation and productivity factor |
| Investment rate of return | 7.00 percent, net of position plan investment expense, including inflation |

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2019.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. 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. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$16,893 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 \$357,351. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then 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 \$24,710.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 20,837 | \$ 61,613 |
| Changes of assumptions | 77,626 | 9,487 |
| Town benefit payments and plan administrative expense made subsequent to the measurement date | - | - |
| Total | <u>\$ 98,463</u> | <u>\$ 71,100</u> |

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | |
|----------------------------|----------|
| 2022 | \$ 4,112 |
| 2023 | 4,138 |
| 2024 | 789 |
| 2025 | 4,424 |
| 2026 | 10,693 |
| Thereafter | 3,207 |

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (.93 percent) or 1-percentage point higher (2.93 percent) than the current rate:

| | 1% Decrease (.93%) | Discount Rate (1.93%) | 1% Increase (2.93%) |
|-------------------------|-------------------------------|----------------------------------|--------------------------------|
| Total pension liability | \$ 383,923 | \$ 357,351 | \$ 332,677 |

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

| | 2021 |
|--|-------------------|
| Beginning Balance | \$ 286,631 |
| Service Cost | 11,179 |
| Interest on the total pension liability | 9,069 |
| Differences between expected and actual experience in the measurement of the total pension liability | (9,112) |
| Changes of assumptions or other inputs | 76,477 |
| Benefit payments | (16,893) |
| Ending balance of the total pension liability | <u>\$ 357,351</u> |

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 actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

| | LGERS | LEOSSA | Total |
|--|--------------|---------------|--------------|
| Pension Expense | 322,554 | 24,710 | \$ 347,264 |
| Pension Liability | 969,828 | 357,351 | 1,327,179 |
| Proportionate share of the net pension liability | 0.02714 | n/a | |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | 122,472 | 20,837 | 143,309 |
| Changes of assumptions | 72,174 | 77,626 | 149,800 |
| Net difference between projected and actual earnings on plan investments | 136,477 | - | 136,477 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 17,624 | - | 17,624 |
| Benefit payments and administrative costs paid subsequent to the measurement date | 220,861 | - | 220,861 |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | - | 61,613 | 61,613 |
| Changes of assumptions | - | 9,487 | 9,487 |
| Benefit payments and administrative costs paid subsequent to the measurement date | 36,625 | - | 36,625 |

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires that the Town contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contribution to the plan. The Town made contributions of \$16,893 for law enforcement officers for the reporting year. No amounts were forfeited.

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to 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. 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.

3. Deferred Outflows and Inflows of Resources

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

| | | |
|---|-----------|----------------|
| Contributions to Pension Plan in Current Fiscal Year | \$ | 220,861 |
| Benefit payments and administrative expenses for LEOSSA made subsequent to measurement date | | - |
| Differences between expected and actual experience | | 143,309 |
| Changes of assumptions | | 149,800 |
| Net difference between projected and actual | | 136,477 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | | 17,624 |
| Total | <u>\$</u> | <u>668,071</u> |

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

| | Statement of Net Position | General Fund Balance Sheet | Beach Nourishment |
|---|------------------------------|-------------------------------|----------------------|
| Taxes Receivable (General Fund) | \$ - | \$ 49,114 | \$ - |
| Assessments Receivable (Shoreline Protection) | - | - | 23,034 |
| Changes in assumptions | 9,487 | - | - |
| Differences between expected and actual experience | 61,613 | - | - |
| Benefit payments and administrative costs paid subsequent to the measurement date | 36,625 | - | - |
| Total | <u>\$ 107,725</u> | <u>\$ 49,114</u> | <u>\$ 23,034</u> |

4. 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 three 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, and employee health coverage. 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. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical 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 the reinsurance, excess and 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.

In accordance with F.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$1,000,000.

The town has a VFIS policy with American Alternative Insurance Corporation covering certain fire department equipment and property. The Town also has a flood insurance policy with Lloyd's of London.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2021, the Town did not have any litigation pending.

6. Long-Term Obligations

a. Installment Purchases

In March 2013, the Town entered into a loan to finance the purchase of a fire truck. The financing contract requires principal payments beginning in 2013 with an interest rate of 1.79%. The outstanding principal balance at June 30, 2021 was \$42,769.

In September 2019, the Town entered into a loan to finance the purchase of a various vehicles. The financing contract requires principal payments beginning in 2020 with an interest rate of 2.84%. The vehicles are security for the loan. The outstanding principal balance at June 30, 2021 was \$102,048.

Annual debt service payments of the installment purchases as of June 30, 2021, including interest are as follows:

| Year Ending June 30 | Governmental Activities | |
|------------------------|-------------------------|----------|
| | Principal | Interest |
| 2022 | \$ 97,286 | \$ 3,664 |
| 2023 | 47,531 | 1,350 |
| Total | \$ 144,817 | \$ 5,014 |

b. Special Obligation Indebtedness

Special Obligation Bonds (SOBs) are authorized by N.C. Statutes and are available for use by cities and towns in N.C. A SOB pledges a specific town revenue or revenues as the collateral for the repayment of the bonds. Accordingly the SOBs are not a general obligation of the town and the remedies for collection are restricted to the pledged revenues..

Bonds payable at June 30, 2021 are comprised of the following individual issue:

Serviced by the Shoreline Protection Fund:

\$16,815,000 Special Obligation, Series 2015 USDA bonds issued on November 6, 2015, and due on June 1st in various installments plus interest through June 1, 2045; interest at 3.25%

\$ 14,521,000

| Year Ending June 30 | Governmental Activities | |
|------------------------|-------------------------|--------------|
| | Principal | Interest |
| 2022 | \$ 427,455 | \$ 471,933 |
| 2023 | 441,347 | 458,040 |
| 2024 | 455,691 | 443,696 |
| 2025 | 470,501 | 428,886 |
| 2026 | 485,792 | 413,595 |
| 2027-2031 | 2,676,301 | 1,820,636 |
| 2032-2036 | 3,140,402 | 1,356,535 |
| 2037-2041 | 3,684,984 | 811,954 |
| 2042-2046 | 2,738,526 | 194,532 |
| Total | \$ 14,521,000 | \$ 6,399,808 |

c. Long-Term Obligation Activity

| <u>Governmental activities:</u> | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion |
|--|----------------------|-------------------|-------------------|----------------------|--------------------|
| Direct placement note payable | \$ 254,522 | \$ - | \$ 109,705 | \$ 144,817 | \$ 97,286 |
| Special obligation bonds | 14,935,000 | - | 414,000 | 14,521,000 | 427,455 |
| Compensated absences | 90,992 | 45,312 | 42,169 | 94,135 | 42,169 |
| Net pension obligation (LGERS) | 834,024 | 135,804 | - | 969,828 | - |
| Total pension liability (LEO) | 286,631 | 70,720 | - | 357,351 | - |
| Governmental activities long-term debt | <u>\$ 16,401,169</u> | <u>\$ 251,836</u> | <u>\$ 565,874</u> | <u>\$ 16,087,131</u> | <u>\$ 566,910</u> |

Compensated absences for governmental activities typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

Due to/from other funds at June 30, 2021, consist of the following:

| | |
|--|-------------------------|
| Shoreline Protection Fund to the General Fund expenditures paid by the General Fund. | \$179,380 |
| Total | <u><u>\$179,380</u></u> |

D. Net Investment in Capital Assets

| | |
|---------------------------------|--------------------------------------|
| Capital Assets | <u>Governmental</u> \$ 26,684,344 |
| less: long term debt | (14,665,817) |
| Net investment in capital asset | <u><u>\$ 12,018,527</u></u> |

E. Fund Balance

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 | \$ 4,327,524 |
| Less: | |
| Stabilization by State Statute | 664,844 |
| Streets - Powell Bill | 14,576 |
| Remaining Fund Balance | 3,648,104 |

III. Summary Disclosure of Significant Contingencies

A. Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys 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.

IV. Subsequent Events

Events occurring after June 30, 2021 were evaluated by management on October 11, 2021 to ensure that any subsequent events that met the criteria for recognition and/or disclosure to these financial statements have been included. There were no subsequent events requiring disclosure.

Town of North Topsail Beach, North Carolina
Camden County's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Eight Fiscal Years*

Local Government Employees' Retirement System

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| North Topsail Beach's proportion of the net pension liability (asset) (%) | 0.02714% | 0.03054% | 0.02792% | 0.02581% | 0.02612% | 0.03091% | 0.03100% | 0.02480% |
| North Topsail Beach's proportion of the net pension liability (asset) (\$) | \$ 969,828 | \$ 834,024 | \$ 662,358 | \$ 394,305 | \$ 554,354 | \$ 138,722 | \$ (182,821) | \$ 298,935 |
| North Topsail Beach's covered-employee payroll | \$ 1,989,600 | \$ 2,038,073 | \$ 1,616,324 | \$ 1,627,781 | \$ 1,604,908 | \$ 1,599,383 | \$ 1,510,668 | \$ 1,253,500 |
| North Topsail Beach's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 48.74% | 40.92% | 40.98% | 24.22% | 34.54% | 8.67% | (12.10%) | 23.85% |
| Plan fiduciary net position as a percentage of the total pension liability** | 88.61% | 90.86% | 91.63% | 94.18% | 91.47% | 98.09% | 102.64% | 94.35% |

* 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.

Town of North Topsail Beach, North Carolina
Required Supplementary Information
Last Eight Fiscal Years

Local Government Employees' Retirement System

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually required contribution | \$ 220,861 | \$ 184,774 | \$ 164,550 | \$ 122,528 | \$ 117,456 | \$ 104,513 | \$ 113,221 | \$ 103,790 |
| Contributions in relation to the contractually required contribution | 220,861 | 184,774 | 164,550 | 122,528 | 117,456 | 104,513 | 113,221 | 103,790 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| North Topsail Beach's covered payroll | \$ 2,107,990 | \$ 1,989,600 | \$ 2,038,073 | \$ 1,616,324 | \$ 1,627,781 | \$ 1,604,908 | \$ 1,599,383 | \$ 1,510,668 |
| Contributions as a percentage of covered payroll | 10.48% | 9.29% | 8.07% | 7.58% | 7.22% | 6.51% | 7.08% | 6.87% |

Town of North Topsail Beach, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2021

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Beginning balance | 286,631 | 360,852 | 336,687 | 299,382 | 283,172 |
| Service Cost | 11,179 | 12,938 | 15,414 | 13,560 | 14,398 |
| Interest on the total pension liability | 9,069 | 12,729 | 10,286 | 11,159 | 10,109 |
| Changes of benefit terms | - | - | - | - | - |
| Differences between expected and actual experience in the measurement of the total pension liability | (9,112) | (85,313) | 35,446 | 9,908 | - |
| Changes of assumptions or other inputs | 76,477 | 7,759 | (14,647) | 23,281 | (8,297) |
| Benefit payments | (16,893) | (22,334) | (22,334) | (20,603) | - |
| Other changes | - | - | - | - | - |
| Ending balance of the total pension liability | <u>\$ 357,351</u> | <u>\$ 286,631</u> | <u>\$ 360,852</u> | <u>\$ 336,687</u> | <u>\$ 299,382</u> |

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

Town of North Topsail Beach, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2021

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Total pension liability | \$ 357,351 | \$ 286,631 | \$ 360,852 | \$ 336,687 | \$ 299,382 |
| Covered payroll | 595,749 | 650,515 | 513,035 | 497,026 | 498,295 |
| Total pension liability as a percentage of covered payroll | 59.98% | 44.06% | 70.34% | 67.74% | 60.08% |

Notes to the schedules:

The Town of North Topsail Beach has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits

Town of North Topsail Beach, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

| | 2021 | | Variance Favorable (Unfavorable) |
|--|---------------------|------------------|--|
| | Budget | Actual | |
| Revenues: | | | |
| Ad valorem taxes: | | | |
| Taxes | | \$ 2,649,518 | |
| Penalties and interest | | 2,145 | |
| Total | <u>\$ 2,703,043</u> | <u>2,651,663</u> | <u>\$ (51,380)</u> |
| Permits and Fees | | | |
| Inspection Fees | | 155,315 | |
| Total | <u>264,450</u> | <u>155,315</u> | <u>(109,135)</u> |
| Sales and Services | | | |
| Solid Waste | | 482,207 | |
| Rents | | 149,304 | |
| Fines and Penalties | | 19,471 | |
| Miscellaneous | | 87,861 | |
| Total | <u>759,228</u> | <u>738,843</u> | <u>(20,385)</u> |
| Unrestricted intergovernmental revenues: | | | |
| Local option sales taxes | | 1,915,392 | |
| Franchise tax | | 301,018 | |
| Beer and wine tax | | 3,385 | |
| Total | <u>1,740,301</u> | <u>2,219,795</u> | <u>479,494</u> |
| Restricted intergovernmental revenue: | | | |
| Grants | | 117,217 | |
| Solid waste disposal tax | | 589 | |
| Powell Bill | | 24,788 | |
| Total | <u>179,500</u> | <u>142,594</u> | <u>(36,906)</u> |
| Interest Income | <u>75,000</u> | <u>15,420</u> | <u>(59,580)</u> |
| Total Revenues | <u>5,721,522</u> | <u>5,923,630</u> | <u>202,108</u> |

Town of North Topsail Beach, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

| | 2021 | | Variance Favorable (Unfavorable) |
|--------------------------------|------------------|------------------|--|
| | Budget | Actual | |
| Expenditures: | | | |
| General government | | | |
| Administration | | | |
| Salaries and employee benefits | | 454,407 | |
| Operating Expenditures | | 109,888 | |
| Total Administration | <u>575,354</u> | <u>564,295</u> | <u>11,059</u> |
| Governing Body | | | |
| Salaries and employee benefits | | 37,139 | |
| Operating Expenditures | | 142,621 | |
| Total Governing Body | <u>168,817</u> | <u>179,760</u> | <u>(10,943)</u> |
| Planning & Zonning | | | |
| Salaries and employee benefits | | 123,144 | |
| Operating Expenditures | | 8,172 | |
| Total Planning & Zonning | <u>137,743</u> | <u>131,316</u> | <u>6,427</u> |
| Insurance | | | |
| Operating Expenditures | | 175,994 | |
| Total Insurance | <u>181,200</u> | <u>175,994</u> | <u>5,206</u> |
| Public Buildings | | | |
| Operating Expenditures | | 177,112 | |
| Capital Outlay | | 595,379 | |
| Total Public Buildings | <u>747,000</u> | <u>772,491</u> | <u>(25,491)</u> |
| Public Works | | | |
| Salaries and employee benefits | | 264,459 | |
| Operating Expenditures | | 49,404 | |
| Total Public Works | <u>348,010</u> | <u>313,863</u> | <u>34,147</u> |
| Total General government | <u>2,158,124</u> | <u>2,137,719</u> | <u>20,405</u> |
| Public Safety | | | |
| Police | | | |
| Salaries and employee benefits | | 924,266 | |
| Operating Expenditures | | 118,083 | |
| Total Police | <u>1,220,753</u> | <u>1,042,349</u> | <u>178,404</u> |
| Police Separation Allowance | | | |
| Salaries and employee benefits | | 17,120 | |
| Total debt service | <u>17,125</u> | <u>17,120</u> | <u>5</u> |

Town of North Topsail Beach, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

| | 2021 | | Variance Favorable (Unfavorable) |
|--|------------------|------------------|--|
| | Budget | Actual | |
| Inspections and Zoning | | | |
| Salaries and employee benefits | | 164,295 | |
| Operating Expenditures | | 10,229 | |
| Total Inspections and Zoning | <u>185,123</u> | <u>174,524</u> | <u>10,599</u> |
| Fire | | | |
| Salaries and employee benefits | | 1,032,515 | |
| Operating Expenditures | | 136,661 | |
| Total Fire | <u>1,193,975</u> | <u>1,169,176</u> | <u>24,799</u> |
| Total public safety | <u>2,616,976</u> | <u>2,403,169</u> | <u>213,807</u> |
| Street Department | | | |
| Operating Expenditures | | 90,189 | |
| Total Street Department | <u>110,000</u> | <u>90,189</u> | <u>19,811</u> |
| Sanitation | | | |
| Operating Expenditures | | 466,664 | |
| Total Sanitation | <u>482,706</u> | <u>466,664</u> | <u>16,042</u> |
| Community Development | | | |
| Operating Expenditures | | 13,569 | |
| Capital Outlay | | 22,408 | |
| Total Community Development | <u>15,000</u> | <u>35,977</u> | <u>(20,977)</u> |
| Beach and Strand | | | |
| Operating Expenditures | | 880 | |
| Total Beach and Strand | <u>2,000</u> | <u>880</u> | <u>1,120</u> |
| Beach Renourishment/Dune Stabilization | | | |
| Operating Expenditures | | 153,020 | |
| Total Beach Renourishment/Dune Stabilization | <u>219,500</u> | <u>153,020</u> | <u>66,480</u> |

Town of North Topsail Beach, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

| | 2021 | | Variance Favorable (Unfavorable) |
|--|------------------|---------------------|--|
| | Budget | Actual | |
| Debt Service | | | |
| Debt Services - principal | | 109,705 | |
| Debt Services - interest | | 7,317 | |
| Total Debt Service | <u>117,216</u> | <u>117,022</u> | <u>194</u> |
| | | | |
| Total Expenditures | <u>5,721,522</u> | <u>5,404,640</u> | <u>316,882</u> |
| Revenues over (under) expenditures | <u>-</u> | <u>518,990</u> | <u>518,990</u> |
| Other financing sources (uses): | | | |
| Transfers from other funds | - | - | - |
| Fund balance appropriated | - | - | - |
| Total | <u>-</u> | <u>-</u> | <u>-</u> |
| Revenues and other financing sources over (under) expenditures and other uses | <u>\$ -</u> | <u>518,990</u> | <u>\$ 518,990</u> |
| | | | |
| Fund Balance, beginning of year | | <u>3,808,534</u> | |
| Fund Balance, end of year | | <u>\$ 4,327,524</u> | |

Town of North Topsail Beach, North Carolina
Shoreline Protection Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
Fore the Fiscal Year Ended June 30, 2021

| | 2021 | | Variance Favorable (Unfavorable) |
|------------------------------------|---------------------|----------------------|--|
| | Budget | Actual | |
| Revenues: | | | |
| Ad valorem taxes | | \$ 1,330,654 | |
| Accommodations tax | | 1,828,238 | |
| Unrestricted intergovernmental | | 651,001 | |
| Restricted intergovernmental | | 1,033,048 | |
| Permits and fees | | 396,028 | |
| Investment earnings | | 4,776 | |
| Miscellaneous | | 49,716 | |
| Total Revenues | <u>\$ 3,114,753</u> | <u>5,293,461</u> | <u>\$ 2,178,708</u> |
| Expenditures: | | | |
| Environmental Protection | | | |
| Operating expenditures | | 4,287,171 | |
| Debt service | | | |
| Principal retirement | | 414,000 | |
| Interest and other charges | | 485,388 | |
| Total Expenditures | <u>3,012,241</u> | <u>5,186,559</u> | <u>(2,174,318)</u> |
| Revenues over (under) expenditures | <u>102,512</u> | <u>106,902</u> | <u>4,390</u> |
| Other financing sources (uses): | | | |
| Transfers from other funds | - | - | - |
| Fund balance appropriated | <u>(102,512)</u> | <u>-</u> | <u>102,512</u> |
| Total Other Financing Sources | <u>(102,512)</u> | <u>-</u> | <u>102,512</u> |
| Appropriated Fund Balance | | | |
| Net Change in Fund Balance | <u>\$ -</u> | <u>106,902</u> | <u>\$ 106,902</u> |
| Fund Balance, beginning of year | | <u>10,101,043</u> | |
| Fund Balance, end of year | | <u>\$ 10,207,945</u> | |

Town of North Topsail Beach, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2021

| <u>Fiscal Year</u> | <u>Uncollected Balance June 30, 2020</u> | <u>Additions</u> | <u>Collections And Credits</u> | <u>Uncollected Balance June 30, 2021</u> |
|------------------------------------|--|---------------------|------------------------------------|--|
| 2020-2021 | \$ - | \$ 3,989,480 | \$ 3,964,180 | \$ 25,300 |
| 2019-2020 | 32,758 | - | 21,364 | 11,394 |
| 2018-2019 | 6,683 | - | 4,100 | 2,583 |
| 2017-2018 | 3,805 | - | 1,424 | 2,381 |
| 2016-2017 | 2,649 | - | 796 | 1,853 |
| 2015-2016 | 3,969 | - | 2,084 | 1,885 |
| 2014-2015 | 3,359 | - | 1,416 | 1,943 |
| 2013-2014 | 3,626 | - | 45 | 3,581 |
| 2012-2013 | 2,148 | - | 40 | 2,108 |
| 2011-2012 | 2,106 | - | 20 | 2,086 |
| 2010-2011 | 1,792 | - | 1,792 | - |
| | <u>\$ 62,895</u> | <u>\$ 3,989,480</u> | <u>\$ 3,997,261</u> | <u>55,114</u> |
| | | | | <u>6,000</u> |
| | | | | <u>\$ 49,114</u> |
| <u>Reconciliation to revenues:</u> | | | | |
| | | | | \$ 3,982,317 |
| | | | | |
| | | | | |
| | | | | (2,145) |
| | | | | 17,089 |
| | | | | <u>\$ 3,997,261</u> |

Town of North Topsail Beach, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2021

| | Town - Wide | | | Total Levy | |
|--|-----------------------|---------|----------------|---|------------------------------|
| | Property Valuation | Rate | Amount of Levy | Property Excluding Motor Vehicles | Registered Motor Vehicles |
| Original levy: | | | | | |
| Property taxed at current year's rate | \$ 973,043,902 | \$ 0.41 | \$ 3,989,480 | \$ 3,922,282 | \$ 67,198 |
| Total Property Valuation | \$ 973,043,902 | | | | |
| Net levy | | | 3,989,480 | 3,922,282 | 67,198 |
| Uncollected taxes at June 30, 2021 | | | 25,300 | 25,300 | - |
| Current year's taxes collected | | | \$ 3,964,180 | \$ 3,896,982 | \$ 67,198 |
| Current levy collection percentage | | | 99.37% | 99.35% | 100.00% |



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**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
North Topsail Beach, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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, each major fund, and the aggregate remaining fund information of Town of North Topsail Beach, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprises the Town of North Topsail Beach's basic financial statements, and have issued our report thereon dated November 24, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of North Topsail Beach'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 North Topsail Beach'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2021-001.

Compliance and Other Matters

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

Town of North Topsail Beach Response to Findings

The Town of North Topsail Beach responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Thompson, Price, Scott, Adams & Co., PA

Wilmington, North Carolina

November 24, 2021



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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of North Topsail Beach, North Carolina, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of North Topsail Beach's major federal programs for the year ended June 30, 2021. The Town of North Topsail Beach's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal and State statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of North Topsail Beach's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of North Topsail Beach's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of North Topsail Beach's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of North Topsail Beach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the Town of North Topsail Beach is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of North Topsail Beach's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Thompson, Price, Scott, Adams & Co., PA

Wilmington, North Carolina

November 24, 2021

Town of North Topsail Beach, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2021

Section I. Summary of Auditor's Results

Financial Statements

Type of report 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 Xno
- Significant Deficiency(s) identified? Xyes ___no

Noncompliance material to financial statements noted? ___yes Xno

Federal Awards

Internal control over major Federal programs:

- Material weakness(es) identified? ___yes Xno
- Significant Deficiency(s) identified ___yes Xnone reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___yes Xno

Identification of major federal programs:

| CFDA No(s). | Names of Federal Program |
|-------------|---|
| 97.036 | Disaster Grants – Public Assistance (Presidentially Declared Disasters) |

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? ___yes Xno

Town of North Topsail Beach, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2021

Section II – Financial Statement Findings

Significant Deficiency

Finding: 2021 - 001 Noncompliance with Budget

Criteria: G.S. 159-28(a) states that no obligation may be incurred in a function accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

Condition: The Town expended more for the General Fund and Shoreline Protection Fund than was appropriated for in the annual budget ordinance.

Effect: Monies were spent that had not been obligated and appropriated.

Identification of a repeat finding: This is not a repeat finding.

Cause: The Town exceeded budget expenditures in the General Fund and Water Fund while budget amendments were not adopted.

Recommendation: Before an obligation is to incur that will exceed the amount that was previously approved in the budget ordinance, an amendment to the budget should be adopted.

Views of responsible officials and planned corrective actions: The Town will continue to monitor the budgets on a monthly basis to ensure compliance.

Section III – Federal Award Findings and Questioned Costs

None.

Town of North Topsail Beach

Joann M. McDermon, Mayor
Mike Benson, Mayor Pro Tem

Aldermen:
Richard Grant
Tom Leonard
Susan Meyer
Connie Pletl



Alice Derian, ICMA-CM
Town Manager

Danyale Lundy
Town Clerk

Nature's Tranquil Beauty

CORRECTIVE ACTION PLAN FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Section II – Financial Statement Findings

2021 - 001 Noncompliance with Budget

Name of Contact Person: Caitlin Elliott

Corrective Action: When obligations arise that exceed the amount in the approved budget ordinance, amendments to the budget will be created. These amendments will be brought to the Board when they arise for transparency and to ensure compliance.

Proposed Completion Date: Immediately.

Town of North Topsail Beach, North Carolina
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2021

None Reported.

TOWN OF NORTH TOPSAIL BEACH, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2021

| <u>Grantor/Pass-through Grantor/Program Title</u> | Federal AL#/ CFDA No. | State/ Pass-through Grantor's No. | Fed. (Direct & Pass-through) <u>Expenditures</u> | State <u>Expenditures</u> | Pass-through to <u>subrecipients</u> |
|--|-----------------------------|---|--|------------------------------|--|
| Federal Grants: | | | | | |
| Cash Programs: | | | | | |
| <u>U. S. Department of Homeland Security</u> | | | | | |
| Passed-through N.C. Department of Public Safety | | | | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | | | | | |
| | 97.036 | | \$ 2,857,351 | \$ 952,450 | \$ - |
| Total assistance - federal programs | | | <u>2,857,351</u> | <u>952,450</u> | <u>-</u> |
| State Grants: | | | | | |
| Cash Assistance: | | | | | |
| <u>N.C. Department of Transportation:</u> | | | | | |
| Powell Bill | | | | | |
| | | 32570 | - | 24,788 | - |
| Total assistance - State programs | | | <u>-</u> | <u>24,788</u> | <u>-</u> |
| Total assistance | | | <u>\$ 2,857,351</u> | <u>\$ 977,238</u> | <u>\$ -</u> |

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of North Topsail Beach under the programs of the federal government and the State of North Carolina for the year ended June 30, 2021. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of North Topsail Beach, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of North Topsail Beach.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The Town of North Topsail Beach has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4: Loans Outstanding

The Town of North Topsail Beach had the following loan balances outstanding at June 30, 2021 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2021 consist of:

| <u>Program Title</u> | <u>AL#/ CFDA No.</u> | Pass-through Grantor's <u>Number</u> | <u>Amount Outstanding</u> |
|---------------------------------------|--------------------------|--|-------------------------------|
| Community Facilities Loans and Grants | 10.766 | 38-021-566001216 | \$ 14,521,000 |