

# TOWN OF NORTH TOPSAIL BEACH

## FINANCIAL REPORT

June 30, 2015



**CRI** CARR  
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**June 30, 2015**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor  
Members of the Board of Aldermen  
Town of 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, 2015 and the related notes to the financial statements, which collectively comprises 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 includes 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, 2015, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Beach Nourishment Fund for the year then ended in conformity 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 Management's Discussion and Analysis, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of North Topsail Beach, North Carolina. The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and

the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates 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 by us. In our opinion, based on our audit, the procedures performed as described above, the individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

#### **Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015 on our consideration of Town of North Topsail Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of North Topsail Beach's internal control over financial reporting and compliance.

*Car, Riggs & Ingram, L.L.C.*

New Bern, North Carolina  
December 4, 2015

**Town of North Topsail Beach  
Management's Discussion and Analysis  
June 30, 2015**

As management of the Town of North Topsail Beach, we offer readers of the Town'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, 2015. 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**

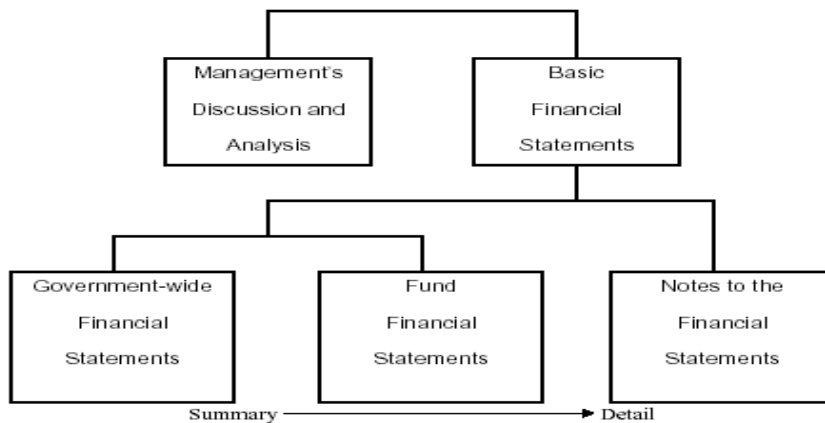
- The assets and deferred outflows of resources of the Town of North Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$15,803,145(net position).
- The government's total net position increased by \$2,812,362, entirely due to increases in the governmental activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$6,355,106, an increase of \$779,068 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$542,051 or 15.4% of total General Fund expenditures for the fiscal year.

**Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the 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 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 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; and 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 details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

### **Government-wide Financial Statements**

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

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

The government-wide statements are divided into two categories: 1) governmental activities; 2) business-type activities. The governmental activities include the Town's basic services such as public safety, streets, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the town charges customers to provide. The Town of North Topsail Beach does not currently provide services that are considered business-type activities.

The government-wide financial statements are found in 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 General Statutes or the Town's budget ordinance. All of the funds of Town of North Topsail Beach are governmental funds.





**Town of North Topsail Beach**  
**Management's Discussion and Analysis**  
**June 30, 2015**

**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 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 decision 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.

**Proprietary Funds**

The Town of North Topsail Beach currently has no proprietary funds.

**Notes to the Financial Statements**

The notes provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 21 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report includes certain other required supplementary information concerning the Town of North Topsail Beach. The other schedules can be found beginning on page 41 of this report.

**Interdependence with Other Entities**

The Town depends on financial resources flowing from, or associated with, both the Federal Government and 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.

**Town of North Topsail Beach  
Management's Discussion and Analysis  
June 30, 2015**

**Town of North Topsail Beach Net Position  
Figure 2**

|                                  | <b>Governmental Activities</b> |                      |
|----------------------------------|--------------------------------|----------------------|
|                                  | <b>2015</b>                    | <b>2014</b>          |
| Current and other assets         | \$ 10,737,482                  | \$ 5,933,755         |
| Capital assets                   | 28,374,050                     | 9,953,908            |
| Deferred outflows of resources   | 113,221                        | -                    |
| <b>Total assets</b>              | <b>39,224,753</b>              | <b>15,887,663</b>    |
| Current liabilities              | 21,642,395                     | 913,931              |
| Long-term liabilities            | 1,377,199                      | 1,982,949            |
| Deferred inflows of resources    | 402,014                        | -                    |
| <b>Total liabilities</b>         | <b>23,421,608</b>              | <b>2,896,880</b>     |
| Net investment in capital assets | 13,424,502                     | 7,365,876            |
| Restricted net position          | 5,813,055                      | 2,553,836            |
| Unrestricted net position        | (3,434,412)                    | 3,071,071            |
| <b>Total net position</b>        | <b>\$ 15,803,145</b>           | <b>\$ 12,990,783</b> |

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 \$15,803,145 as of June 30, 2015. The Town's net position increased by \$2,812,362 for the fiscal year ended June 30, 2015. However, the largest portion (84.9%) of net position reflects the Town's net investment in capital assets (e.g. land, building, machinery, and equipment). 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, \$5,813,055, represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted.

The government-wide statement of net position for governmental activities reflects a negative \$3,434,412 unrestricted net position balance. During the fiscal year, the Town issued \$16.5 million debt in order to fund a major beach project (Phase V Beach Nourishment). By issuing such debt, the Town is left to reflect significant liabilities on its statements of net position. While the liabilities will decrease in future years as the debt is paid down, in this initial period, it creates a deficit in the amount of unrestricted net position available when reported under the full accrual basis of accounting.

**Town of North Topsail Beach**  
**Management's Discussion and Analysis**  
**June 30, 2015**

Also, the Town of North Topsail Beach implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$196,812. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of North Topsail Beach's management.

**Town of North Topsail Beach Changes in Net Position**  
**Figure 3**

|  | <b>Governmental Activities</b> |                      |
|--|--------------------------------|----------------------|
|  | <b>2015</b>                    | <b>2014</b>          |
| <b>Revenues:</b>                             |                                |                      |
| Program revenues:                            |                                |                      |
| Charges for services                         | \$ 346,384                     | \$ 467,421           |
| Operating grants and contributions           | 27,590                         | 79,602               |
| Capital grants and contributions             | 868,946                        | -                    |
| General revenues:                            |                                |                      |
| Property taxes                               | 3,179,130                      | 3,201,826            |
| Other taxes                                  | 2,935,597                      | 2,005,614            |
| Investment earnings                          | 7,104                          | 2,920                |
| Miscellaneous                                | 36,310                         | 232,411              |
| <b>Total revenues</b>                        | <b>7,401,061</b>               | <b>5,989,794</b>     |
| <b>Expenses:</b>                             |                                |                      |
| General government                           | 1,224,872                      | 1,154,699            |
| Public safety                                | 1,721,709                      | 1,762,484            |
| Transportation                               | 108,518                        | 72,927               |
| Economic and physical development            | 6,441                          | -                    |
| Environmental protection                     | 1,032,825                      | 718,201              |
| Cultural and recreation                      | 79,586                         | 93,959               |
| Interest on long-term debt                   | 217,936                        | -                    |
| <b>Total expenses</b>                        | <b>4,391,887</b>               | <b>3,802,270</b>     |
| Increase in net position                     | 3,009,174                      | 2,187,524            |
| Net position, July 1, as previously reported | 12,990,783                     | 10,803,259           |
| Restatement                                  | (196,812)                      | -                    |
| Net position, July 1, as restated            | 12,793,971                     | 10,803,259           |
| <b>Net position, June 30</b>                 | <b>\$ 15,803,145</b>           | <b>\$ 12,990,783</b> |

**Town of North Topsail Beach**  
**Management's Discussion and Analysis**  
**June 30, 2015**

**Governmental Activities**

Governmental activities increased the Town's net position by \$2,812,362, thereby accounting for 100% of the total increase in the net position of the Town of North Topsail Beach.

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

- Net expenses of the Town's governmental activities increased by approximately \$589,617 due to an increase in general government and environmental protection expenditures.
- General revenues increased by approximately \$1,411,267 primarily due to an increase in other tax revenues and capital grants. The property tax rate was unchanged. The town received several State and County grants capital grants in the current fiscal year.

**Business-type Activities**

There were no business-type activities in the current year.

**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 the 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 \$542,051 while total fund balance was \$695,936, a decrease of \$2,570,268 from the prior fiscal year. This decrease is due to the transfer of \$2,560,000 from the General Fund to the Beach Nourishment Fund to provide cash for an emergency sandbag revetment project. In the fall of 2014, major storms had caused considerable infrastructure and property damage, including inordinate beach erosion to occur. On October 15, 2014, the Town adopted Resolution 2014-13, "Beach Erosion Control and Flood and Hurricane Protection Works North End Sandbag Revetment Project." Work began on the project in December 2014 and was completed in 2015 at a cost of \$2.7 million. Under the authority granted to municipalities under NC General Statute 160A-238, the Town decided to assess the affected property owners 50% of the costs of the project, approximately \$1.4 million. As these payments are received in subsequent periods, the General Fund's balance will increase.

As a measure of the General Fund's liquidity, it maybe useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 15.4% of total General Fund expenditures, while total fund balance represents 19.8% of that same amount. While lower than last year's, they nevertheless both exceed the 8% commonly recommended by the Local Government Commission.

**Town of North Topsail Beach  
Management's Discussion and Analysis  
June 30, 2015**

**General Fund and Beach Nourishment 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 more than the budgeted amounts primarily because the Town received additional sales tax and unrestricted intergovernmental revenues that became available. Expenditures were held in check to comply with its budgetary requirements.

**Proprietary Funds**

The Town of North Topsail Beach had no proprietary funds in the current year.

**Capital Assets**

The Town of North Topsail Beach's investment in capital assets for its governmental activities as of June 30, 2015, totals \$28,374,050 (net of accumulated depreciation). These assets include land, buildings, vehicles and equipment, and infrastructure.

Major capital assets transactions during the year included the purchase of three vehicles, two parcels of land and the completion of a beach nourishment project. The three vehicles are to be used for public safety, the land will be used for a beach parking access, and the beach nourishment project will be used for environmental protection.

**Town of North Topsail Beach's Capital Assets  
(Net of depreciation)  
Figure 4**

|                          | <b>Governmental Activities</b> |                     |
|--------------------------|--------------------------------|---------------------|
|                          | <b>2015</b>                    | <b>2014</b>         |
| Land                     | \$ 1,082,341                   | \$ 1,082,341        |
| Construction in progress | 17,018,901                     | 294,259             |
| Buildings                | 570,984                        | 605,097             |
| Vehicle                  | 671,924                        | 718,481             |
| Infrastructure           | 9,029,900                      | 7,253,730           |
| <b>Total</b>             | <b>\$ 28,374,050</b>           | <b>\$ 9,953,908</b> |

Additional information on the Town's capital assets can be found in Note II.A.4 of the basic financial statements.

**Town of North Topsail Beach  
Management's Discussion and Analysis  
June 30, 2015**

**Long-Term Debt**

As of June 30, 2015, the Town had total debt outstanding of \$18,924,631. The Town's debt represents an accrual for compensated absences, equipment purchased and the Beach Nourishment Project.

**Town of North Topsail Beach's Long-term Liabilities  
Figure 5**

|                          | <b>Governmental Activities</b> |                     |
|--------------------------|--------------------------------|---------------------|
|                          | <b>2015</b>                    | <b>2014</b>         |
| Installment purchase     | \$ 278,949                     | \$ 316,032          |
| Special obligation bonds | 1,704,000                      | 2,272,000           |
| Bond anticipation notes  | 16,815,000                     | -                   |
| Compensated absences     | 126,682                        | 113,781             |
| <b>Total</b>             | <b>\$ 18,924,631</b>           | <b>\$ 2,701,813</b> |

The Town's total debt increased by \$16,222,818 during the fiscal year. This increase is due to a bond anticipation note issued in August 2014 to provide funding for a beach nourishment project.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of North Topsail Beach is \$45,806,873.

**Economic Factors and Next Year's Budgets and Rates**

The following key economic indicator reflects the growth and prosperity of the Town:

- Continued increase in accommodations tax revenue as a result of continued development and attractiveness of a premier residential vacation community.

**Budget Highlights for the Fiscal Year Ending June 30, 2016**

- The property tax rate will remain at 39.32 cents per hundred valuations. Of the rate, 24.32 cents will be used to fund General Fund operations and 15 cents to fund Beach Nourishment Capital Projects.
- Increase in Sales Tax collections, as the economy improves. This year a change in the Sales Tax distribution formula will result in a substantial increase in this tax.
- Solid waste fees were increased from \$150 to \$195 per year, per residential cart in order to cover the increase by the Town's contractor.
- The Town is continuing its vehicle replacement program and purchasing two vehicles for the Police Department each year



**Town of North Topsail Beach  
Management's Discussion and Analysis  
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- The Town's contribution rate to the Local Governmental Employees' Retirement Systems is 6.74% for general employees and 6.77% for law enforcement officers.
- The Town plans to continue the Shoreline Protection Project, as funds were budgeted to conduct the Planning, Engineering, and construction of Phase 5 initially, with continued planning/permitting for the remaining Phases 2-4 in future years.

**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 Bonnie Kline, Finance Officer, Town of North Topsail Beach, 2008 Loggerhead Court, North Topsail Beach, NC 28460.

**Town of North Topsail Beach**  
**Statement of Net Position**  
**June 30, 2015**  
**Exhibit 1**

**Primary**  
**Government**  


---

**Governmental**  
**Activities**

| <b>ASSETS</b>  |    |             |
|--|----|-------------|
| Current assets:                                      |    |             |
| Cash and cash equivalents                            | \$ | 4,816,413   |
| Taxes receivable (net)                               |    | 234,267     |
| Accrued interest receivable on taxes                 |    | 18,508      |
| Accounts receivable (net)                            |    | 459,684     |
| Restricted cash and cash equivalents                 |    | 5,025,789   |
| Total current assets                                 |    | 10,554,661  |
| Non-current assets:                                  |    |             |
| Net pension asset                                    |    | 182,821     |
| Capital assets:                                      |    |             |
| Land and non-depreciable improvements                |    | 18,101,242  |
| Other capital assets, net of depreciation            |    | 10,272,808  |
| Total capital assets                                 |    | 28,374,050  |
| Total assets   |    | 39,111,532  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                |    |             |
| Contributions to pension plan in current fiscal year |    | 113,221     |
| <b>LIABILITIES</b>                                   |    |             |
| Current liabilities:                                 |    |             |
| Accounts payable                                     |    | 240,197     |
| Current portion of long-term liabilities             |    | 17,547,432  |
| Liabilities payable from restricted assets           |    | 3,854,766   |
| Total current liabilities                            |    | 21,642,395  |
| Long-term liabilities:                               |    |             |
| Due in more than one year                            |    | 1,377,199   |
| Total liabilities                                    |    | 23,019,594  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                 |    |             |
| Pension deferrals                                    |    | 402,014     |
| <b>NET POSITION</b>                                  |    |             |
| Net investment in capital assets                     |    | 13,424,502  |
| Restricted for:                                      |    |             |
| Environmental protection                             |    | 5,205,188   |
| Stabilization by State Statute                       |    | 607,867     |
| Unrestricted   |    | (3,434,412) |
| Total net position                                   | \$ | 15,803,145  |

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



**Town of North Topsail Beach**  
**Statement of Activities**  
**For the Year Ended June 30, 2015**  
**Exhibit 2**

| Functions/ Programs                  | Expenses         | Program Revenues     |                                    |                                  | Net (Expense)                       |
|--------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------|
|                                      |                  | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
|                                      |                  |                      |                                    |                                  | Governmental Activities             |
| <b>Primary government:</b>           |                  |                      |                                    |                                  |                                     |
| Governmental activities:             |                  |                      |                                    |                                  |                                     |
| General government                   | \$ 1,224,872     | \$ -                 | \$ -                               | \$ -                             | \$ (1,224,872)                      |
| Public safety                        | 1,721,709        | 35,500               | -                                  | -                                | (1,686,209)                         |
| Transportation                       | 108,518          | -                    | 27,102                             | -                                | (81,416)                            |
| Environmental protection             | 1,032,825        | 309,684              | 488                                | 868,946                          | 146,293                             |
| Economical and physical development  | 6,441            | -                    | -                                  | -                                | (6,441)                             |
| Cultural and recreation              | 79,586           | 1,200                | -                                  | -                                | (78,386)                            |
| Interest on long-term debt           | 217,936          | -                    | -                                  | -                                | (217,936)                           |
| <b>Total governmental activities</b> | <b>4,391,887</b> | <b>346,384</b>       | <b>27,590</b>                      | <b>868,946</b>                   | <b>(3,148,967)</b>                  |

**General revenues:**

|  |                      |
|--|----------------------|
| Taxes:   |                      |
| Property taxes                                   | 3,179,130            |
| Other taxes                                      | 2,935,597            |
| Unrestricted investment earnings                 | 7,104                |
| Miscellaneous                                    | 36,310               |
| <b>Total general revenues</b>                    | <b>6,158,141</b>     |
| Change in net position                           | 3,009,174            |
| Net position - beginning, as previously reported | 12,990,783           |
| Restatement                                      | (196,812)            |
| <b>Net position - beginning, as restated</b>     | <b>12,793,971</b>    |
| <b>Net position - ending</b>                     | <b>\$ 15,803,145</b> |

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

**Town of North Topsail Beach**  
**Balance Sheet – Governmental Funds**  
**June 30, 2015**  
**Exhibit 3**

|   | Major Funds |                      |                                    | Total<br>Governmental<br>Funds |
|---|-------------|----------------------|------------------------------------|--------------------------------|
|   | General     | Beach<br>Nourishment | Shoreline<br>Protection<br>Project |                                |
| <b>ASSETS</b>   |             |                      |                                    |                                |
| Cash and cash equivalents   | \$ 680,092  | \$ 2,437,873         | \$ 1,698,448                       | \$ 4,816,413                   |
| Receivables, net:   |             |                      |                                    |                                |
| Accounts  | 153,885     | 214,411              | 91,388                             | 459,684                        |
| Taxes   | 86,084      | -                    | 148,183                            | 234,267                        |
| Restricted cash and cash equivalents                                  | -           | -                    | 5,025,789                          | 5,025,789                      |
| Total assets  | 920,061     | 2,652,284            | 6,963,808                          | 10,536,153                     |
| <b>LIABILITIES</b>  |             |                      |                                    |                                |
| Accounts payable and accrued liabilities                              | 138,041     | 102,156              | -                                  | 240,197                        |
| Liabilities payable from restricted assets                            | -           | -                    | 3,854,766                          | 3,854,766                      |
| Total liabilities   | 138,041     | 102,156              | 3,854,766                          | 4,094,963                      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                  |             |                      |                                    |                                |
| Property tax receivable   | 86,084      | -                    | -                                  | 86,084                         |
| Total deferred inflows of resources                                   | 86,084      | -                    | -                                  | 86,084                         |
| <b>FUND BALANCES</b>  |             |                      |                                    |                                |
| Restricted  |             |                      |                                    |                                |
| Stabilization of State Statute  | 153,885     | 214,411              | 239,571                            | 607,867                        |
| Committed   |             |                      |                                    |                                |
| Beach Nourishment   | -           | 2,335,717            | 2,869,471                          | 5,205,188                      |
| Unassigned  | 542,051     | -                    | -                                  | 542,051                        |
| Total fund balances   | 695,936     | 2,550,128            | 3,109,042                          | 6,355,106                      |
| Total liabilities, deferred inflows of<br>resources and fund balances | \$ 920,061  | \$ 2,652,284         | \$ 6,963,808                       | \$ 10,536,153                  |

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

**Town of North Topsail Beach**  
**Balance Sheet – Governmental Funds**  
**June 30, 2015**  
**Exhibit 3**

Amounts reported for governmental activities in the Statement of Net Position are different because:

|   |                    |                   |
|---|--------------------|-------------------|
| Total fund balances - governmental funds  | \$                 | 6,355,106         |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.   |                    |                   |
| Gross capital assets at historical cost   | 32,222,451         |                   |
| Accumulated depreciation  | <u>(3,848,401)</u> | 28,374,050        |
| Net pension asset   |                    | 182,821           |
| Contributions to pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position  |                    | 113,221           |
| 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. |                    | 18,508            |
| Liabilities for earned revenues considered deferred inflows of resources in fund statements.  |                    | 86,084            |
| Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.   |                    |                   |
| Gross long-term debt  |                    | (18,797,949)      |
| Compensated absences  |                    | (126,682)         |
| Pension deferrals   |                    | (402,014)         |
| <b>Net position of governmental activities</b>  | <b>\$</b>          | <b>15,803,145</b> |

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

**Town of North Topsail Beach**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance – Governmental Funds**  
**For the Year Ended June 30, 2015**  
**Exhibit 4**

|  | Major Funds        |                      |                                    | Total<br>Governmental<br>Funds |
|--|--------------------|----------------------|------------------------------------|--------------------------------|
|  | General            | Beach<br>Nourishment | Shoreline<br>Protection<br>Project |                                |
| <b>REVENUES</b>                                      |                    |                      |                                    |                                |
| Ad valorem taxes                                     | \$ 1,965,992       | \$ 1,589             | \$ 1,269,607                       | \$ 3,237,188                   |
| Other taxes and licenses                             | 833,198            | 456,760              | 1,346,807                          | 2,636,765                      |
| Unrestricted intergovernmental                       | 298,832            | -                    | -                                  | 298,832                        |
| Restricted intergovernmental                         | 27,590             | 768,946              | 100,000                            | 896,536                        |
| Sales and services                                   | 347,786            | -                    | -                                  | 347,786                        |
| Investment earnings                                  | 1,693              | 711                  | 4,700                              | 7,104                          |
| Miscellaneous  | 34,678             | 230                  | -                                  | 34,908                         |
| <b>Total revenues</b>                                | <b>3,509,769</b>   | <b>1,228,236</b>     | <b>2,721,114</b>                   | <b>7,459,119</b>               |
| <b>EXPENDITURES</b>                                  |                    |                      |                                    |                                |
| Current:   |                    |                      |                                    |                                |
| General government                                   | 1,219,501          | -                    | -                                  | 1,219,501                      |
| Public safety  | 1,732,632          | -                    | -                                  | 1,732,632                      |
| Environmental protection                             | 389,148            | 2,470,122            | 16,724,642                         | 19,583,912                     |
| Transportation                                       | 108,518            | -                    | -                                  | 108,518                        |
| Cultural and recreation                              | 27,469             | -                    | -                                  | 27,469                         |
| Debt service   | 42,769             | -                    | 780,250                            | 823,019                        |
| <b>Total expenditures</b>                            | <b>3,520,037</b>   | <b>2,470,122</b>     | <b>17,504,892</b>                  | <b>23,495,051</b>              |
| Excess (deficiency) of revenues<br>over expenditures | (10,268)           | (1,241,886)          | (14,783,778)                       | (16,035,932)                   |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                    |                      |                                    |                                |
| Special obligation bonds issued                      | -                  | -                    | 16,815,000                         | 16,815,000                     |
| Transfers from other funds                           | (2,560,000)        | -                    | -                                  | (2,560,000)                    |
| Transfers to other funds                             | -                  | 2,560,000            | -                                  | 2,560,000                      |
| <b>Total other financing sources (uses)</b>          | <b>(2,560,000)</b> | <b>2,560,000</b>     | <b>16,815,000</b>                  | <b>16,815,000</b>              |
| Net change in fund balance                           | (2,570,268)        | 1,318,114            | 2,031,222                          | 779,068                        |
| Fund balances - beginning                            | 3,266,204          | 1,232,014            | 1,077,820                          | 5,576,038                      |
| Fund balances - ending                               | \$ 695,936         | \$ 2,550,128         | \$ 3,109,042                       | \$ 6,355,106                   |

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

**Town of North Topsail Beach**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance – Governmental Funds**  
**For the Year Ended June 30, 2015**  
**Exhibit 4**

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities:

|   |                  |                     |
|---|------------------|---------------------|
| Net change in fund balances - governmental funds  |                  | \$ 779,068          |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>   |                  |                     |
| Capital outlay expenditures which were capitalized  | 18,989,654       |                     |
| Depreciation expense for governmental assets  | <u>(569,512)</u> | 18,420,142          |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities  |                  | 113,221             |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>   |                  |                     |
| Change in unavailable revenue for tax revenue   |                  | (58,058)            |
| <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> |                  |                     |
| New long-term debt issued   | (16,815,000)     |                     |
| Principal payments on long-term debt  | <u>605,083</u>   | (16,209,917)        |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>  |                  |                     |
| Pension expense   | (22,381)         |                     |
| Compensated absences  | <u>(12,901)</u>  | (35,282)            |
| Total changes in net position of governmental activities  |                  | <u>\$ 3,009,174</u> |

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

**Town of North Topsail Beach**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance – Budget to Actual**  
**General Fund**  
**For the Year Ended June 30, 2015**  
**Exhibit 5**

|   | Original Budget  | Final Budget       | Actual Amounts     | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|---|------------------|--------------------|--------------------|---|
| <b>REVENUES</b>                             |                  |                    |                    |   |
| Ad valorem taxes                            | \$ 1,939,651     | \$ 1,939,651       | \$ 1,965,992       | \$ 26,341   |
| Other taxes and licenses                    | 804,500          | 804,500            | 833,198            | 28,698  |
| Unrestricted intergovernmental              | 213,000          | 213,000            | 298,832            | 85,832  |
| Restricted intergovernmental                | 39,500           | 39,500             | 27,590             | (11,910)  |
| Sales and services                          | 375,088          | 375,088            | 347,786            | (27,302)  |
| Investment earnings                         | 4,000            | 4,000              | 1,693              | (2,307)   |
| Miscellaneous                               | 32,000           | 33,640             | 34,678             | 1,038   |
| <b>Total revenues</b>                       | <b>3,407,739</b> | <b>3,409,379</b>   | <b>3,509,769</b>   | <b>100,390</b>  |
| <b>EXPENDITURES</b>                         |                  |                    |                    |   |
| Current:                                    |                  |                    |                    |   |
| General government                          | 1,160,049        | 1,191,550          | 1,219,501          | (27,951)  |
| Public safety                               | 1,774,485        | 1,782,862          | 1,732,632          | 50,230  |
| Environmental protection                    | 386,488          | 386,488            | 389,148            | (2,660)   |
| Streets                                     | 127,500          | 112,500            | 108,518            | 3,982   |
| Cultural and recreation                     | 55,000           | 34,000             | 27,469             | 6,531   |
| Debt service                                | 42,769           | 42,769             | 42,769             | -   |
| <b>Total expenditures</b>                   | <b>3,546,291</b> | <b>3,550,169</b>   | <b>3,520,037</b>   | <b>30,132</b>   |
| Revenues over (under) expenditures          | (138,552)        | (140,790)          | (10,268)           | 130,522   |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                  |                    |                    |   |
| Sale of fixed assets                        | 14,109           | 14,109             | -                  | (14,109)  |
| Transfers from (to) other funds             | 40,000           | (2,560,000)        | (2,560,000)        | -   |
| <b>Total other financing sources (uses)</b> | <b>54,109</b>    | <b>(2,545,891)</b> | <b>(2,560,000)</b> | <b>(14,109)</b>   |
| Fund balance appropriated                   | 84,443           | 2,686,681          | -                  | (2,686,681)   |
| <b>Net change in fund balance</b>           | <b>\$ -</b>      | <b>\$ -</b>        | <b>(2,570,268)</b> | <b>\$ (2,570,268)</b>                                     |
| Fund balances - beginning                   |                  |                    | 3,266,204          |   |
| Fund balance - ending                       |                  |                    | <u>\$ 695,936</u>  |   |

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

**Town of North Topsail Beach**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance – Budget to Actual**  
**Beach Nourishment Fund**  
**For the Year Ended June 30, 2015**  
**Exhibit 6**

|  | Original Budget  | Final Budget     | Actual Amounts      | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|--|------------------|------------------|---------------------|---|
| <b>REVENUES</b>  |                  |                  |                     |   |
| Ad valorem taxes   | \$ 2,000         | \$ 2,000         | \$ 1,589            | \$ (411)  |
| Other taxes and licenses                                       | 450,000          | 450,000          | 456,760             | 6,760   |
| Restricted intergovernmental                                   | 663,609          | 663,609          | 768,946             | 105,337   |
| Investment earnings  | 1,000            | 1,000            | 711                 | (289)   |
| Miscellaneous  | 500              | 500              | 230                 | (270)   |
| <b>Total revenues</b>  | <b>1,117,109</b> | <b>1,117,109</b> | <b>1,228,236</b>    | <b>111,127</b>  |
| <b>EXPENDITURES</b>  |                  |                  |                     |   |
| Current:   |                  |                  |                     |   |
| Environmental protection                                       | 1,077,109        | 4,164,329        | 2,470,122           | 1,694,207   |
| <b>Total expenditures</b>                                      | <b>1,077,109</b> | <b>4,164,329</b> | <b>2,470,122</b>    | <b>1,694,207</b>  |
| Revenues over (under) expenditures                             | 40,000           | (3,047,220)      | (1,241,886)         | 1,805,334   |
| <b>OTHER FINANCING SOURCES (USES)</b>                          |                  |                  |                     |   |
| Transfers from (to) to other funds                             | (40,000)         | 2,560,000        | 2,560,000           | -   |
| <b>Total other financing sources (uses)</b>                    | <b>(40,000)</b>  | <b>2,560,000</b> | <b>2,560,000</b>    | <b>-</b>  |
| Revenues over (under) expenditures<br>and other financing uses | -                | (487,220)        | 1,318,114           | 1,805,334   |
| Fund balance appropriated                                      | -                | 487,220          | -                   | (487,220)   |
| <b>Net change in fund balance</b>                              | <b>\$ -</b>      | <b>\$ -</b>      | <b>1,318,114</b>    | <b>\$ 1,318,114</b>                                       |
| Fund balances - beginning                                      |                  |                  | <u>1,232,014</u>    |   |
| Fund balance - ending  |                  |                  | <u>\$ 2,550,128</u> |   |

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

**Town of North Topsail Beach**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

**I. Summary of Significant Accounting Policies**

The accounting policies of the Town of North Topsail Beach 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 is a municipal corporation that is governed by an elected mayor and five-member board. As required by generally accepted accounting principles, these financial statements present the Town, which has no discretely presented component units.

**B. Basis of Presentation**

*Government-wide Statements.* The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. 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** – The General 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.

**BEACH NOURISHMENT FUND** – This is a special revenue fund that uses tax money for beach nourishment.



**Town of North Topsail Beach**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

**SHORELINE PROTECTION PROJECT FUND** – This is a capital project fund used to account for phase two of a beach nourishment project.

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 vehicle 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

**Town of North Topsail Beach**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

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. 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-reimbursements grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The Town's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General and Beach Nourishment Funds. All annual appropriations lapse at the fiscal year end. Project length ordinances are utilized in capital project funds whereby appropriations lapse at project completion. The budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted 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 governing 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 nonguaranteed 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 as determined by quoted market prices. The securities of the NCCMT cash portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

**Town of North Topsail Beach  
Notes to the Financial Statements  
For the Year Ended June 30, 2015**

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 unexpended bond proceeds from the special obligation bonds issued by the Town are classified as restricted assets for the Shoreline Protection project as their use is completely restricted to the purpose for which the bonds were originally issued.

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, 2013. 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

The Town does not maintain an allowance for doubtful accounts. Losses arising from uncollected accounts receivable are estimated to be insignificant.

6. 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. Minimum capitalization costs for all assets are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| Asset Class            | Estimated Useful Lives |
|------------------------|------------------------|
| Infrastructure         | 20                     |
| Buildings              | 40                     |
| Vehicles and equipment | 5 to 10                |

**Town of North Topsail Beach**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

7. 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, contributions made to the pension plan in the 2015 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 two items that meet the criterion for this category- property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

8. 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. Bonds 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.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provide 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.

**Town of North Topsail Beach  
Notes to the Financial Statements  
For the Year Ended June 30, 2015**

10. Net Position/Fund Balances

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of four 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:

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 – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

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 Beach Nourishment – portion of fund balance assigned by the board for beach nourishment.

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

**Town of North Topsail Beach**  
**Notes to the Financial Statements**  
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11. Pensions

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

II. Stewardship, Compliance and Accountability

1. Expenditures over Appropriations

For the fiscal year ended June 30, 2015, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government activities by \$27,951, and environmental protection activities by \$2,660. Town management and the Board will more closely review the budget reports to ensure compliance in future years.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town 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 the G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.



**Town of North Topsail Beach**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

1. Deposits (continued)

At June 30, 2015, the Town's deposits had a carrying amount of \$7,241,715 and a bank balance of \$7,421,978. Of the balance, \$1,008,304 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2015, the Town's petty cash fund totaled \$157.

2. Investments

At June 30, 2015, the Town of North Topsail Beach had \$2,600,330 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables – Allowances for Doubtful Accounts

The Town does not maintain an allowance for doubtful accounts. Losses arising from uncollected accounts receivable are estimated to be insignificant.

**Town of North Topsail Beach**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2015**

4. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2015, was as follows:

|  | Beginning Balance   | Increases         | Decreases | Ending Balances      |
|--|---------------------|-------------------|-----------|----------------------|
| <b>Governmental activities:</b>                    |                     |                   |           |                      |
| <b>Capital assets not being depreciated:</b>       |                     |                   |           |                      |
| Land   | \$ 1,082,341        | \$ -              | \$ -      | \$ 1,082,341         |
| Construction in progress                           | 294,259             | 16,724,642        | -         | 17,018,901           |
| <b>Total capital assets not being depreciated</b>  | <b>1,376,600</b>    | <b>16,724,642</b> | <b>-</b>  | <b>18,101,242</b>    |
| <b>Capital assets being depreciated:</b>           |                     |                   |           |                      |
| Buildings  | 1,364,535           | -                 | -         | 1,364,535            |
| Vehicles and equipment                             | 2,656,932           | 139,146           | -         | 2,796,078            |
| Infrastructure                                     | 7,834,730           | 2,125,866         | -         | 9,960,596            |
| <b>Total capital assets being depreciated</b>      | <b>11,856,197</b>   | <b>2,265,012</b>  | <b>-</b>  | <b>14,121,209</b>    |
| <b>Less accumulated depreciation for:</b>          |                     |                   |           |                      |
| Buildings  | 759,438             | 34,113            | -         | 793,551              |
| Vehicles and equipment                             | 1,938,451           | 185,703           | -         | 2,124,154            |
| Infrastructure                                     | 581,000             | 349,696           | -         | 930,696              |
| <b>Total accumulated depreciation</b>              | <b>3,278,889</b>    | <b>569,512</b>    | <b>-</b>  | <b>3,848,401</b>     |
| <b>Total capital asset being depreciated, net</b>  | <b>8,577,308</b>    |                   |           | <b>10,272,808</b>    |
| <b>Governmental activities capital assets, net</b> | <b>\$ 9,953,908</b> |                   |           | <b>\$ 28,374,050</b> |

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

|                                   |                   |
|-----------------------------------|-------------------|
| General government                | \$ 42,778         |
| Public safety                     | 174,694           |
| Economic & physical development   | 6,441             |
| Environmental protection          | 287,756           |
| Culture & recreational            | <u>57,843</u>     |
| <b>Total depreciation expense</b> | <b>\$ 569,512</b> |



**Town of North Topsail Beach  
Notes to the Financial Statements  
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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 (LEO's) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Government 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, NC 27699-1410, or by calling (919) 981-5454.

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



## Town of North Topsail Beach Notes to the Financial Statements For the Year Ended June 30, 2015

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. Town of North Topsail Beach 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 of North Topsail Beach's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, 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 of North Topsail Beach were \$113,221 for the year ended June 30, 2015.

*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, 2015, the Town reported an asset of \$182,821 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset 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, 2014, the Town's proportion was 0.031%, which was a decrease of 0.006% from its proportion measured as of June 30, 2013.

**Town of North Topsail Beach  
Notes to the Financial Statements  
For the Year Ended June 30, 2015**

For the year ended June 30, 2015, the Town recognized pension expense of \$22,381. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|---|---|--|
| Differences between expected and actual experience  | \$ -  | \$ 19,976                                |
| Changes of assumptions  | -   | -  |
| Net difference between projected and actual earnings on pension plan investments                          | -   | 425,604                                  |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | -   | (43,566)                                 |
| Town contributions subsequent to the measurement date   | 113,221                                       | -  |
| <b>Total</b>  | <b>\$ 113,221</b>                             | <b>\$ 402,014</b>                        |

\$113,221 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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <b>Year ended June 30:</b> |                     |
|----------------------------|---------------------|
| 2016                       | \$ (100,489)        |
| 2017                       | (100,489)           |
| 2018                       | (100,489)           |
| 2019                       | (100,547)           |
| 2020                       | -                   |
| Thereafter                 | -                   |
| <b>Total</b>               | <b>\$ (402,014)</b> |

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.0 percent   |
| Salary increases          | 4.25 to 8.55 percent, including inflation and productivity factor         |
| Investment rate of return | 7.25 percent, net of pension plan investment expense, including inflation |

**Town of North Topsail Beach  
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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, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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, 2014 are summarized in the following table:

| <b>Asset Class</b>   | <b>Target<br/>Allocation</b> | <b>Long-Term<br/>Expected<br/>Real Rate of<br/>Return</b> |
|----------------------|------------------------------|---|
| Fixed income         | 36.0%                        | 2.5%  |
| Global equity        | 40.5%                        | 6.1%  |
| Real Estate          | 8.0%                         | 5.7%  |
| Alternatives         | 6.5%                         | 10.5%   |
| Credit               | 4.5%                         | 6.8%  |
| Inflation Protection | 4.5%                         | 3.7%  |
| Total                | <u>100%</u>                  |   |

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

**Town of North Topsail Beach  
Notes to the Financial Statements  
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A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. 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 asset to changes in the discount rate.* The following presents the Town’s proportionate share of the net pension asset calculated using the discount rate of 7.25 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 (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

|   | <b>1% Decrease<br/>(6.25%)</b> | <b>Discount Rate<br/>(7.25%)</b> | <b>1% Increase<br/>(8.25%)</b> |
|---|--------------------------------|----------------------------------|--------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 620,575                     | \$ (182,821)                     | \$ (859,255)                   |

*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. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter

**Town of North Topsail Beach  
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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, 2014 the Separation Allowance’s membership consisted of:

|   |           |  |
|---|-----------|--|
| Retirees receiving benefits   | -         |  |
| Terminated plan members entitled to<br>but not yet receiving benefits | -         |  |
| Active plan members   | <u>12</u> |  |
| Total   | <u>12</u> |  |

A separate report was not issued for the plan.

*(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 and refunds are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

*(3) Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The Town has not obtained an actuarial valuation for the plan because its required contributions are considered to be immaterial.

b. Supplemental Retirement Income Plan for Law Enforcement Officers

*(1) 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

**Town of North Topsail Beach**  
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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 that 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.

*(2) Funding Policy*

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2015 were \$32,217, which consisted of \$24,052 from the Town and \$8,165 from the law enforcement officers.

The Town has also elected to contribute to the Supplemental Retirement Income Plan for general employees as well as law enforcement officers. The Town's contributions for general employees for the year ended June 30, 2015 were \$48,677, which consisted of \$30,974 from the Town and \$17,703 from the employees.

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. 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 gross 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.

**Town of North Topsail Beach**  
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3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end is comprised of the following:

|  |            |
|--|------------|
| Contributions to pension plan in current fiscal year | \$ 113,221 |
|--|------------|

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

|                   |           |
|-------------------|-----------|
| Taxes receivable  | \$ 86,084 |
| Pension deferrals | 402,014   |

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 has general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Town Finance Officer is 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, 2015, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.



**Town of North Topsail Beach  
Notes to the Financial Statements  
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6. Long-Term Obligations

a. Installment purchase

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%.

Annual debt service payments of the installment purchase as of June 30, 2015, including \$20,431 of interest, are as follows:

| <b>Year Ending June 30</b> | <b>Governmental Activities</b> |                 |
|----------------------------|--------------------------------|-----------------|
|                            | <b>Principal</b>               | <b>Interest</b> |
| 2016                       | \$ 37,750                      | \$ 5,018        |
| 2017                       | 38,429                         | 4,339           |
| 2018                       | 39,121                         | 3,648           |
| 2019                       | 39,825                         | 2,944           |
| 2020                       | 40,541                         | 2,228           |
| 2021-2023                  | 83,283                         | 2,254           |
| Total                      | \$ 278,949                     | \$ 20,431       |

b. Special Obligation Indebtedness

The Town's special obligation bonds serviced by the governmental funds were issued for the purpose of beach renourishment. The special obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2015 are comprised of the following individual issue.

Serviced by the Beach Nourishment Fund:

\$2,840,000 Beach Renourishment, Series 2012 bonds due on October 1<sup>st</sup> in installments of \$568,000 plus interest through October 1, 2018; interest at 1.74%.

\$1,704,000

**Town of North Topsail Beach  
Notes to the Financial Statements  
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Annual debt service payments to maturity for long-term obligations are as follows:

| Year Ending June 30 | Governmental Activities |                  |
|---------------------|-------------------------|------------------|
|                     | Principal               | Interest         |
| 2016                | \$ 568,000              | \$ 29,650        |
| 2017                | 568,000                 | 19,766           |
| 2018                | 568,000                 | 9,883            |
| <b>Total</b>        | <b>\$ 1,704,000</b>     | <b>\$ 59,299</b> |

c. Bond Anticipation Notes

\$16,815,000 Beach Renourishment Note issued on August 8, 2014, and due on November 8, 2015; interest at 1.13%. The notes will be repaid from a \$16,815,000 bond issue expected to be sold in the next fiscal year

\$16,815,000

d. Changes in Long-Term Liabilities

|   | Beginning Balance   | Increases            | Decreases         | Ending Balance       | Curent Portion of Balance |
|---|---------------------|----------------------|-------------------|----------------------|---------------------------|
| <b>Governmental activiites:</b>           |                     |                      |                   |                      |                           |
| Installment purchase                      | \$ 316,032          | \$ -                 | \$ 37,083         | \$ 278,949           | \$ 37,750                 |
| Special obligation bonds                  | 2,272,000           | -                    | 568,000           | 1,704,000            | 568,000                   |
| Bond anticipation notes                   | -                   | 16,815,000           | -                 | 16,815,000           | 16,815,000                |
| Compensated absences                      | 113,781             | 17,683               | 4,782             | 126,682              | 126,682                   |
| Net pension liability (LTERS)             | 298,935             | -                    | 298,935           | -                    | -                         |
| <b>Governmental long-term liabilities</b> | <b>\$ 3,000,748</b> | <b>\$ 16,832,683</b> | <b>\$ 908,800</b> | <b>\$ 18,924,631</b> | <b>\$ 17,547,432</b>      |

7. Interfund Balances and Activity

Transfer to/from other funds at June 30, 2015 consists of the following:

From the General Fund to the Beach Nourishment Fund  
for capital expenditures

\$2,560,000

**Town of North Topsail Beach  
Notes to the Financial Statements  
For the Year Ended June 30, 2015**

8. Fund Balance

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

|  |                     |
|--|---------------------|
| <b>Total fund balance - General Fund</b> | <b>\$ 3,266,204</b> |
| Less:                                    |                     |
| Prepaid expenses                         | 9,096               |
| Stabilization by State Statute           | 244,002             |
| <b>Remaining Fund Balance</b>            | <b>\$ 3,013,106</b> |

IV. Summary Disclosure Significant Contingencies

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 moneys.

V. Change in Accounting Principles / Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects of net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental activities decreased by \$196,812.

**Town of North Topsail Beach**  
**Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Two Fiscal Years**

**Local Government Employees' Retirement System**

|   | <u>2015</u>  | <u>2014</u> |
|---|--------------|-------------|
| Town's proportion of the net pension liability (asset) (%)  | 0.031%       | 0.025%      |
| Town's proportion of the net pension liability (asset) (\$)   | \$ (182,821) | \$ 298,935  |
| Town's covered-employee payroll   | 1599383      | 1510668     |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -11.43%      | 19.79%      |
| Plan fiduciary net position as a percentage of the total pension liability                                      | 102.64%      | 94.35%      |

**Town of North Topsail Beach  
Schedule of Contributions  
Required Supplementary Information  
Last Two Fiscal Years**

**Local Government Employees' Retirement System**

|  | <u>2015</u>    | <u>2014</u>    |
|--|----------------|----------------|
| Contractually required contribution                                  | \$ 113,221     | \$ 103,790     |
| Contributions in relation to the contractually required contribution | <u>113,221</u> | <u>103,790</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>    | <u>\$ -</u>    |
| Town's covered-employee payroll                                      | \$ 1,599,383   | \$ 1,510,668   |
| Contributions as a percentage of covered-employee payroll            | 7.08%          | 6.87%          |

**Town of North Topsail Beach**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2015**  
**Schedule 1**

|                                | Budget       | Actual       | Variance<br>Positive<br>(Negative) |
|--------------------------------|--------------|--------------|------------------------------------|
| <b>REVENUES</b>                |              |              |                                    |
| Ad valorem taxes               |              |              |                                    |
| Taxes                          |              | \$ 1,954,118 |                                    |
| Penalties and interest         |              | 11,874       |                                    |
| Total                          | \$ 1,939,651 | 1,965,992    | \$ 26,341                          |
| Other taxes and licenses       |              |              |                                    |
| Local option sales tax         |              | 759,158      |                                    |
| Licenses and permits           |              | 74,040       |                                    |
| Total                          | 804,500      | 833,198      | 28,698                             |
| Unrestricted intergovernmental |              |              |                                    |
| Utility franchise tax          |              | 224,307      |                                    |
| Cable franchise tax            |              | 47,955       |                                    |
| Beer and wine tax              |              | 3,658        |                                    |
| Sales tax refunds              |              | 22,912       |                                    |
| Total                          | 213,000      | 298,832      | 85,832                             |
| Restricted intergovernmental   |              |              |                                    |
| Solid waste disposal tax       |              | 488          |                                    |
| Powell Bill allocation         |              | 27,102       |                                    |
| Total                          | 39,500       | 27,590       | (11,910)                           |
| Sales and services             |              |              |                                    |
| Donations                      |              | 1,402        |                                    |
| Refuse collection fees         |              | 309,684      |                                    |
| Officer and other fees         |              | 36,700       |                                    |
| Total                          | 375,088      | 347,786      | (27,302)                           |
| Investment earnings            | 4,000        | 1,693        | (2,307)                            |
| Miscellaneous                  |              |              |                                    |
| Administrative reimbursement   |              | 17,500       |                                    |
| Miscellaneous                  |              | 17,178       |                                    |
| Total                          | 33,640       | 34,678       | 1,038                              |
| Total revenues                 | 3,409,379    | 3,509,769    | 100,390                            |

**Town of North Topsail Beach**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2015**  
**Schedule 1**

**EXPENDITURES**

|                          |           |           |          |
|--------------------------|-----------|-----------|----------|
| General government       |           |           |          |
| General government       |           |           |          |
| Salaries and benefits    |           | 11,611    |          |
| Professional services    |           | 33,909    |          |
| Operating expenses       |           | 204,989   |          |
| Total                    | 270,627   | 250,509   | 20,118   |
|                          |           |           |          |
| Administration           |           |           |          |
| Salaries and benefits    |           | 323,043   |          |
| Operating expenses       |           | 93,827    |          |
| Total                    | 405,422   | 416,870   | (11,448) |
|                          |           |           |          |
| Planning                 |           |           |          |
| Salaries and benefits    |           | 94,778    |          |
| Operating expenses       |           | 4,917     |          |
| Total                    | 101,324   | 99,695    | 1,629    |
|                          |           |           |          |
| Public works             |           |           |          |
| Salaries and benefits    |           | 188,416   |          |
| Operating expenses       |           | 59,543    |          |
| Capital outlay           |           | 11,235    |          |
| Total                    | 256,377   | 259,194   | (2,817)  |
|                          |           |           |          |
| Public buildings         |           |           |          |
| Operating expenses       |           | 187,293   |          |
| Capital outlay           |           | 5,940     |          |
| Total                    | 157,800   | 193,233   | (35,433) |
|                          |           |           |          |
| Total general government | 1,191,550 | 1,219,501 | (27,951) |

**Town of North Topsail Beach**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2015**  
**Schedule 1**

|                                |           |           |         |
|--------------------------------|-----------|-----------|---------|
| Public safety                  |           |           |         |
| Police and fire departments    |           |           |         |
| Salaries and benefits          |           | 1,322,305 |         |
| Operating expenses             |           | 151,123   |         |
| Capital outlay                 |           | 127,910   |         |
| Total                          | 1,652,018 | 1,601,338 | 50,680  |
| Inspections                    |           |           |         |
| Salaries and benefits          |           | 126,364   |         |
| Operating expenses             |           | 4,930     |         |
| Total                          | 130,844   | 131,294   | (450)   |
| Total public safety            | 1,782,862 | 1,732,632 | 50,230  |
| Environmental protection       |           |           |         |
| Sanitation                     |           |           |         |
| Contracted services            | 384,988   | 388,213   | (3,225) |
| Committees                     |           |           |         |
| Operating expenses             | 1,500     | 935       | 565     |
| Total environmental protection | 386,488   | 389,148   | (2,660) |
| Transportation                 |           |           |         |
| Operating expenses             | 112,500   | 108,518   | 3,982   |
| Cultural and recreational      |           |           |         |
| Operating expenses             |           | 21,743    |         |
| Capital outlay                 |           | 5,726     |         |
| Total cultural and recreation  | 34,000    | 27,469    | 6,531   |
| Debt service                   | 42,769    | 42,769    | -       |
| Total expenditures             | 3,550,169 | 3,520,037 | 30,132  |



**Town of North Topsail Beach**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2015**  
**Schedule 1**

|                                       |             |                   |                |
|---------------------------------------|-------------|-------------------|----------------|
| Revenues over (under) expenditures    | (140,790)   | (10,268)          | 130,522        |
| <hr/>                                 |             |                   |                |
| <b>OTHER FINANCING SOURCES (USES)</b> |             |                   |                |
| Sale of fixed assets                  | 14,109      | -                 | (14,109)       |
| Transfer to special revenue fund      | (2,560,000) | (2,560,000)       | -              |
| <hr/>                                 |             |                   |                |
| Total other financing sources (uses)  | (2,545,891) | (2,560,000)       | (14,109)       |
| <hr/>                                 |             |                   |                |
| Fund balance appropriated             | 2,686,681   | -                 | (2,686,681)    |
| Net change in fund balance            | \$ -        | (2,570,268)       | \$ (2,570,268) |
| <hr/> <hr/>                           |             |                   |                |
| <b>Fund balance, beginning</b>        |             | <u>3,266,204</u>  |                |
| <b>Fund balance, ending</b>           |             | <u>\$ 695,936</u> |                |

**Town of North Topsail Beach**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance – Budget and Actual**  
**Beach Nourishment**  
**For the Year Ended June 30, 2015**  
**Schedule 2**

|  | Budget           | Actual              | Variance<br>Positive<br>(Negative) |
|--|------------------|---------------------|------------------------------------|
| <b>REVENUES</b>  |                  |                     |                                    |
| Ad valorem taxes   |                  |                     |                                    |
| Prior year   | \$ 2,000         | \$ 1,589            | \$ (411)                           |
| Other taxes and licenses                                       |                  |                     |                                    |
| Accommodations tax   | 450,000          | 456,760             | 6,760                              |
| Restricted intergovernmental                                   |                  |                     |                                    |
| Grants   |                  | 397,883             |                                    |
| Cost shares  |                  | 371,063             |                                    |
| Total restricted intergovernmental                             | 663,609          | 768,946             | 105,337                            |
| Investment earnings  | 1,000            | 711                 | (289)                              |
| Miscellaneous  | 500              | 230                 | (270)                              |
| <b>Total revenues</b>  | <b>1,117,109</b> | <b>1,228,236</b>    | <b>111,127</b>                     |
| <b>EXPENDITURES</b>  |                  |                     |                                    |
| Environmental protection                                       |                  |                     |                                    |
| Administrative expenses  |                  | 17,500              |                                    |
| Operating expenses   |                  | 238,509             |                                    |
| Contracted services  |                  | 99,912              |                                    |
| Capital outlay   |                  | 2,114,201           |                                    |
| Total expenditures   | 4,164,329        | 2,470,122           | 1,694,207                          |
| Revenues over (under) expenditures                             | (3,047,220)      | (1,241,886)         | 1,805,334                          |
| <b>OTHER FINANCING SOURCES (USES)</b>                          |                  |                     |                                    |
| Transfer from General Fund                                     | 2,560,000        | 2,560,000           | -                                  |
| Total other financing sources (uses)                           | 2,560,000        | 2,560,000           | -                                  |
| Revenues over (under) expenditures<br>and other financing uses | (487,220)        | 1,318,114           | 1,805,334                          |
| Fund balance appropriated                                      | 487,220          | -                   | (487,220)                          |
| <b>Net change in fund balance</b>                              | <b>\$ -</b>      | <b>1,318,114</b>    | <b>\$ 1,318,114</b>                |
| <b>Fund balance, beginning</b>                                 |                  | <u>1,232,014</u>    |                                    |
| <b>Fund balance, ending</b>                                    |                  | <u>\$ 2,550,128</u> |                                    |

**Town of North Topsail Beach**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance – Budget and Actual**  
**Shoreline Protection Project**  
**For the Year Ended June 30, 2015**  
**Schedule 3**

|                                   | Budget            | Actual              | Variance<br>Positive<br>(Negative) |
|-----------------------------------|-------------------|---------------------|------------------------------------|
| <b>REVENUES</b>                   |                   |                     |                                    |
| Ad valorem taxes                  | \$ 1,285,554      | \$ 1,269,607        | \$ (15,947)                        |
| Accommodations tax                | 450,000           | 456,760             | 6,760                              |
| Sales tax                         | 850,000           | 890,047             | 40,047                             |
| County contribution               | 100,000           | 100,000             | -                                  |
| Investment earnings               | -                 | 4,700               | 4,700                              |
| <b>Total revenues</b>             | <b>2,685,554</b>  | <b>2,721,114</b>    | <b>35,560</b>                      |
| <b>EXPENDITURES</b>               |                   |                     |                                    |
| Construction                      | 16,245,000        | 16,429,099          | (184,099)                          |
| Debt service                      | 789,135           | 780,250             | 8,885                              |
| Engagement contracts              | 795,000           | 193,417             | 601,583                            |
| Legal                             | 50,000            | 102,126             | (52,126)                           |
| Contingency                       | 1,621,419         | -                   | 1,621,419                          |
| <b>Total expenditures</b>         | <b>19,500,554</b> | <b>17,504,892</b>   | <b>1,995,662</b>                   |
| Revenues under expenditures       | (16,815,000)      | (14,783,778)        | 2,031,222                          |
| <b>OTHER FINANCING SOURCES</b>    |                   |                     |                                    |
| Special obligation bonds          | 16,815,000        | 16,815,000          | -                                  |
| <b>Net change in fund balance</b> | <b>\$ -</b>       | <b>2,031,222</b>    | <b>\$ 2,031,222</b>                |
| <b>Fund balance, beginning</b>    |                   | <b>1,077,820</b>    |                                    |
| <b>Fund balance, ending</b>       |                   | <b>\$ 3,109,042</b> |                                    |

**Town of North Topsail Beach**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2015**  
**Schedule 4**

| Fiscal Year | Uncollected<br>Balance June 30,<br>2014 | Additions    | Collections and<br>Credits | Uncollected<br>Balance June 30,<br>2015 |
|-------------|---|--------------|----------------------------|---|
| 2014-2015   | \$ -                                    | \$ 3,175,327 | \$ 3,135,205               | \$ 40,122                               |
| 2013-2014   | 74,771                                  | -            | 58,257                     | 16,514                                  |
| 2012-2013   | 20,073                                  | -            | 13,258                     | 6,815                                   |
| 2011-2012   | 15,499                                  | -            | 9,901                      | 5,598                                   |
| 2010-2011   | 11,618                                  | -            | 7,393                      | 4,225                                   |
| 2009-2010   | 5,601                                   | -            | 1,985                      | 3,616                                   |
| 2008-2009   | 3,602                                   | -            | 425                        | 3,177                                   |
| 2007-2008   | 3,852                                   | -            | 18                         | 3,834                                   |
| 2006-2007   | 919                                     | -            | 54                         | 865                                     |
| 2005-2006   | 1,318                                   | -            | -                          | 1,318                                   |
| 2004-2005   | 992                                     | -            | 992                        | -                                       |
|             | \$ 138,245                              | \$ 3,175,327 | \$ 3,227,488               | \$ 86,084                               |

Reconcilement with revenues:

|  |                     |
|--|---------------------|
| Ad valorem taxes - General Fund                | \$ 1,965,992        |
| Ad valorem taxes - Beach Nourishment Fund      | 1,589               |
| Ad valorm taxes - Shoreline Protection Project | 1,269,607           |
| Interest collected                             | (11,874)            |
| Taxes written off                              | 2,174               |
|  | <hr/>               |
| Total collections and credits                  | <u>\$ 3,227,488</u> |

**Town of North Topsail Beach  
Analysis of Current Tax Levy  
For the Year Ended June 30, 2015  
Schedule 5**

|                                    | Property<br>Valuation | Rate   | Total Levy          | Total Levy  |                              |
|------------------------------------|-----------------------|--------|---------------------|---|------------------------------|
|                                    |                       |        |                     | Property<br>excluding<br>Registered Motor<br>Vehicles | Registered<br>Motor Vehicles |
| Property taxed at current          | \$ 818,808,240        | 0.3932 | \$ 3,219,554        | \$ 3,185,912  | \$ 33,642                    |
| Penalties                          | 181,841               |        | 715                 | 715   | -                            |
| Discoveries                        | 97,660                |        | 384                 | 384   | -                            |
| Abatements                         | (11,527,467)          |        | (45,326)            | (45,326)  | -                            |
| Total property valuation           | <u>\$ 807,560,274</u> |        |                     |   |                              |
| Net levy                           |                       |        | \$ 3,175,327        | \$ 3,141,685  | \$ 33,642                    |
| Uncollected taxes at June 30, 2015 |                       |        | 40,122              | 40,122  | -                            |
| Current year's tax collected       |                       |        | <u>\$ 3,135,205</u> | <u>\$ 3,101,563</u>                                   | <u>\$ 33,642</u>             |
| Current levy collection percentage |                       |        | <u>98.74%</u>       | <u>98.72%</u>   | <u>100.00%</u>               |



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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***

To the Honorable Mayor and  
Members of the Board of Alderman  
Town of 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 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, 2015, and the related notes to the financial statements, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated December 4, 2015.

**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) to determine the 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 the 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 material weaknesses. However, material weaknesses may exist that have not been identified. 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. [15-1]

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Response to Findings

The Town of North Topsail Beach's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cary Riggs & Ingram, L.L.C.*

New Bern, North Carolina  
December 4, 2015



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**Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act**

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Town of North Topsail Beach, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. 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 the requirements of laws, regulations, contracts and grants applicable to each of 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 applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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, 2015.

#### 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 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

New Bern, North Carolina  
December 4, 2015

**Town of North Topsail Beach**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2015**

**Section I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  no

Non-compliance material to financial statements noted  yes  no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  no

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 OMB Circular A-133 yes  no

Identification of major federal programs:

| <u>CFDA #</u> | <u>Program</u>                        |
|---------------|---------------------------------------|
| 10.780        | Community Facilities Loans and Grants |

State Awards

None

Auditee qualified as low-risk auditee?  yes  no

**Town of North Topsail Beach  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015**

**Section II. Financial Statement Findings**

Significant Deficiency

15-1 Expenditures over appropriations

Criteria: Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds.

Condition: Expenditures made in the General Fund for general government activities exceeded its appropriations made by the governing board by \$27,951, and environmental protection activities by \$2,660.

Effect: Expenditures were made without budget authorization.

Cause: The budget was not reviewed to determine if appropriations were available before moneys were spent.

Recommendation: The budget should always be reviewed to determine if appropriations are available before an expenditure is made.

Views of responsible officials: The Town agrees with this finding.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.

**Town of North Topsail Beach  
Corrective Action Plan  
For the Year Ended June 30, 2015**

**Section II. Financial Statement Findings**

Significant Deficiency

*15-1 Expenditures over appropriations*

Name of contact person: Bonnie Kline – Finance Officer

Corrective Action: The Board will closely review its budget reports to ensure compliance in future years.

Proposed Completion Date: The Town will implement the above procedures immediately.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.

**Town of North Topsail Beach**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2015**

| <u>Grantor/Program Title</u>              | <u>Federal<br/>CFDA<br/>Number</u> | <u>State/<br/>Pass-through<br/>Grantor's<br/>Number</u> | <u>Fed. (Direct &amp;<br/>Pass-through)<br/>Expenditures</u> | <u>State<br/>Expenditures</u> |
|---|------------------------------------|---|--|-------------------------------|
| <b>Federal Grants:</b>                    |                                    |   |  |                               |
| <b>Cash Programs:</b>                     |                                    |   |  |                               |
| <u>U.S. Department of Agriculture</u>     |                                    |   |  |                               |
| Community Facilities Loans and Grants     | 10.780                             |   | \$ 16,815,000  | \$ -                          |
| <b>State Grants:</b>                      |                                    |   |  |                               |
| <b>Cash Assistance:</b>                   |                                    |   |  |                               |
| <u>NC Department of Transportation</u>    |                                    |   |  |                               |
| Powell Bill                               |                                    | XXXX  | -  | 34,286                        |
| <u>NC Department of Natural Resources</u> |                                    |   |  |                               |
| NC Coastal Management Program             |                                    | XXXX  | -  | <u>232,967</u>                |
| Total assistance – State programs         |                                    |   | -  | <u>267,253</u>                |
| Total assistance                          |                                    |   | <u>\$ 16,815,000</u>   | <u>\$ 267,253</u>             |

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

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State awards 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, 2015. The information in this SEFSA is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Because the SEFSA presents only a select 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.

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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or cost principles contained in Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein contain types of expenditures are not allowable or are limited as to reimbursements.

3. Loans Outstanding

Town of North Topsail Beach has the following loan balances outstanding at June 30, 2015. The loan made during the year are included in the SEFSA in the federal expenditures presented in the schedule. Balances and transactions related to these programs are included in the Town of North Topsail Beach's basic financial statements.

| <u>Program Name</u>                   | <u>CFDA #</u> | <u>Amount Outstanding</u> |
|---------------------------------------|---------------|---------------------------|
| Community Facilities Loans and Grants | 10.780        | \$16,815,000              |