

TOWN OF NORTH TOPSAIL BEACH

FINANCIAL REPORT

June 30, 2016



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June 30, 2016

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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, 2016 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.



REPORT



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, 2016, 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit*

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

The 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 March 17, 2017 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
March 17, 2017



Town of North Topsail Beach Management's Discussion and Analysis June 30, 2016

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, 2016. 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

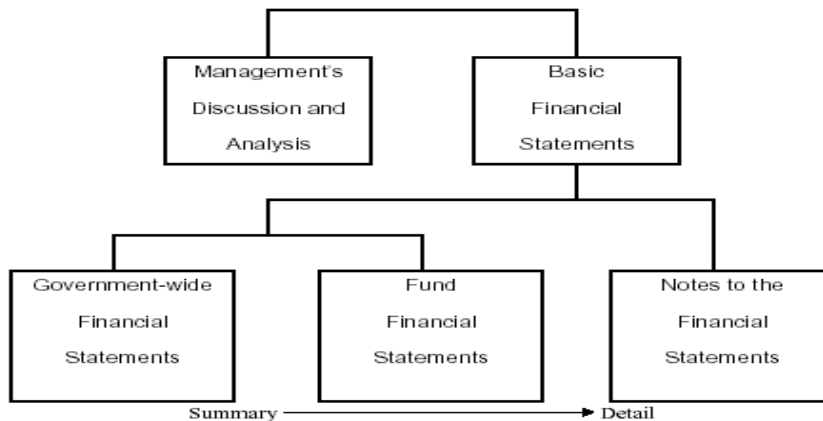
- The assets and deferred outflows of resources of the Town of North Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$19,457,140 (net position).
- The government's total net position increased by \$3,767,383, entirely due to increases in the governmental activities net position.
- The Town continues to monitor its fund balances and this year's total factors in the full cost of emergency shoreline expenses in 2015-16 for events including in Hurricane Joaquin, Tropical Storm Ana, six supermoon events which occur every 15-30 years, and significant inlet hazard area erosion, which has now reversed due in part to these expenses. This confluence of events is unusual and only occurs episodically. The general fund nearly balanced even by Town staff reducing expenses by \$125,000, even though sales tax collections dropped significantly. To improve fund balance, we embarked on a sale of surplus real property in 2016 which recently concluded with Town sales of \$622,000.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$559,507 or 15.5% 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



**Town of North Topsail Beach
Management's Discussion and Analysis
June 30, 2016**

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
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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, 2016**

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

	Governmental Activities	
	2016	2015
Current and other assets	\$ 7,057,832	\$ 10,737,482
Capital assets	32,368,077	28,374,050
Deferred outflows of resources	137,161	113,221
Total assets	39,563,070	39,224,753
Current liabilities	3,012,605	21,642,395
Long-term liabilities	17,009,492	1,377,199
Deferred inflows of resources	83,833	402,014
Total liabilities	20,105,930	23,421,608
Net investment in capital assets	13,165,218	13,424,502
Restricted net position	3,023,420	5,813,055
Unrestricted net position	3,268,502	(3,434,412)
Total net position	\$ 19,457,140	\$ 15,803,145

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 \$19,457,140 as of June 30, 2016. The Town's net position increased by \$3,767,383 for the fiscal year ended June 30, 2016. However, the largest portion (67.7%) 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, \$3,023,420, 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 \$3,268,502 unrestricted net position balance. During the fiscal year, the Town's liability for long-term \$16.5 million debt associated with the Phase V beach project is moved to a long-term liability. The unrestricted net position has improved from a negative \$3.4M to a positive \$3.2M. when reported under the full accrual basis of accounting.

Town of North Topsail Beach
Management's Discussion and Analysis
June 30, 2016

Town of North Topsail Beach Changes in Net Position
Figure 3

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 423,164	\$ 346,384
Operating grants and contributions	73,669	27,590
Capital grants and contributions	3,936,769	868,946
General revenues:		
Property taxes	3,199,329	3,179,130
Other taxes	2,922,330	2,935,597
Investment earnings	9,417	7,104
Miscellaneous	53,169	36,310
Total revenues	10,617,847	7,401,061
Expenses:		
General government	1,271,467	1,224,872
Public safety	1,732,513	1,721,709
Transportation	135,845	108,518
Economic and physical development	3,871	5,441
Environmental protection	2,991,073	1,032,825
Cultural and recreation	118,587	79,586
Interest on long-term debt	470,568	217,936
Total expenses	6,723,924	4,390,887
Asset impairment loss	(126,540)	-
Increase in net position	3,767,383	3,009,174
Net position, July 1, as previously reported	15,803,145	12,990,783
Prior period adjustment	(113,388)	(196,812)
Net position, July 1, as restated	15,689,757	12,793,971
Net position, June 30	\$ 19,457,140	\$ 15,803,145

Governmental Activities

Governmental activities increased the Town's net position by \$3,767,383, 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:



Town of North Topsail Beach
Management's Discussion and Analysis
June 30, 2016

- Net expenses of the Town's governmental activities increased by approximately \$2,333,037 due to an increase in general government and environmental protection expenditures.
- Total revenues increased by approximately \$3,216,786 primarily due to an increase in other capital grants and other contributions. 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 \$559,507 while total fund balance was \$676,671, a decrease of \$19,265 from the prior fiscal year. Essentially, fund balance is unchanged from last year: staff identified savings in operating expenses totaling \$125,000 but sales tax revenues took an unexpected dip in Spring 2016. Revenues were less than budgeted amounts primarily because the Town received reduced sales tax. Expenditures were reduced to comply with its budgetary requirements by \$125,000, so that revenues and expenses nearly matched.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 15.5% of total General Fund expenditures, while total fund balance represents 18.7% of that same amount. While lower than last year's, they nevertheless both exceed the 8% commonly recommended by the Local Government Commission.

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.

**Town of North Topsail Beach
Management's Discussion and Analysis
June 30, 2016**

- 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, 2016, totals \$32,368,077 (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**

	Governmental Activities	
	2016	2015
Land	\$ 1,082,341	\$ 1,082,341
Construction in progress	2,825,510	17,018,901
Buildings	536,871	570,984
Vehicle	558,658	671,924
Infrastructure	27,364,697	9,029,900
Total	\$ 32,368,077	\$ 28,374,050

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, 2016**

Long-Term Debt

As of June 30, 2016, 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**

	Governmental Activities	
	2016	2015
Installment purchase	\$ 241,199	\$ 278,949
Special obligation bonds	17,601,000	1,704,000
Bond anticipation notes	-	16,815,000
Net pension liability (LGERS)	138,722	-
Compensated absences	122,636	126,682
Total	\$ 18,103,557	\$ 18,924,631

The Town's total debt decreased by \$821,074 during the fiscal year, as debt is amortized. 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 \$64,862,958.

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.
- Continued increase in tax base as development continues including \$20,000,000 since July, 2016.
- The Town is doing what it can to improve its fund balance position and concluded recently a real surplus property auction raising an additional \$622,000.

Budget Highlights for the Fiscal Year Ending June 30, 2016

- Under the Town's current revenue structure we were able to weather the significant storm events and still maintain sufficient cash reserves going forward to protect the Town, which we are striving to improve. Planning for the real surplus property auction that brought in \$622,000 began in March, 2016 and concluded March 3, 2017.
- The Town's contribution rate to the Local Governmental Employees' Retirement Systems is maintained along with employee benefit contribution such as a 401k contribution



**Town of North Topsail Beach
Management's Discussion and Analysis
June 30, 2016**

- The Town plans to continue the Shoreline Protection Project, but do so with fiscal prudence by increasing cooperation with Onslow County, the State of North Carolina and now federal government at Marine Corps base Camp Lejeune, thereby reducing future costs to the Town.

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 Stuart Turille, Town Manager, Town of North Topsail Beach, 2008 Loggerhead Court, North Topsail Beach, NC 28460.



FINANCIAL STATEMENTS

Town of North Topsail Beach
Statement of Net Position
June 30, 2016
Exhibit 1

Primary

Government

Governmental

Activities

ASSETS		
Current assets:		
Cash and cash equivalents	\$	2,049,081
Taxes receivable (net)		88,852
Assessment receivable (net)		1,477,349
Accrued interest receivable on taxes		20,263
Accounts receivable (net)		650,377
Prepaid items		28,910
Restricted cash and cash equivalents		2,743,000
Total current assets		7,057,832
Capital assets:		
Land and non-depreciable improvements		3,907,851
Other capital assets, net of depreciation		28,460,226
Total capital assets		32,368,077
Total assets		39,425,909
DEFERRED OUTFLOWS OF RESOURCES		
Contributions to pension plan in current fiscal year		137,161
LIABILITIES		
Current liabilities:		
Accounts payable		1,859,531
Accrued interest payable		59,009
Current portion of long-term liabilities		1,094,065
Total current liabilities		3,012,605
Long-term liabilities:		
Net pension liability		138,722
Due in more than one year		16,870,770
Total liabilities		20,022,097
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals		83,833
NET POSITION		
Net investment in capital assets		13,165,218
Restricted for:		
Environmental protection		2,373,043
Stabilization by State Statute		650,377
Unrestricted		3,268,502
Total net position	\$	19,457,140

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, 2016
Exhibit 2

Functions/ Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 1,271,467	\$ -	\$ -	\$ -	\$ (1,271,467)
Public safety	1,732,513	25,773	-	-	(1,706,740)
Transportation	135,845	-	27,022	-	(108,823)
Environmental protection	2,991,073	396,191	46,647	3,936,769	1,388,534
Economical and physical development	3,871	-	-	-	(3,871)
Cultural and recreation	118,587	1,200	-	-	(117,387)
Interest on long-term debt	470,568	-	-	-	(470,568)
Total governmental activities	6,723,924	423,164	73,669	3,936,769	(2,290,322)

General revenues:

Taxes:	
Property taxes	3,199,329
Other taxes	2,922,330
Unrestricted investment earnings	9,417
Miscellaneous	53,169
Total general revenues	6,184,245
Extraordinary Item: Asset impairment loss	(126,540)
Change in net position	3,767,383
Net position - beginning as previously reported	15,803,145
Prior period adjustment	(113,388)
Net position - beginning as restated	15,689,757
Net position - ending	\$ 19,457,140

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

Town of North Topsail Beach
Balance Sheet – Governmental Funds
June 30, 2016
Exhibit 3

	Major Funds			Total Governmental Funds
	General	Beach Nourishment	Shoreline Protection Project	
ASSETS				
Cash and cash equivalents	\$ 680,360	\$ 525,475	\$ 843,246	\$ 2,049,081
Receivables, net:				
Accounts	109,254	80,069	461,054	650,377
Taxes	88,852	-	-	88,852
Assessment	-	1,477,349	-	1,477,349
Prepaid items	7,910	21,000	-	28,910
Restricted cash and cash equivalents	-	1,371,500	1,371,500	2,743,000
Total assets	886,376	3,475,393	2,675,800	7,037,569
LIABILITIES				
Accounts payable and accrued liabilities	120,853	1,569,158	169,520	1,859,531
Total liabilities	120,853	1,569,158	169,520	1,859,531
DEFERRED INFLOWS OF RESOURCES				
Property tax receivable	88,852	-	-	88,852
Assessment receivable	-	1,477,349	-	1,477,349
Total deferred inflows of resources	88,852	1,477,349	-	1,566,201
FUND BALANCES				
Nonspendable				
Prepaid items	7,910	21,000	-	28,910
Restricted				
Stabilization of State Statute	109,254	80,069	461,054	650,377
Environmental Protection	-	1,371,500	1,371,500	2,743,000
Committed				
Beach Nourishment	-	-	673,726	673,726
Unassigned	559,507	(1,043,683)	-	(484,176)
Total fund balances	676,671	428,886	2,506,280	3,611,837
Total liabilities, deferred inflows of resources and fund balances	\$ 886,376	\$ 3,475,393	\$ 2,675,800	\$ 7,037,569

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

Town of North Topsail Beach
Balance Sheet – Governmental Funds
June 30, 2016
Exhibit 3

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

Total fund balances - governmental funds		\$ 3,611,837
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	37,791,840	
Accumulated depreciation	<u>(5,423,763)</u>	32,368,077
Deferred outflows of resources related to pensions are not reported in the funds		137,161
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.		20,263
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		1,566,201
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Gross long-term debt	(17,842,199)	
Net pension liability	(138,722)	
Compensated absences	<u>(122,636)</u>	(18,103,557)
Deferred inflows of resources related to pensions are not reported in the funds		(83,833)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		(59,009)
Net position of governmental activities		\$ 19,457,140

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, 2016
Exhibit 4

	Major Funds			Total Governmental Funds
	General	Beach Nourishment	Shoreline Protection Project	
REVENUES				
Ad valorem taxes	\$ 1,932,202	\$ -	\$ 1,262,604	\$ 3,194,806
Other taxes and licenses	751,010	466,042	1,356,041	2,573,093
Unrestricted intergovernmental	349,237	-	-	349,237
Restricted intergovernmental	73,669	106,350	2,306,450	2,486,469
Sales and services	424,142	46,620	-	470,762
Investment earnings	9,090	201	126	9,417
Miscellaneous	46,260	300	-	46,560
Total revenues	3,585,610	619,513	4,925,221	9,130,344
EXPENDITURES				
Current:				
General government	1,234,639	-	-	1,234,639
Public safety	1,742,979	-	-	1,742,979
Environmental protection	415,001	1,257,072	4,326,466	5,998,539
Transportation	135,845	-	-	135,845
Cultural and recreation	39,273	-	-	39,273
Debt service	42,769	-	1,324,540	1,367,309
Total expenditures	3,610,506	1,257,072	5,651,006	10,518,584
Excess (deficiency) of revenues over expenditures	(24,896)	(637,559)	(725,785)	(1,388,240)
OTHER FINANCING SOURCES (USES)				
Sale of fixed assets	5,631	-	-	5,631
Transfers from other funds	-	-	123,023	123,023
Transfers to other funds	-	(123,023)	-	(123,023)
Total other financing sources (uses)	5,631	(123,023)	123,023	5,631
Net change in fund balance	(19,265)	(760,582)	(602,762)	(1,382,609)
Fund balances - beginning, as previously reported	695,936	2,550,128	3,109,042	6,355,106
Prior period adjustment	-	(1,360,660)	-	(1,360,660)
Fund balances - beginning , as restated	695,936	1,189,468	3,109,042	4,994,446
Fund balances - ending	\$ 676,671	\$ 428,886	\$ 2,506,280	\$ 3,611,837

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, 2016
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 \$ (1,382,609)

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.

Capital outlay expenditures which were capitalized	4,347,403	
Depreciation expense for governmental assets	(1,474,108)	
Asset impairment loss	<u>(126,540)</u>	2,746,755

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		104,513
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenue		4,523
Change in unavailable revenue for special assessment		1,477,349

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.

New long-term debt issued	(16,815,000)	
Principal payments on long-term debt	17,770,750	
Increase in accrued interest payable	<u>(59,009)</u>	896,741

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.

Pension expense	(83,935)	
Compensated absences	<u>4,046</u>	(79,889)

Total changes in net position of governmental activities		<u><u>\$ 3,767,383</u></u>
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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, 2016
Exhibit 5

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 1,954,000	\$ 1,945,000	\$ 1,932,202	\$ (12,798)
Other taxes and licenses	832,500	868,538	751,010	(117,528)
Unrestricted intergovernmental	224,000	349,000	349,237	237
Restricted intergovernmental	27,500	40,225	73,669	33,444
Sales and services	422,600	425,762	424,142	(1,620)
Investment earnings	5,000	4,000	9,090	5,090
Miscellaneous	45,000	42,841	46,260	3,419
Total revenues	3,510,600	3,675,366	3,585,610	(89,756)
EXPENDITURES				
Current:				
General government	1,204,795	1,253,516	1,234,639	18,877
Public safety	1,767,489	1,824,555	1,742,979	81,576
Environmental protection	399,800	415,900	415,001	899
Streets	159,716	156,716	135,845	20,871
Cultural and recreation	65,000	41,871	39,273	2,598
Debt service	43,000	43,000	42,769	231
Total expenditures	3,639,800	3,735,558	3,610,506	125,052
Revenues over (under) expenditures	(129,200)	(60,192)	(24,896)	35,296
OTHER FINANCING SOURCES (USES)				
Sale of fixed assets	49,200	-	5,631	5,631
Transfers from (to) other funds	80,000	-	-	-
Total other financing sources (uses)	129,200	-	5,631	5,631
Fund balance appropriated	-	60,192	-	(60,192)
Net change in fund balance	\$ -	\$ -	(19,265)	\$ (19,265)
Fund balances - beginning			695,936	
Fund balance - ending			<u>\$ 676,671</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, 2016
Exhibit 6

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 20,000	\$ 10,000	\$ -	\$ (10,000)
Other taxes and licenses	453,236	463,236	466,042	2,806
Restricted intergovernmental	163,776	163,776	106,350	(57,426)
Sales and services	-	-	46,620	46,620
Investment earnings	1,000	1,000	201	(799)
Miscellaneous	1,000	1,000	300	(700)
Total revenues	639,012	639,012	619,513	(19,499)
EXPENDITURES				
Current:				
Environmental protection	1,997,467	1,256,012	1,257,072	(1,060)
Total expenditures	1,997,467	1,256,012	1,257,072	(1,060)
Revenues over (under) expenditures	(1,358,455)	(617,000)	(637,559)	(20,559)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	1,398,455	-	-	-
Transfers (to) other funds	(40,000)	(123,023)	(123,023)	-
Total other financing sources (uses)	1,358,455	(123,023)	(123,023)	-
Revenues over (under) expenditures and other financing uses	-	(740,023)	(760,582)	(20,559)
Fund balance appropriated	-	740,023	-	(740,023)
Net change in fund balance	\$ -	\$ -	(760,582)	\$ (760,582)
Fund balances - beginning			1,189,468	
Fund balance - ending			<u>\$ 428,886</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, 2016

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, 2016

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 registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016

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. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016

2. Cash and Cash Equivalents

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

3. Restricted Assets

The USDA requires that three years of debt service payments be restricted per the loan agreement for the Series 2014 bonds 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, 2015. 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. Prepaid Items

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

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. 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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 consist of the road network 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20
Buildings	40
Vehicles and equipment	5 to 10

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2016 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.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. 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.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016

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

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to 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.

11. 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:

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

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

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016

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)].

Restricted for Environmental Protection – portion of fund balance that is restricted by the USDA for future debt service.

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.

12. 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, 2016, the expenditures made in the Town’s Beach Nourishment Fund and Shoreline Protection Project Fund exceeded the authorized appropriations by \$1,060 and by \$19,390, respectively. Town management and the Board will more closely review the budget reports to ensure compliance in future years.

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

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.

At June 30, 2016, the Town's deposits had a carrying amount of \$1,475,353 and a bank balance of \$1,603,938. Of the balance, \$1,008,270 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2016, the Town's petty cash fund totaled \$200.

2. Investments

At June 30, 2016, the Town of North Topsail Beach had \$3,316,528 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, 2016**

4. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2016, was as follows:

	Beginning Balance	Restatement	Increases	Decreases	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,082,341	\$ -	\$ -	\$ -	\$ 1,082,341
Construction in progress	17,018,901	-	2,825,510	17,018,901	2,825,510
Total capital assets not being depreciated	18,101,242	-	2,825,510	17,018,901	3,907,851
Capital assets being depreciated:					
Buildings	1,364,535	-	-	-	1,364,535
Vehicles and equipment	2,796,078	-	54,811	-	2,850,889
Infrastructure	9,960,596	1,360,660	18,485,983	138,674	29,668,565
Total capital assets being depreciated	14,121,209	1,360,660	18,540,794	138,674	33,883,989
Less accumulated depreciation for:					
Buildings	793,551	-	34,113	-	827,664
Vehicles and equipment	2,124,154	-	168,077	-	2,292,231
Infrastructure	930,696	113,388	1,271,918	12,134	2,303,868
Total accumulated depreciation	3,848,401	113,388	1,474,108	12,134	5,423,763
Total capital asset being depreciated, net	10,272,808				28,460,226
Governmental activities capital assets, net	\$ 28,374,050				\$ 32,368,077

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

General government	\$ 46,344
Public safety	157,503
Economic & physical development	3,871
Environmental protection	1,187,076
Culture & recreational	79,314
Total depreciation expense	\$ 1,474,108

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

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, 2016

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, 2016, 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 \$104,513 for the year ended June 30, 2016.

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, 2016, the Town reported a liability of \$138,722 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.031%, which was materially the same from its proportion measured as of June 30, 2014.

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

For the year ended June 30, 2016, the Town recognized pension expense of \$83,935. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 32,608
Changes of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	39,494
Changes in proportion and differences between Town contributions and proportionate share of contributions	32,648	11,731
Town contributions subsequent to the measurement date	104,513	-
Total	\$ 137,161	\$ 83,833

\$104,513 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (38,169)
2018	(38,169)
2019	(38,229)
2020	63,382
2021	-
Thereafter	-
	\$ (51,185)



**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

Actuarial Assumptions. The total pension liability in the December 31, 2014 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

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, 2014 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.

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. 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.

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

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:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 967,328	\$ 138,722	\$ (559,360)

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 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, 2015 the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	12
Total	12

A separate report was not issued for the plan.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016

(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.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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 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.

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

(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, 2016 were \$33,118, which consisted of \$25,042 from the Town and \$8,076 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, 2016 were \$51,345, which consisted of \$30,939 from the Town and \$20,406 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.

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	\$	104,513
Changes in proportion and differences between employer contributions and proportionate share of contributions		32,648
<u>Total</u>	<u>\$</u>	<u>137,161</u>

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

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

Taxes receivable	\$	88,852
Differences between expected and actual experience		32,608
Net difference between projected and actual earnings on pension plan investments		39,494
Changes in proportion and differences between employer contributions and proportionate share of contributions		11,731
Total	\$	172,685

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, 2016, 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
For the Year Ended June 30, 2016**

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, 2016, including \$15,413 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 38,429	\$ 4,339
2018	39,121	3,648
2019	39,825	2,944
2020	40,541	2,228
2021	41,270	1,498
2022	42,013	756
Total	\$ 241,199	\$ 15,413

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, 2016 are comprised of the following individual issues.

Serviced by the Beach Nourishment Fund:

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

\$ 1,136,000

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

\$16,465,000

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

Annual debt service payments to maturity for long-term obligations are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 933,000	\$ 554,879
2018	944,000	533,133
2019	388,000	511,030
2020	401,000	498,420
2021	414,000	485,388
2022-2026	2,278,000	2,216,305
2027-2031	2,673,000	1,821,300
2032-2036	3,137,000	1,357,720
2036-2041	3,680,000	813,800
2042-2045	2,753,000	196,528
Total	\$ 17,601,000	\$ 8,988,503

c. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Curent Portion of Balance
Governmental activities:					
Installment purchase	\$ 278,949	\$ -	\$ 37,750	\$ 241,199	\$ 38,429
Special obligation bonds	1,704,000	16,815,000	918,000	17,601,000	933,000
Bond anticipation notes	16,815,000	-	16,815,000	-	-
Compensated absences	126,682	4,686	8,732	122,636	122,636
Net pension liability (LGERS)	-	138,722	-	138,722	-
Governmental long-term liabilities	\$ 18,924,631	\$ 16,958,408	\$ 17,779,482	\$ 18,103,557	\$ 1,094,065

7. Interfund Balances and Activity

Transfer to/from other funds at June 30, 2016 consists of the following:

From the Beach Nourishment Fund to the Shoreline Protection
Project Fund for capital expenditures

\$ 123,023

**Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2016**

8. Extraordinary Event

On January 15, 2016, the Town experienced an extraordinary storm surge that washed away part of a parking lot. The impairment loss on the parking lot was estimated to be \$126,540 resulting in an extraordinary loss. The Town currently does not have plans to repair this portion of the parking lot.

9. Prior Period Adjustment

During the fiscal year ended June 30, 2016, the Town determined that remaining revetment capital expenditures were subject to accrual in the Beach Nourishment Fund as of June 30, 2015, on a modified accrual basis of accounting, had been omitted. Therefore, an adjustment to beginning fund balance has been recorded to account for those accruals, the net effect of which decreased beginning fund balance by \$1,360,660. These expenses were not accrued and capitalized in the government-wide statements. Consequently, depreciation expense for these capital expenses was not recorded, the net effect of which decreased beginning net position by \$113,388.

10. Fund Balance

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

Total fund balance - General Fund	\$ 676,671
<hr/>	
Less:	
Prepaid expenses	7,910
Stabilization by State Statute	109,254
<hr/>	
Remaining Fund Balance	\$ 559,507
<hr/>	

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.

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

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.031%	0.031%	0.025%
Town's proportion of the net pension liability (asset) (\$)	\$ 138,722	\$ (182,821)	\$ 298,935
Town's covered-employee payroll	1,604,908	1,599,383	1,510,668
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.64%	-11.43%	19.79%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	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>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 104,513	\$ 113,221	\$ 103,790
Contributions in relation to the contractually required contribution	<u>104,513</u>	<u>113,221</u>	<u>103,790</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,604,908	\$ 1,599,383	\$ 1,510,668
Contributions as a percentage of covered-employee payroll	6.51%	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, 2016
Schedule 1

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Taxes		\$ 1,921,120	
Penalties and interest		11,082	
Total	\$ 1,945,000	1,932,202	\$ (12,798)
Other taxes and licenses			
Local option sales tax		680,632	
Licenses and permits		70,378	
Total	868,538	751,010	(117,528)
Unrestricted intergovernmental			
Utility franchise tax		278,187	
Cable franchise tax		46,020	
Beer and wine tax		3,378	
Sales tax refunds		21,652	
Total	349,000	349,237	237
Restricted intergovernmental			
Solid waste disposal tax		14,649	
FEMA grant		31,998	
Powell Bill allocation		27,022	
Total	40,225	73,669	33,444
Sales and services			
Donations		978	
Refuse collection fees		396,191	
Officer and other fees		26,973	
Total	425,762	424,142	(1,620)
Investment earnings	4,000	9,090	5,090
Miscellaneous	42,841	46,260	3,419
Total revenues	3,675,366	3,585,610	(89,756)

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, 2016
Schedule 1

EXPENDITURES

General government			
General government			
Salaries and benefits		11,303	
Professional services		29,712	
Operating expenses		233,839	
Total		278,432	274,854
3,578			
Administration			
Salaries and benefits		326,149	
Operating expenses		97,085	
Total		422,317	423,234
(917)			
Planning			
Salaries and benefits		96,279	
Operating expenses		4,724	
Total		105,785	101,003
4,782			
Public works			
Salaries and benefits		167,422	
Operating expenses		69,475	
Capital outlay		28,608	
Total		272,457	265,505
6,952			
Public buildings			
Operating expenses		143,440	
Capital outlay		26,603	
Total		174,525	170,043
4,482			
Total general government		1,253,516	1,234,639
18,877			

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, 2016
Schedule 1

Public safety			
Police and fire departments			
Salaries and benefits		1,335,497	
Operating expenses		257,319	
Capital outlay		17,651	
Total	1,691,946	1,610,467	81,479
Inspections			
Salaries and benefits		127,169	
Operating expenses		5,343	
Total	132,609	132,512	97
Total public safety	1,824,555	1,742,979	81,576
Environmental protection			
Sanitation			
Contracted services	415,900	415,001	899
Total environmental protection	415,900	415,001	899
Transportation			
Operating expenses		37,795	
Capital outlay		98,050	
Total transportation	156,716	135,845	20,871
Cultural and recreational			
Operating expenses		39,273	
Total cultural and recreation	41,871	39,273	2,598
Debt service	43,000	42,769	231
Total expenditures	3,735,558	3,610,506	125,052

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, 2016
Schedule 1

Revenues over (under) expenditures	(60,192)	(24,896)	35,296
OTHER FINANCING SOURCES (USES)			
Sale of fixed assets	-	5,631	5,631
Total other financing sources (uses)	-	5,631	5,631
Fund balance appropriated	60,192	-	(60,192)
Net change in fund balance	\$ -	(19,265)	\$ (19,265)
Fund balance, beginning		<u>695,936</u>	
Fund balance, ending		<u>\$ 676,671</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, 2016
Schedule 2**

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Prior year	\$ 10,000	\$ -	\$ (10,000)
Other taxes and licenses			
Accommodations tax	463,236	466,042	2,806
Restricted intergovernmental			
Cost shares		106,350	
Total restricted intergovernmental	163,776	106,350	(57,426)
Sales and services			
Special assessment		46,620	46,620
Investment earnings	1,000	201	(799)
Miscellaneous	1,000	300	(700)
Total revenues	639,012	619,513	(19,499)
EXPENDITURES			
Environmental protection			
Administrative expenses		3,233	
Operating expenses		524,158	
Contracted services		729,681	
Total expenditures	1,256,012	1,257,072	(1,060)
Revenues over (under) expenditures	(617,000)	(637,559)	(20,559)
OTHER FINANCING SOURCES (USES)			
Transfer to Shoreline Project	(123,023)	(123,023)	-
Total other financing sources (uses)	(123,023)	(123,023)	-
Revenues over (under) expenditures and other financing uses	(740,023)	(760,582)	(20,559)
Fund balance appropriated	740,023	-	(740,023)
Net change in fund balance	\$ -	(760,582)	\$ (760,582)
Fund balance - beginning, as previously stated		2,550,128	
Restatement		(1,360,660)	
Fund balance - beginning, as restated		1,189,468	
Fund balance, ending		\$ 428,886	

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, 2016
Schedule 3

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes	\$ 1,230,294	\$ 1,262,604	\$ 32,310
Restricted intergovernmental	3,031,785	2,246,450	(785,335)
Accommodations tax	460,000	466,041	6,041
Sales tax	890,000	890,000	-
County contribution	60,000	60,000	-
Investment earnings	-	126	126
Total revenues	5,672,079	4,925,221	(746,858)
EXPENDITURES			
Construction	3,426,000	3,427,495	(1,495)
Debt service	1,323,616	1,324,540	(924)
Engagement contracts	162,500	149,975	12,525
Design	281,000	322,455	(41,455)
Legal	37,500	26,541	10,959
Repairs	401,000	400,000	1,000
Total expenditures	5,631,616	5,651,006	(19,390)
Revenues under expenditures	40,463	(725,785)	(766,248)
OTHER FINANCING SOURCES			
Transfer from Beach Nourishment Fund	123,023	123,023	-
Net change in fund balance	\$ 163,486	(602,762)	\$ (766,248)
Fund balance, beginning		<u>3,109,042</u>	
Fund balance, ending		<u>\$ 2,506,280</u>	

Town of North Topsail Beach
Schedule of Ad Valorem Taxes Receivable
June 30, 2016
Schedule 4

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 3,188,014	\$ 3,145,160	\$ 42,854
2014-2015	40,122	-	30,329	9,793
2013-2014	16,514	-	4,865	11,649
2012-2013	6,815	-	1,449	5,366
2011-2012	5,598	-	404	5,194
2010-2011	4,225	-	100	4,125
2009-2010	3,610	-	555	3,055
2008-2009	3,261	-	528	2,733
2007-2008	3,771	-	592	3,179
2006-2007	904	-	-	904
2005-2006	1,264	-	1,264	-
	\$ 86,084	\$ 3,188,014	\$ 3,185,246	\$ 88,852

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 1,932,202
Ad valorem taxes - Beach Nourishment Fund	-
Ad valorm taxes - Shoreline Protection Project	1,262,604
Interest collected	(11,082)
Taxes written off	1,522
	<hr/>
Total collections and credits	<u>\$ 3,185,246</u>

**Town of North Topsail Beach
Analysis of Current Tax Levy
For the Year Ended June 30, 2016
Schedule 5**

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 812,141,980	0.3932	\$ 3,193,342	\$ 3,151,201	\$ 42,141
Penalties	24,181		95	95	-
Discoveries	13,235		52	52	-
Abatements	(1,392,422)		(5,475)	(5,475)	-
Total property valuation	<u>\$ 810,786,974</u>				
Net levy			\$ 3,188,014	\$ 3,145,873	\$ 42,141
Uncollected taxes at June 30, 2016			42,854	42,854	-
Current year's tax collected			<u>\$ 3,145,160</u>	<u>\$ 3,103,019</u>	<u>\$ 42,141</u>
Current levy collection percentage			<u>98.66%</u>	<u>98.64%</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, 2016, and the related notes to the financial statements, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated March 17, 2017.

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.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. [16-1]

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency. [16-2]

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
March 17, 2017



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Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Uniform Guidance 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 *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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

New Bern, North Carolina
March 17, 2017



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Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with OMB Uniform Guidance 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 State 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 *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of North Topsail Beach's major state programs for the year ended June 30, 2016. The Town of North Topsail Beach's major state 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 state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of North Topsail Beach's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) as described in the *Audit Manual for Governmental Auditors in North Carolina* and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state 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 state program. However, our audit does not provide a legal determination of the Town of North Topsail Beach's compliance.

Opinion on Each Major State 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 state programs for the year ended June 30, 2016.

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 state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state 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 state 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 state 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

New Bern, North Carolina

March 17, 2017

**Town of North Topsail Beach
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section I. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

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

Non-compliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X 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 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

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

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

Auditee qualified as low-risk auditee? yes X no

Town of North Topsail Beach
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

State Awards

Internal control over major State programs:

- Material weakness(es) identified? yes X no

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

Type of auditor’s report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
the State Single Audit Implementation Act? yes X no

Identification of major State programs:

Program Name

Water Resource Development Program

Town of North Topsail Beach
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section II. Financial Statement Findings

Material Weakness

16-1 Material prior period adjustment due to error

Criteria: Prior period adjustments deemed material due to error.

Condition: The Town determined that remaining revetment capital expenditures were subject to accrual in the Beach Nourishment Fund as of June 30, 2015, on a modified accrual basis of accounting, had been omitted. Consequently, depreciation expense for these capital expenses was not recorded on the full accrual basis.

Effect: Beginning fund balance in the Beach Nourishment fund decreased and beginning net assets increased by \$1,360,660, respectively. Beginning net position decreased and beginning net accumulated depreciation increased by \$113,388, respectively.

Cause: Outstanding invoices for revetment costs were not accrued.

Recommendation: All appropriate expenditures should be timely accrued

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

Significant Deficiency

16-2 Expenditures over appropriations

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

Condition: Expenditures made in the Town's Beach Nourishment Fund and Shoreline Protection Project Fund exceeded the authorized appropriations by \$1,060, and by \$19,390, respectively. Town management and the Board will more closely review the budget reports to ensure compliance in future years.

Effect: Expenditures were made without budget authorization.

This is a repeat finding from the immediate previous audit, 15-1

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



**Town of North Topsail Beach
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

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, 2016**

Section II. Financial Statement Findings

Material Weakness

16-1 Material prior period adjustment due to error

Name of contact person: Stuart Turille – Town Manager

Corrective Action: The Board will timely accrue all appropriate expenditures.

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

Significant Deficiency

16-1 Expenditures over appropriations

Name of contact person: Stuart Turille – Town Manager

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
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016**

Finding: 15-1

Status: The Town was diligent with regards to the General Fund budget, but had expenditures over budgeted amounts in the Beach Nourishment and Shoreline Project Funds. Town management and the Board will more closely review the budget reports to ensure compliance in future years.

Town of North Topsail Beach
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
Cash Programs:				
<u>U.S. Department of Agriculture</u>				
Community Facilities Loans and Grants	10.780		\$ 16,815,000	\$ -
<u>U.S. Department of Homeland Security</u>				
Public Assistance Program	97.036		\$ 31,998	\$ -
State Grants:				
Cash Assistance:				
<u>NC Department of Transportation</u>				
Powell Bill		XXXX	-	34,286
<u>NC Department of Natural Resources</u>				
Water Resource Development Program		XXXX	-	<u>1,991,370</u>
Total assistance – State programs			-	<u>2,025,656</u>
Total assistance			<u>\$ 900,911</u>	<u>\$ 2,025,656</u>

Town of North Topsail Beach
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

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, 2016. The information in this SEFSA is presented in accordance with the requirements of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town of North Topsail Beach has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Loans Outstanding

Town of North Topsail Beach had the following loan balances outstanding at June 30, 2016 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2016 consists of:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
Community Facilities Loans and Grants	10.780	-	\$ 16,465,000