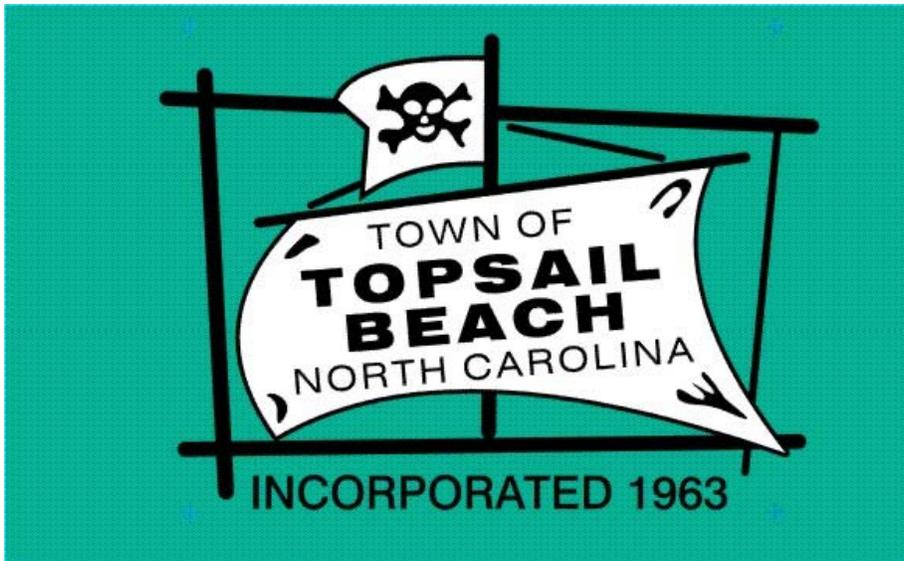


TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Report of Audit

For the Fiscal Year Ended June 30, 2015



	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	5
Management's Discussion and Analysis	8
 <i>Basic Financial Statements</i> 	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	18
Statement of Activities.....	20
 <i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	25
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	27
Statement of Fund Net Position – Proprietary Fund.....	28
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	31
Statement of Cash Flows – Proprietary Fund	32
Notes to the Financial Statements	34
 <i>Required Supplementary Financial Data</i> 	
Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	66
Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions.....	67
Other Postemployment Benefits – Schedule of Funding Progress	68
Other Postemployment Benefits – Schedule of Employer Contributions.....	69
Proportionate Share of Net Pension Liability (Asset) - LGERS	70
Town's Contributions - LGERS.....	71
Proportionate Share of Net Pension Liability (Asset) - FRSWP.....	72

Major Governmental Funds – General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	74
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Enterprise Funds

Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Water Fund.....	78
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Other Schedules

Schedule of Ad Valorem Taxes Receivable – General Fund	82
Analysis of Current Tax Levy.....	83

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	86
Report on Compliance fir Each Major Federal Program; Report on Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act.....	88
Report on Compliance fir Each Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act.....	91
Schedule of Findings and Questioned Costs.....	94
Corrective Action plan	99
Summary Schedule of Prior Audit Findings.....	100
Schedule of Expenditures of Federal and State Awards	101
Notes to Schedule of Expenditures of Federal and State Awards	102

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina as of June 30, 2015, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability 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 Topsail Beach, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposed of additional analysis and are not a required part of the basic financial statements.

The combining and 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, and the procedures performed as described above, the combining and individual 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2015 on our consideration of Town of Topsail Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Topsail Beach's internal control over financial reporting and compliance.

W Greene PLLC

Whiteville, North Carolina
August 27, 2015

Management's Discussion and Analysis

As management of the Town of Topsail Beach, we offer readers of the Town of Topsail Beach's financial statements this narrative overview and analysis of the financial activities of Town of Topsail Beach for the fiscal year ended June 30, 2015 . We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

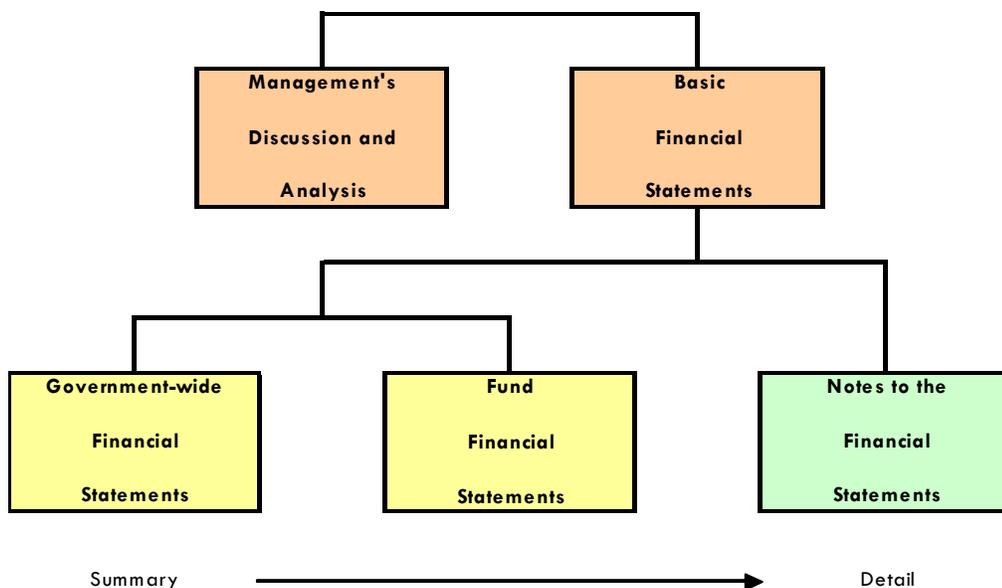
- The assets and deferred outflows of resources of the Town of Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,378,600 (net position).
- The government's total net position decreased by \$1,733,583 primarily due to an increase in beach renourishment expenditures.
- As of the close of the current fiscal year, the Town of Topsail Beach's governmental funds reported combined ending fund balances of \$2,340,001, with an decrease of \$2,376,144 in comparison with the prior year.
- At the end of the current fiscal year, fund balance available for the General Fund was \$389,305, or 3.01 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of 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 Town of Topsail Beach.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 18 through 21) 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 (pages 22 through 33) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as administration, streets and highways, and inspections. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the town charges customers to provide services. This includes the water and sewer services offered by the Town of Topsail Beach.

The government-wide financial statements are on pages 18 through 21 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 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 the Town of Topsail Beach can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Management's Discussion and Analysis (Continued)

The Town of Topsail Beach adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds- Town of Topsail Beach has one kind of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Topsail Beach uses enterprise funds to account for its water and sewer activity. This fund is the same as those functions shown in business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 34 through 63 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Topsail Beach's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 66 of this report.

Interdependence with Other Entities: The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis

The Town of Topsail Beach's Net Position

Figure 2

	Governmental		Business-Type		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,521,226	\$ 4,786,387	\$ 1,684,053	\$ 1,474,911	\$ 5,205,279	\$ 6,261,298
Capital assets	4,871,199	4,837,963	6,047,590	6,032,953	10,918,789	10,870,916
Deferred outflows of resources	47,371	-	11,263	-	58,634	-
Total assets and deferred outflows of resources	8,439,796	9,624,350	7,742,906	7,507,864	16,182,702	17,132,214
Long-term liabilities outstanding	799,159	1,035,468	4,098,482	4,379,864	4,897,641	5,415,332
Other liabilities	1,328,803	292,413	360,025	361,356	1,688,828	653,769
Deferred inflows of resources	175,828	-	41,805	-	217,633	-
Total liabilities and deferred inflows of resources	2,303,790	1,327,881	4,500,312	4,741,220	6,804,102	6,069,101
Net position:						
Net investment in capital assets	3,929,219	3,674,648	1,683,447	1,568,469	5,612,666	5,243,117
Restricted	1,950,696	395,936	-	-	1,950,696	395,936
Unrestricted	256,091	4,225,885	1,559,147	1,374,013	1,815,238	5,599,898
Total net position	\$ 6,136,006	\$ 8,296,469	\$ 3,242,594	\$ 2,942,482	\$ 9,378,600	\$ 11,238,951

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 Topsail Beach exceeded liabilities and deferred inflows by \$9,378,600 as of June 30, 2015. The Town's net position decreased by \$1,733,553 for the fiscal year ended June 30, 2015. However, the largest portion (60%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Topsail Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of 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 Topsail Beach's net position \$1,950,696 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$1,815,238 is unrestricted. Also, the Town of Topsail Beach implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$126,798. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Topsail Beach's management.

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

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

Management's Discussion and Analysis (Continued)

The Town of Topsail Beach's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 409,345	\$ 384,652	\$ 946,572	\$ 868,343	\$ 1,355,917	\$ 1,252,995
Operating grants and contributions	6,891,178	431,246	-	-	6,891,178	431,246
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	1,805,222	1,791,582	-	-	1,805,222	1,791,582
Other taxes	1,254,490	1,243,965	-	-	1,254,490	1,243,965
Other	203,021	152,164	2,223	29,930	205,244	182,094
Total revenues	10,563,256	4,003,609	948,795	898,273	11,512,051	4,901,882
Expenses:						
Governing Body	58,190	198,239	-	-	58,190	198,239
Administration	374,431	384,482	-	-	374,431	384,482
Police	709,055	643,647	-	-	709,055	643,647
Fire	301,691	268,214	-	-	301,691	268,214
Inspections	42,763	15,581	-	-	42,763	15,581
Public Services	164,804	171,843	-	-	164,804	171,843
Powell Bill	29,593	6,950	-	-	29,593	6,950
Sanitation	284,156	270,425	-	-	284,156	270,425
Beach Management Tourism	247,285	227,135	-	-	247,285	227,135
Marina	21,455	30,060	-	-	21,455	30,060
Federal Beach Project	15,000	26,748	-	-	15,000	26,748
Beach/Inlet/Sound Maintenance	10,347,748	267,767	-	-	10,347,748	267,767
Interest on Long-term Debt	25,107	28,973	-	-	25,107	28,973
Water	-	-	624,326	580,121	624,326	580,121
Total expenses	12,621,278	2,540,064	624,326	580,121	13,245,604	3,120,185
Increase(Decrease) in net position before transfers	(2,058,022)	1,463,545	324,469	318,152	(1,733,553)	1,781,697
Transfers	-	-	-	-	-	-
Change in net position	(2,058,022)	1,463,545	324,469	318,152	(1,733,553)	1,781,697
Net position, July 1 (consolidated)	8,296,469	6,832,924	2,942,482	2,624,330	11,238,951	9,457,254
Net position, July 1 (restated)	8,194,028	6,832,924	2,918,125	2,624,330	11,112,153	9,457,254
Net position, June 30	\$ 6,136,006	\$ 8,296,469	\$ 3,242,594	\$ 2,942,482	\$ 9,378,600	\$ 11,238,951

Governmental activities. Governmental activities decreased the Town's net position by \$2,058,022 primarily due to increased expenses in the general fund.

Business-type activities: Business-type activities increased the Town of Topsail Beach's net position by \$324,469 primarily due to an increase in revenues in the water fund.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of 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 Topsail Beach's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Topsail Beach. At the end of the current fiscal year, the Town of Topsail Beach's fund balance available in the General Fund was \$389,305, while total fund balance reached \$2,340,001. The Town currently has an available fund balance of 3.01% of general fund expenditures, while total fund balance represents 18% of that same amount.

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

Revenues were more than the budgeted amounts primarily because of an increase in sales and service revenue as well as interest income. Expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds. The Town of Topsail Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Proprietary Fund at the end of the fiscal year amounted to \$1,559,147. The total change in net position for the proprietary fund was an increase of \$324,469.

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital assets. The Town of Topsail Beach's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totals \$10,918,789 (net of accumulated depreciation). These assets include buildings, land, and equipment.

The Town of Topsail Beach's Capital Assets

Figure 4

	(Net of depreciation)					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 3,951,454	\$ 3,951,454	\$ 1,303,353	\$ 1,303,353	\$ 5,254,807	\$ 5,254,807
Construction in Progress	150,027	-	-	-	150,027	-
Buildings	246,829	258,586	1,317	1,568	248,146	260,154
Infrastructure	322,929	338,919	-	-	322,929	338,919
Vehicles	112,745	182,430	-	-	112,745	182,430
Plant and Distribution	-	-	4,721,562	4,855,125	4,721,562	4,855,125
Equipment	87,215	106,576	21,358	48,746	108,573	155,322
Total	\$ 4,871,199	\$ 4,837,965	\$ 6,047,590	\$ 6,208,792	\$ 10,918,789	\$ 11,046,757

Additional information on the Town's capital assets can be found in Note I of the Basic Financial Statements.

Long-term Debt. As of June 30, 2015, Town of Topsail Beach had total long-term debt outstanding of \$5,306,123. Of this, \$-0- is debt backed by the full faith and credit of Town of Topsail Beach.

The Town of Topsail Beach's Outstanding Debt,
Installment Purchases and Capital Leases

Figure 5

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Installment purchases	\$ 941,980	\$ 1,163,315	\$ 4,364,143	\$ 4,640,321	\$ 5,306,123	\$ 5,803,636
Capital Leases	-	-	-	-	-	-
Total	\$ 941,980	\$ 1,163,315	\$ 4,364,143	\$ 4,640,321	\$ 5,306,123	\$ 5,803,636

The Town of topsail Beach's total debt decreased by \$497,513 during the fiscal year.

Management's Discussion and Analysis (Continued)

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Topsail Beach is \$49,002,943. The Town of Topsail Beach does not have any authorized but un-issued debt at June 30, 2015.

Additional information regarding Town of Topsail Beach's long-term debt can be found beginning on page 52 in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets Rates

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

- Population growth
- New construction

Budget Highlights for the Fiscal Year Ending June 30, 2016

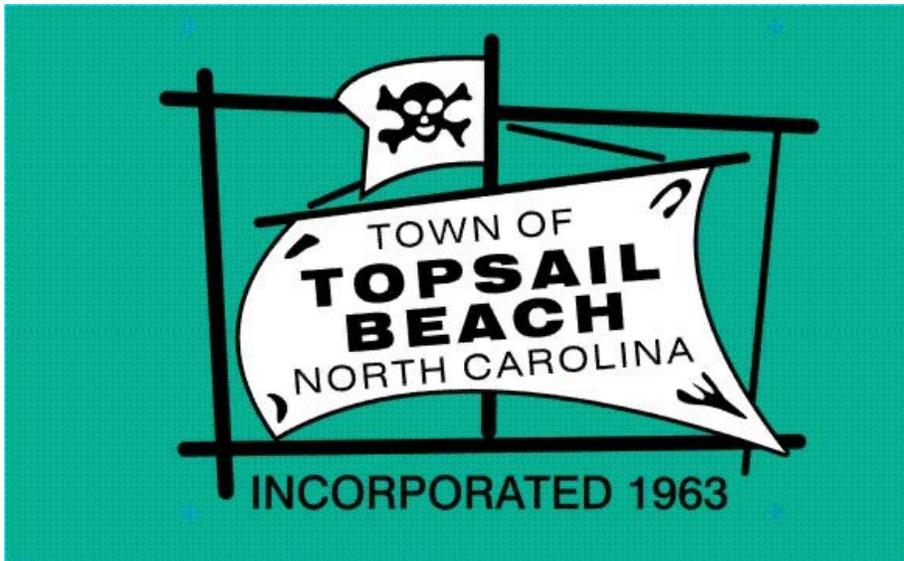
Governmental Activities: Property taxes will maintain at levels to fund budgeted revenues.

Business Activities: Water rates in the Town will be reviewed during the budget process annually.

Requests for Information

This report is designed to provide an overview of the Town finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the following:

Connie Forand
accountant@topsailbeach.com
Finance Officer
Town of Topsail Beach
820 South Anderson
Topsail Beach, NC 28445



Basic Financial Statements

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Net Position
June 30, 2015

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,481,136	\$ 1,519,793	\$ 3,000,929
Receivables (net):			
Ad Valorem Taxes	16,424	-	16,424
Accommodations Taxes	132,750	-	132,750
Interest	2,787	-	2,787
Accounts	25,681	147,573	173,254
Other	1,349	-	1,349
Due from Other Governments	1,790,916	-	1,790,916
Restricted Cash and Cash Equivalents	-	-	-
Net Pension Asset	70,183	16,687	86,870
	<hr/>		
Total Current Assets	3,521,226	1,684,053	5,205,279
<hr/>			
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	4,101,481	1,303,353	5,404,834
Other Capital Assets, Net of Depreciation	769,718	4,744,237	5,513,955
	<hr/>		
Total Noncurrent Assets	4,871,199	6,047,590	10,918,789
	<hr/>		
Total Assets	8,392,425	7,731,643	16,124,068
<hr/>			
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to Pension Plan in Current Fiscal Year	47,371	11,263	58,634
	<hr/>		
Total Deferred Outflows of Resources	\$ 47,371	\$ 11,263	\$ 58,634
	<hr/>		

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Net Position (Continued)
June 30, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 1,091,831	\$ 9,142	\$ 1,100,973
Interest Payable	13,742	4,664	18,406
Customer Deposits	-	70,040	70,040
Current Portion of Long-Term Liabilities	223,230	276,179	499,409
Total Current Liabilities	1,328,803	360,025	1,688,828
Long-Term Liabilities:			
Due in More Than One year	799,159	4,098,482	4,897,641
Total Liabilities	2,127,962	4,458,507	6,586,469
DEFERRED INFLOWS OF RESOURCES			
Prepaid Taxes	-	-	-
Pension Deferrals	175,828	41,805	217,633
Total Deferred Inflows of Resources	175,828	41,805	217,633
NET POSITION			
Net Investment in Capital Assets	3,929,219	1,683,447	5,612,666
Restricted for:			
Transportation	-	-	-
Stabilization by State Statute	1,950,696	-	1,950,696
Unrestricted	256,091	1,559,147	1,815,238
Total Net Position	\$ 6,136,006	\$ 3,242,594	\$ 9,378,600

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Activities

June 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Governing Body	\$ 58,190	\$ -	\$ -	\$ -
Administration	374,431	1,015	-	-
Police	709,055	5,671	-	-
Fire	301,691	-	202,397	-
Inspections	42,763	61,535	-	-
Public Services	164,804	-	-	-
Powell Bill	29,593	-	16,563	-
Sanitation	284,156	273,354	186	-
Beach Management and Tourism	247,285	22,560	-	-
Marina	21,455	45,210	-	-
Federal Beach Project	15,000	-	-	-
Beach/Inlet/Sound Maintenance	10,347,748	-	6,672,032	-
Interest on long-term debt	25,107	-	-	-
Total Governmental Activities	12,621,278	409,345	6,891,178	-
Total Primary Government	12,621,278	409,345	6,891,178	-
Business-Type Activities:				
Water	624,326	946,572	-	-
Total Business-Type Activities	\$ 624,326	\$ 946,572	\$ -	\$ -

General Revenues:

Property Taxes, Levied for General Purpose

Other Taxes and Licenses

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Restatement

Net Position - Beginning of Year - Restated

Net Position - End of Year

Net (Expense) Revenue and Changes in Net Assets

Primary Government

	Governmental Activities	Business-Type Activities	Totals
\$	(58,190)	\$ -	\$ (58,190)
	(373,416)	-	(373,416)
	(703,384)	-	(703,384)
	(99,294)	-	(99,294)
	18,772	-	18,772
	(164,804)	-	(164,804)
	(13,030)	-	(13,030)
	(10,616)	-	(10,616)
	(224,725)	-	(224,725)
	23,755	-	23,755
	(15,000)	-	(15,000)
	(3,675,716)	-	(3,675,716)
	(25,107)	-	(25,107)
	<u>(5,320,755)</u>	<u>-</u>	<u>(5,320,755)</u>
	(5,320,755)	-	(5,320,755)
	-	322,246	322,246
	-	322,246	322,246
	1,805,222	-	1,805,222
	1,254,490	-	1,254,490
	16,811	-	16,811
	186,210	2,223	188,433
	-	-	-
	<u>3,262,733</u>	<u>2,223</u>	<u>3,264,956</u>
	<u>(2,058,022)</u>	<u>324,469</u>	<u>(1,733,553)</u>
	8,296,469	2,942,482	11,238,951
	(102,441)	(24,357)	(126,798)
	<u>8,194,028</u>	<u>2,918,125</u>	<u>11,112,153</u>
\$	\$ <u>6,136,006</u>	\$ <u>3,242,594</u>	\$ <u>9,378,600</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Balance Sheet

Governmental Funds

June 30, 2015

	<u>Major Funds</u>	
	<u>General</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,481,136	\$ 1,481,136
Restricted Cash	-	-
Receivables (net):		
Ad Valorem Taxes	16,424	16,424
Accommodations Tax	132,750	132,750
Accounts	25,681	25,681
Other	1,349	1,349
Due from Other Governments	1,790,916	1,790,916
Total Assets	\$ 3,448,256	\$ 3,448,256
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 1,091,831	\$ 1,091,831
Total Liabilities	1,091,831	1,091,831
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Receivable	16,424	16,424
Total Deferred Inflows of Resources	16,424	16,424
FUND BALANCES		
Restricted		
Stabilization by State Statute	1,950,696	1,950,696
Streets	-	-
Committed		
Beach/Inlet/Sound Maintenance	-	-
Assigned		
Subsequent Year's Expenditures:	-	-
Unassigned	389,305	389,305
Total Fund Balances	2,340,001	2,340,001
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,448,256	

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Balance Sheet (Continued)

Governmental Funds

June 30, 2015

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Governmental Fund Balance	\$ 2,340,001
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical costs	\$ 6,570,666
Accumulated depreciation	<u>(1,699,467)</u>
	4,871,199
Net pension asset	70,183
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	47,371
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred	
Accrued interest - taxes	<u>2,787</u>
	2,787
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	
Ad valorem taxes	16,424
Other taxes	<u>-</u>
	16,424
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Accrued interest payable	(13,742)
Installment purchases	(941,980)
Net pension obligation	(21,193)
Other postemployment benefits	(191)
Compensated absences	<u>(59,025)</u>
	(1,036,131)
Pension Related Deferrals	<u>(175,828)</u>
Net position of governmental activities.	<u><u>\$ 6,136,006</u></u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	<u>Major Funds</u>	
	General Fund	Total Governmental Funds
Revenues		
Ad Valorem Taxes	\$ 1,801,207	\$ 1,801,207
Other Taxes and Licenses	886,616	886,616
Unrestricted Intergovernmental	368,889	368,889
Restricted Intergovernmental	6,891,177	6,891,177
Permits and Fees	134,976	134,976
Sales and Services	362,585	362,585
Investment Earnings	16,811	16,811
Miscellaneous	96,979	96,979
Total Revenues	<u>10,559,240</u>	<u>10,559,240</u>
Expenditures		
Current		
Governing Body	58,189	58,189
Administration	396,552	396,552
Police	709,488	709,488
Fire	218,935	218,935
Inspections	34,171	34,171
Public Services	165,122	165,122
Powell Bill	29,593	29,593
Marina	15,054	15,054
Sanitation	284,156	284,156
Beach Management and Tourism	231,822	231,822
Beach/Inlet/Sound Maintenance	10,347,748	10,347,748
Federal Beach Project	15,000	15,000
Debt Service		
Principal	221,335	221,335
Interest and Other charges	27,397	27,397
Capital Outlay		
Police	10,451	10,451
Beach Management and Tourism	170,371	170,371
Total Expenditures	<u>12,935,384</u>	<u>12,935,384</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,376,144)</u>	<u>(2,376,144)</u>
Other Financing Sources (Uses)		
Installment Purchase Obligations Issued	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(2,376,144)	(2,376,144)
Fund Balance - Beginning of Year	<u>4,716,145</u>	<u>4,716,145</u>
Fund Balance - End of Year	<u>\$ 2,340,001</u>	<u>\$ 2,340,001</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds \$ (2,376,144)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	180,822	
Depreciation expense	<u>(147,586)</u>	33,236

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		47,371
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Change in unavailable revenue for tax revenues	3,387	
Interest earned on ad valorem taxes	<u>628</u>	4,015

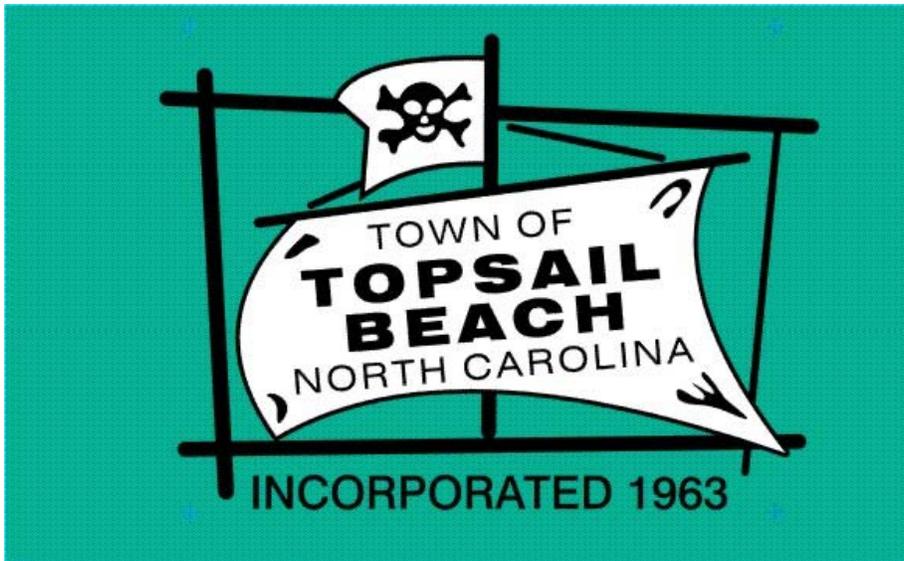
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issuance	-	
Debt retirement	<u>221,335</u>	221,335

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:

Accrued interest payable	2,290	
Compensated absences	7,310	
Pension Expense	(3,202)	
Net pension obligation	2,513	
Other postemployment benefits	<u>3,256</u>	12,167

Total changes in net position of governmental activities		<u><u>\$ (2,058,020)</u></u>
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TOWN OF TOPSAIL BEACH, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad Valorem Taxes	\$ 1,763,879	\$ 1,803,054	1,801,207	\$ (1,847)
Other Taxes and Licenses	638,000	793,474	886,616	93,142
Unrestricted Intergovernmental	250,000	451,170	368,889	(82,281)
Restricted Intergovernmental	6,713,160	6,848,393	6,891,177	42,784
Permits and Fees	-	121,398	134,976	13,578
Sales and Services	263,000	329,000	362,585	33,585
Investment Earnings	-	18,135	16,811	(1,324)
Miscellaneous	563,377	89,608	96,979	7,371
Total Revenues	10,191,416	10,454,232	10,559,240	105,008
Expenditures				
Governing Body	132,447	141,594	58,189	83,405
Administration	391,080	411,705	396,552	15,153
Police	646,950	717,806	719,939	(2,133)
Fire	320,161	376,135	299,868	76,267
Inspections	33,450	53,726	34,171	19,555
Public Services	208,097	214,880	165,122	49,758
Powell Bill Funds	12,800	45,300	29,593	15,707
Marina	190,407	193,920	182,853	11,067
Sanitation	286,000	297,992	284,156	13,836
Beach Management and Tourism	291,122	431,396	402,193	29,203
Beach/Inlet/Sound Maintenance	10,655,276	10,663,411	10,347,748	315,663
Federal Beach Project	16,050	16,050	15,000	1,050
Total Expenditures	13,183,840	13,563,915	12,935,384	628,531
Revenues Over (Under) Expenditures	(2,992,424)	(3,109,683)	(2,376,144)	733,539
Other Financing Sources (Uses)				
Installment Purchase Obligations Issued	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,992,424)	(3,109,683)	(2,376,144)	733,539
Appropriated Fund Balance	2,992,424	3,109,683	-	(3,109,683)
Net Change in Fund Balance	\$ -	\$ -	(2,376,144)	\$ (2,376,144)
Fund Balance - Beginning of Year			4,716,145	
Fund Balance - End of Year			\$ 2,340,001	

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

	<u>Water Fund</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 1,519,793
Accounts Receivable (net)	147,573
Total Current Assets	<u>1,667,366</u>
Noncurrent Assets	
Net Pension Asset	16,687
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	1,303,353
Other Capital Assets, Net of Depreciation	<u>4,744,237</u>
Total Capital Assets	<u>6,047,590</u>
Total Noncurrent Assets	<u>6,064,277</u>
Total Assets	<u><u>7,731,643</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Contributions to Pension Plan	11,263
Total Deferred Outflows of Resources	<u>\$ 11,263</u>

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

	<u>Water Fund</u>
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ 9,142
Interest Payable	4,664
Customer Deposits	70,040
Installment Notes Payable	276,179
Total Current Liabilities	<u>360,025</u>
Noncurrent Liabilities	
Installment Notes Payable	4,087,964
Other Postemployment Benefits	286
Compensated Absences Payable	10,232
Total Noncurrent Liabilities	<u>4,098,482</u>
Total Liabilities	<u>4,458,507</u>
DEFERRED INFLOWS OF RESOURCES	
Pension Deferrals	41,805
Total Deferred Inflows of Resources	<u>41,805</u>
NET POSITION	
Net Investment in Capital Assets	1,683,447
Unrestricted	1,559,147
Total Net Position	<u>\$ 3,242,594</u>



TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2015

	<u>Water Fund</u>
Operating Revenues	
Water Charges	\$ 838,183
Water Taps	12,884
Impact Fees	95,505
Miscellaneous	2,223
Total Operating Revenues	<u>948,795</u>
Operating Expenses	
Water Operations	433,194
Depreciation	161,202
Total Operating Expenses	<u>594,396</u>
Operating Income (Loss)	<u>354,399</u>
Nonoperating Revenues (Expenses)	
Investment Earnings	-
Interest Expense	(29,930)
Total Nonoperating Revenues (Expenses)	<u>(29,930)</u>
Total Income (Loss) Before Transfers	324,469
Transfers from Other Funds	-
Change in Net Position	<u>324,469</u>
Total Net Position - Beginning of Year	2,942,482
Restatement	<u>(24,357)</u>
Total Net Position - Beginning of Year - Restated	<u>2,918,125</u>
Total Net Position - End of Year	<u>\$ 3,242,594</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2015

	Water Fund
Cash Flows from Operating Activities	
Cash Received from Customers and Users	885,509
Cash Paid for Goods and Services	(216,636)
Cash Paid to Employees for Services	(237,037)
Customer Deposits Received	4,970
Customer Deposits Returned	(1,140)
Net Cash Provided(Used) by Operating Activities	<u>435,666</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	-
Net Cash Provided(Used) by Noncapital Financing Activities	<u>-</u>
Cash Flows from Capital Financing Activities	
Acquisition of Capital Assets	-
Installment Loan Proceeds	-
Interest Paid on Installment Purchases	(30,318)
Principal Paid on Installment Purchases	(276,179)
Net Cash Provided(Used) by Capital Financing Activities	<u>(306,497)</u>
Cash Flows from Investing Activities	
Interest on Investments	-
Net Cash Provided(Used) by Investing Activities	<u>-</u>
Net Increase(Decrease) in Cash and Cash Equivalents	129,169
Cash and Cash Equivalents - Beginning of Year	<u>1,390,624</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,519,793</u>

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended June 30, 2015

	<u>Water Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 354,399
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Pension Expense	761
Depreciation	161,202
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(63,286)
(Increase) Decrease in Contributions to Pension Plan	(11,263)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(4,773)
Increase (Decrease) in Customer Deposits	3,830
Increase (Decrease) in Other Postemployment Benefits	(4,928)
Increase (Decrease) in Compensated Absences Payable	(276)
Total Adjustments	<u>81,267</u>
Net Cash Provided(Used) by Operating Activities	<u>\$ 435,666</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. 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. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

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 funds, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and general administration.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Town reports the following major enterprise fund:

Water Fund. This fund is used to account for the Town's water and sewer operations.

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 and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund is charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property Taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed during this period prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Topsail Beach because the tax is levied by Pender County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments 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 and 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.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Deposits and Investments

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The securities of the NCCMT – Cash Portfolio are valued at fair value, which is the NCCMT's share price.

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Powell bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S.136-41.1 through 136-41.1.

Town of Topsail Beach Restricted Cash

Governmental Activities	
General Fund	
Streets	\$ -
Total government activities	<u>-</u>
Total Restricted Cash	<u>\$ -</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2014.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. 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 are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 are not recorded. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	25
Buildings	50
Improvements	25
Vehicles	5
Furniture and Fixtures	10
Equipment	5
Computer Equipment	3
Software	5

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has three items that meet the criterion for this category – prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that of that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited number of days 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 does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not spendable resources.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Net Position/Fund Balances (Continued)

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(s)]

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Topsail Beach’s governing body (high 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, Inlet and Sound Management – portion of fund balance assigned by the Board for coastal management.

Assigned Fund Balance – portion of fund balance that Topsail Beach intends to use for specific purposes.

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

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

The Town of Topsail Beach has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 Topsail Beach's employer contributions are recognized when due and the Town of Topsail Beach has a legal requirement to provide the contributions. Benefit and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Worker's Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

1. Deposits (Continued)

At June 30, 2015, the Town's deposits had a carrying amount of \$2,770,314 and a bank balance of \$2,823,617. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

2. Investments

At June 30, 2015, the Town of Topsail Beach had \$230,615 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 amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2015 are net of the following allowances for doubtful accounts:

Fund	06/30/2015
General Fund:	
Taxes receivable	\$ 2,000
Total	\$ 2,000

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,951,454	\$ -	\$ -	\$ 3,951,454
Construction in Progress	-	150,027	-	150,027
Total capital assets not being depreciated	<u>3,951,454</u>	<u>150,027</u>	<u>-</u>	<u>4,101,481</u>
Capital assets being depreciated:				
Buildings and Improvements	518,039	-	-	518,039
Equipment	338,317	-	-	338,317
Vehicles	1,132,897	30,793	-	1,163,690
Infrastructure	449,139	-	-	449,139
Total capital assets being depreciated	<u>2,438,392</u>	<u>30,793</u>	<u>-</u>	<u>2,469,185</u>
Less accumulated depreciation for:				
Buildings and Improvements	259,453	11,757	-	271,210
Equipment	231,741	19,361	-	251,102
Vehicles	950,467	100,478	-	1,050,945
Infrastructure	110,220	15,990	-	126,210
Total accumulated depreciation	<u>1,551,881</u>	<u>147,586</u>	<u>-</u>	<u>1,699,467</u>
Total capital assets being depreciated, net	<u>866,511</u>			<u>769,718</u>
Governmental activity capital assets, net	<u>\$ 4,837,963</u>			<u>\$ 4,871,199</u>

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

Administration	\$ 3,229
Police	29,210
Fire	85,765
Public Services	5,898
Beach Management and Tourism	17,083
Marina	6,401
Powell Bill	-
Total	<u>\$ 147,586</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water Fund</i>				
Capital assets not being depreciated:				
Land	\$ 1,303,353	\$ -	-	\$ 1,303,353
Construction In Progress	-	-	-	-
Total capital assets not being depreciated	1,303,353	-	-	1,303,353
Capital assets being depreciated:				
Buildings	5,000	-	-	5,000
Equipment	195,104	-	-	195,104
Vehicles	59,289	-	-	59,289
Plant and distribution systems	5,826,567	-	-	5,826,567
Total capital assets being depreciated	6,085,960	-	-	6,085,960
Less accumulated depreciation for:				
Buildings	3,433	250	-	3,683
Equipment	146,358	27,388	-	173,746
Vehicles	59,289	-	-	59,289
Plant and distribution systems	971,441	133,564	-	1,105,005
Total accumulated depreciation	1,180,521	161,202	-	1,341,723
Total capital assets being depreciated, net	4,905,439			4,744,237
Water fund capital assets, net	\$ 6,208,792			\$ 6,047,590

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Topsail Beach is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local 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 serves as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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.

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 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 Topsail Beach's contractually required contribution rate for the year ended June 30, 2015, was 7.15% of compensation for law enforcement officers and 6.76% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Topsail Beach were \$58,634 for the year ended June 30, 2015.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2015 the Town reported an asset of \$86,870 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.0147%, which was a decrease of 0.0009% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$3,964. At June 30, 2015, 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	\$ -	\$ 9,492
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	202,231
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	5,910
Town contributions subsequent to the Measurement date	58,634	-
Total	\$ 58,634	\$ 217,633

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

\$58,634 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2016	\$	(54,418)
2017		(54,418)
2018		(54,418)
2019		(54,379)
2020		-
Thereafter		-
	<u>\$</u>	<u>217,633</u>

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

Inflation	3.0 percent
Salary Increase	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, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)**B. Liabilities (Continued)****1. Pension Plan Obligations (Continued)****a. Local Governmental Employees' Retirement System (Continued)**

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 294,873	\$ (86,870)	\$ (408,285)

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 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 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Active plan members	<u>9</u>
Total	<u><u>10</u></u>

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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 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 annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post employment benefit increases.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$	13,760
Interest on net pension obligation		1,185
Adjustment to annual required contribution		<u>(2,003)</u>
Annual pension cost		12,942
Contributions made		<u>15,455</u>
Increase (decrease) in net pension obligation		(2,513)
Net pension obligation beginning of year		<u>23,706</u>
Net pension obligation end of year	\$	<u><u>21,193</u></u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2013	9,229	167.46	27,422
2014	11,739	131.66	23,706
2015	12,942	119.42	21,193

4. Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$89,457. The covered payroll (annual payroll of active employees covered by the plan) was \$387,284, and the ratio of UAAL to the covered payroll was 23.10 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2015 were \$42,591, which consisted of \$29,521 from the Town and \$13,070 from the law enforcement officers.

All Other Employees

Plan Description. All other employees have the option of contributing to the Supplemental Retirement Plan of North Carolina 401(k). This plan is a defined contribution pension plan and participation is optional.

Funding Policy. The Town matches up to five percent of employees' wages. For the year ended June 30, 2015, total contributions to the plan equaled \$43,458, which consisted of \$23,188 from the Town and \$20,270 from the participating employees.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Topsail Beach, to the Firefighter's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighter's and Rescue Squad Workers' Pension Fund 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 the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributes the entire amount to the Fund. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly.

Refunds of Contributions – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Firefighter's and Rescue Squad Workers' Pension Fund (Continued)

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

At June 30, 2015, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town throughout its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$9,086. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2014 and at June 30, 2013 was 0%.

For the year ended June 30, 2015, the Town recognized pension expense of \$3,416 and revenue of \$3,416 for support provided by the State. At June 30, 2015, the Town reported no deferred outflows of resources and deferred inflows of resources related to pensions.

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

Inflation	3.0 percent
Salary Increase	Not applicable
Investment Rate of Return	7.25 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

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 TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

2. Pension Plan Obligations (Continued)

d. Firefighter's and Rescue Squad Workers' Pension Fund (Continued)

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.

e. Other Post Employment Benefits (OPEB)

1. Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined Healthcare Benefits Plan ("the HCB"). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least 25 years of creditable service with the Town. The Town pays the full cost of coverage for these benefits through private insurers. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	1	1
Active plan members	8	9
Total	<u>9</u>	<u>10</u>

Funding Policy. By Town resolution, the Town pays 90% of the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board of Commissioners. The Town's members pay \$219 per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 2.29% of annual covered payroll. For the current year the Town contributed \$27,450 or 3.38% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's contributions totaled \$27,450 in fiscal year 2015. Contributions made by employees were 10% of the individual's premium and 100% of dependent coverage including spouse. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Board of Commissioners.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Post Employment Benefits (OPEB) (Continued)

1. Healthcare Benefits (Continued)

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General and Water Funds, which are maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the current year, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$	18,660
Interest on net OPEB obligation		157
Adjustment to annual required contribution		450
Annual OPEB cost (expense)		<u>19,267</u>
Contributions made		<u>27,450</u>
Increase (decrease) in net OPEB obligation		(8,183)
Net OPEB obligation, beginning of year		<u>8,660</u>
Net OPEB obligation, end of year	\$	<u><u>477</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 19,267	142.5%	\$ 477
2014	16,922	25.6%	8,660
2013	12,871	172.0%	3,930

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Post Employment Benefits (OPEB) (Continued)

1. Healthcare Benefits (Continued)

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$234,472. The covered payroll (annual payroll of active employees covered by the plan) was \$812,524, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.9 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefit.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Some units who provide death benefits through the LGERS Death Benefit Plan have received a payment reprieve depending on the number of years they have contributed to the system, beginning July 1, 2012.

For the fiscal year ended June 30, 2015, the Town made contributions to the State for death benefits of \$0. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

No. Years Contributing	Years Relief	FY Contributions Resume
less than 10	1	2014
10 - 20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town of Topsail Beach will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end are composed of the following:

	Unavailable Revenue	Unearned Revenue
Contributions to Pension Plan in Current Fiscal Year	\$ 58,634	\$ -
Total	\$ 58,634	\$ -

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

	Unavailable Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ -
Taxes receivable (General Fund)	16,424	-
Pension Deferrals	217,633	-
Total	\$ 234,057	\$ -

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town also is eligible to and has purchased commercial flood insurance for another \$1,500,000 of coverage per structure.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

4. Risk Management (Continued)

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 finance officer and tax collector are each individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2015, the Town did not have any litigation pending.

6. Long-Term Obligations

a. Installment Purchases

In October 2005, the business type activity fund has chosen to finance purchases with installment payments from the State Clean Water Grant Fund. The Town has completed its water project as of June 30, 2013. Interest on the loan is at an annual rate of 2.305%.

In March 2011, the Town entered into a \$378,886 installment agreement for the purchase of a fire truck. The financing contract requires principal payments beginning in fiscal year 2011 with an interest rate of 2.43 percent.

In October 2012, the Town entered into a \$1,150,000 installment agreement for the refinance of the capital lease that was executed in May 2007 for the acquisition of the Bush Marina property. The financing contract requires principal payments beginning in October 2013 with an interest rate of 2.39 percent.

In December 2012, the business type activity fund has chosen to finance purchases with installment payments from the North Carolina Department of Environmental and Natural Resources. The Town has completed its water project as of June 30, 2014. Interest on the loan is at an annual rate of 0.00%.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations (Continued)

a. Installment Purchases (Continued)

Annual debt service payments of the installment purchases as of June 30, 2015, including \$255,510 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 223,230	\$ 22,065	\$ 276,179	\$ 27,986
2017	143,750	17,178	276,179	25,654
2018	143,750	13,743	276,179	23,322
2019	143,750	10,307	276,179	20,990
2020	143,750	6,871	276,179	18,657
2021-2025	143,750	3,436	1,380,895	58,304
2026-2030	-	-	1,077,353	6,997
2031-2035	-	-	525,000	-
Total	\$ 941,980	\$ 73,600	\$ 4,364,143	\$ 181,910

b. Changes in Long-Term Liabilities

	Balance 07/01/14	Increases	Decreases	Balance 06/30/15	Current Portion of Balance
Governmental activities:					
Installment notes	\$ 1,163,315	\$ -	\$ (221,335)	\$ 941,980	\$ 223,230
Compensated absences	66,335	-	(7,310)	59,025	-
Other postemployment benefits	3,447	-	(3,256)	191	-
Net pension obligation	23,706	-	(2,513)	21,193	-
Governmental activity long-term liabilities	<u>\$ 1,256,803</u>	<u>\$ -</u>	<u>\$ (234,414)</u>	<u>\$ 1,022,389</u>	<u>\$ 223,230</u>
Business-type activities:					
Installment purchase	\$ 4,640,321	\$ -	\$ (276,178)	\$ 4,364,143	\$ 276,179
Compensated absences	10,508	-	(276)	10,232	-
Other postemployment benefits	5,213	-	(4,927)	286	-
Business-type activity long-term liabilities	<u>\$ 4,656,042</u>	<u>\$ -</u>	<u>\$ (281,381)</u>	<u>\$ 4,374,661</u>	<u>\$ 276,179</u>

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave as it is earned.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2015, consist of the following:

From the General Fund to the Water Fund	\$	-
Total	\$	-

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

D. Net Investment in Capital Assets

	Governmental		Business-Type
Capital Assets	\$ 4,871,199	\$	6,047,590
less: long-term debt	941,980		4,364,143
add: unexpended debt proceeds			
Net investment in capital asset	<u>\$ 3,929,219</u>	<u>\$</u>	<u>1,683,447</u>

E. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

<i>Total fund balance – General Fund</i>	\$	2,340,001
Less:		
Stabilization by State Statute		1,950,696
Streets		-
Beach/Inlet/Sound Maintenance		-
Appropriated Fund Balance in 2016 budget		-
Remaining Fund Balance	\$	389,305

The Town of Topsail Beach has a minimum fund balance policy for the General fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contract that remain unperformed at year-end.

<i>Encumbrances</i>		General Fund		Non-Major Funds
-	\$	-	\$	-

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2015

III. SUMMARY DISCLOSURE OF 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.

IV. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 27, 2015, the date on which the financial statements were available to be issued. The Town believes there have been no significant subsequent events.

V. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2015, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for the Police Department by \$2,133. Management and the Board will more closely review the budget reports to ensure compliance in future years.

VI. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$102,441 and \$24,357, respectively.



Required Supplementary

Financial Data

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2008	-	62,545	62,545	0.00%	287,047	21.79%
12/31/2009	-	55,503	55,503	0.00%	268,667	20.66%
12/31/2010	-	91,268	91,568	0.00%	260,355	35.06%
12/31/2011	-	89,402	89,402	0.00%	257,191	34.76%
12/31/2012	-	102,386	102,386	0.00%	344,866	29.69%
12/31/2013	-	93,458	93,458	0.00%	344,263	27.15%
12/31/2014	-	89,457	89,457	0.00%	387,284	23.10%

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2008	\$ 7,511	0.00%
2009	7,611	70.29%
2010	8,310	185.98%
2011	6,303	245.20%
2012	8,751	176.61%
2013	9,229	167.46%
2014	11,739	131.66%
2015	12,942	119.42%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	12/31/2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Closed
Remaining Amortization Period	16 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Projected Salary Increases	4.25 - 7.85%
Includes Inflation at	3.00%
Cost of Living Adjustments	N/A

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Other Postemployment Benefits

Required Supplementary Information

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
12/31/2009	\$ -	\$ 131,642	\$ 131,642	0.00%	\$ 752,687	17.5%
12/31/2012	-	251,929	251,929	0.00%	848,762	29.7%
12/31/2013	-	234,472	234,472	0.00%	812,524	28.9%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	December 31, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay Open
Remaining Amortization Period	30 Years
Amortization Factor	26.1695
Asset Valuation Method	30 Years
Actuarial Assumptions:	
Investment Rate of Return	4.00%
Medical Trend Assumptions:	
Pre-Medicare Trend Rate	7.75-5.00%
Year of Ultimate Trend Rate	2019

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Other Postemployment Benefits

Required Supplementary Information

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 11,890	37.3%
2012	11,890	119.4%
2013	12,871	172.0%
2014	16,922	25.6%
2015	19,267	142.5%

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Proportionate Share of Net Pension Liability (Asset)
 Required Supplementary Information
 Last Two Fiscal Years

Local Government Employees' Retirement System

	2015	2014
Topsail Beach's proportion of the net pension liability (asset) (%)	0.01473%	0.01560%
Topsail Beach's proportion of the net pension liability (asset) (\$)	\$ (86,870)	\$ 188,040
Topsail Beach's covered-employee payroll	\$ 822,768	\$ 802,375
Topsail Beach's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(10.56%)	23.44%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Town of Topsail Beach's Contributions

Required Supplementary Information

Last Two Fiscal Years

Local Government Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 58,634	\$ 33,960
Contributions in relation to the contractually required contribution	58,634	33,960
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Topsail Beach's covered employee payroll	\$ 848,594	\$ 822,768
Contributions as a percentage of covered-employee payroll	6.91%	4.13%

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Proportionate Share of Net Pension Liability (Asset)
 Required Supplementary Information
 Last Fiscal Year

Firefighters' and Rescue Squad Workers' Pension

	<u>2015</u>
Topsail Beach's proportionate share of the net pension liability (%)	0.00%
Topsail Beach's proportionate share of the net pension liability (\$)	-
State's proportionate share of the net pension liability associated with the Town of Topsail Beach	<u>9,086</u>
Total	<u>\$ 9,086</u>
Topsail Beach's covered employee payroll	56,458
Topsail Beach's proportionate share of the net pension liability as a percentage of its covered-employee payroll	16.09%
Plan fiduciary net position as a percentage of the total pension liability	93.42%

Major Governmental Funds

General Fund

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2015

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 1,797,668	
Penalties and Interest		3,539	
Total Ad Valorem Taxes	\$ 1,803,054	1,801,207	\$ (1,847)
Other Taxes and Licenses			
Business Registration Fees		1,015	
Accommodations Tax		885,601	
Total Other Taxes and Licenses	793,474	886,616	93,142
Unrestricted Intergovernmental			
Local Option Sales Tax		199,209	
Utility Sales Tax		128,795	
Telecommunications Tax		8,632	
Video Franchise Fee		20,281	
Beer and Wine Tax		11,972	
Total Unrestricted Intergovernmental	451,170	368,889	(82,281)
Restricted Intergovernmental			
Powell Bill Allocation		16,563	
On Behalf Payments - Fire		3,416	
Solid Waste Disposal Tax		186	
Grants		6,871,012	
Total Restricted Intergovernmental	6,848,393	6,891,177	42,784
Permits and Fees			
Building Permits		61,535	
Police Fines		5,225	
Court Fees		446	
CAMA Fees		45	
Beach Access Permits		22,515	
Boat Ramp/Slip Fees		45,210	
Total Permits and Fees	121,398	134,976	13,578
Sales and Services			
Solid Waste		273,354	
Rental Fees		89,231	
Total Sales and Services	329,000	362,585	33,585
Investment Earnings			
General		16,811	
Total Investment Earnings	18,135	16,811	(1,324)

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2015

	Final Budget	Actual	Variance Positive (Negative)
Miscellaneous			
Sale of Assets		4,163	
Donations		24,500	
Other		68,316	
Total Miscellaneous	89,608	96,979	7,371
Total Revenues	10,454,232	10,559,240	105,008
Expenditures			
Governing Body			
Salaries, Wages and Employee Benefits		18,669	
Other Expenditures		39,521	
Total Governing Body	141,594	58,190	83,404
Administration			
Salaries, Wages and Employee Benefits		256,659	
Other Expenditures		139,893	
Total Administration	411,705	396,552	15,153
Police			
Salaries, Wages and Employee Benefits		629,552	
Other Expenditures		79,936	
Capital Outlay		10,451	
Total Police	717,806	719,939	(2,133)
Fire			
Salaries, Wages and Employee Benefits		171,939	
Other Expenditures		46,996	
Debt - Interest		3,348	
Debt - Principal		77,585	
Total Fire	376,135	299,868	76,267
Inspections			
Salaries, Wages and Employee Benefits		17,158	
Other Expenditures		17,013	
Total Planning and Zoning	53,726	34,171	19,555
Public Services			
Salaries, Wages and Employee Benefits		133,478	
Other Expenditures		31,644	
Total Public Services	214,880	165,122	49,758
Powell Bill			
Other Expenditures		29,593	
Total Powell Bill	45,300	29,593	15,707

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2015

	Final Budget	Actual	Variance Positive (Negative)
Marina			
Salaries, Wages and Employee Benefits		7,696	
Other Operating		7,358	
Debt - Interest		24,049	
Debt - Principal		143,750	
Total Marina	<u>193,920</u>	<u>182,853</u>	<u>11,067</u>
Sanitation			
Other Expenditures		284,156	
Total Sanitation	<u>297,992</u>	<u>284,156</u>	<u>13,836</u>
Beach Management and Tourism			
Salaries, Wages and Employee Benefits		30,330	
Other Expenditures		201,491	
Capital Outlay		170,371	
Total Beach Management and Tourism	<u>431,396</u>	<u>402,192</u>	<u>29,204</u>
Beach/Inlet/Sound Maintenance			
Other Expenditures		10,347,748	
Total Beach/Inlet/Sound Maintenance	<u>10,663,411</u>	<u>10,347,748</u>	<u>315,663</u>
Federal Beach Project			
Other Expenditures		15,000	
Total Federal Beach Project	<u>16,050</u>	<u>15,000</u>	<u>1,050</u>
Total Expenditures	<u>13,563,915</u>	<u>12,935,384</u>	<u>628,531</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,109,683)</u>	<u>(2,376,144)</u>	<u>733,539</u>
Other Financing Sources (Uses)			
Installment Purchase Obligations Issued	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance Appropriated	<u>3,109,683</u>	<u>-</u>	<u>(3,109,683)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(2,376,144)</u>	<u>\$ (2,376,144)</u>
Fund Balance - Beginning of Year		<u>4,716,145</u>	
Fund Balance - End of Year		<u>\$ 2,340,001</u>	

Enterprise Funds

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Water Fund

Schedule of Revenues and Expenditures

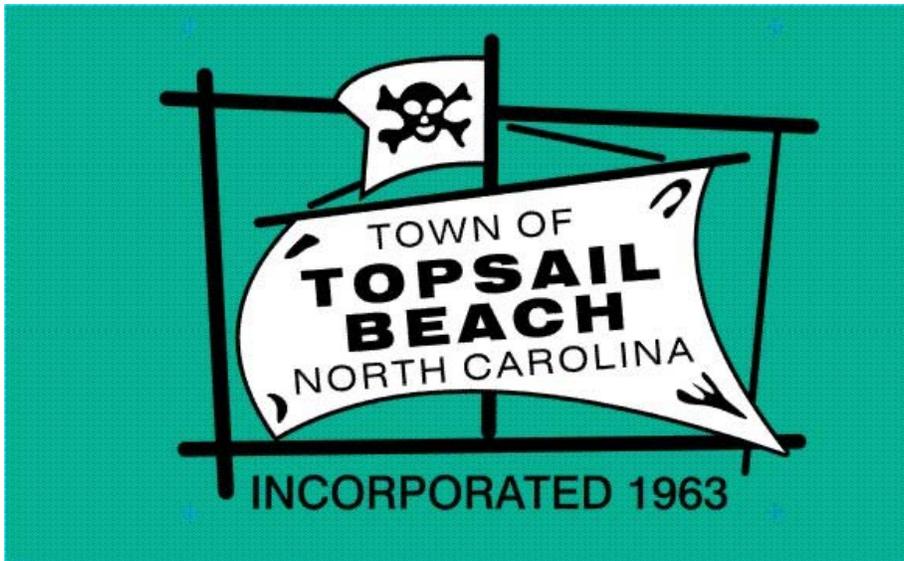
Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Water Charges		838,183	
Water Taps		12,884	
Impact Fees		95,505	
Investment Earnings		-	
Miscellaneous		2,223	
Total Revenues	<u>865,423</u>	<u>948,795</u>	<u>\$ 83,372</u>
Expenditures			
Water and Sewer Operations			
Salaries and Employee Benefits		237,037	
Repairs and Maintenance		65,564	
Other Expenditures		146,298	
Capital Outlay		-	
Debt Service			
Principal Retirement		276,179	
Interest Expense		30,318	
Total Water Operations	<u>867,092</u>	<u>755,396</u>	<u>111,696</u>
Total Expenditures	<u>867,092</u>	<u>755,396</u>	<u>111,696</u>
Revenues Over (Under) Expenditures	<u>(1,669)</u>	<u>193,399</u>	<u>195,068</u>
Other Financing Sources (Uses)			
Installment Loan Proceeds	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Appropriated Fund Balance	<u>1,669</u>	<u>-</u>	<u>(1,669)</u>
Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ 193,399</u>	<u>\$ 193,399</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Water Fund
 Schedule of Revenues and Expenditures (Continued)
 Budget and Actual (Non-GAAP)
 For the Fiscal Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and Other Sources Over			
Expenditures and Other Uses		\$ 193,399	
Reconciling Items:			
Depreciation Expense		(161,202)	
Accrued Interest Payable		388	
Compensated Absences Payable		276	
Other Postemployment Benefits Payable		4,927	
Pension Expense		10,502	
Capital Outlay		-	
Principal Retirement		276,179	
Total Reconciling Items		<u>131,070</u>	
Change in Net Position		<u>\$ 324,469</u>	



Other Schedules

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2015

<u>Fiscal Year</u>	<u>Uncollected Balance 7-1-14</u>	<u>Additions and Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance 6-30-15</u>
2014-15	\$ -	\$ 1,802,055	\$ 1,790,691	\$ 11,364
2013-14	9,769	-	6,557	3,212
2012-13	10,580	-	10,025	555
2011-12	998	-	95	903
2010-11	312	-	14	298
2009-10	235	-	111	124
2008-09	412	-	123	289
2007-08	1,657	-	182	1,475
2006-07	106	-	-	106
2005-06	98	-	-	98
2004-05	53	-	53	-
	<u>\$ 24,220</u>	<u>\$ 1,802,055</u>	<u>\$ 1,807,851</u>	18,424

Less: Allowance for Uncollectible Accounts:

General Fund 2,000

Ad Valorem Taxes Receivable - Net \$ 16,424

Reconciliation with Revenues

Ad Valorem Taxes - General Fund \$ 1,801,207

Reconciling Items:

Interest and Penalties Collected (3,539)

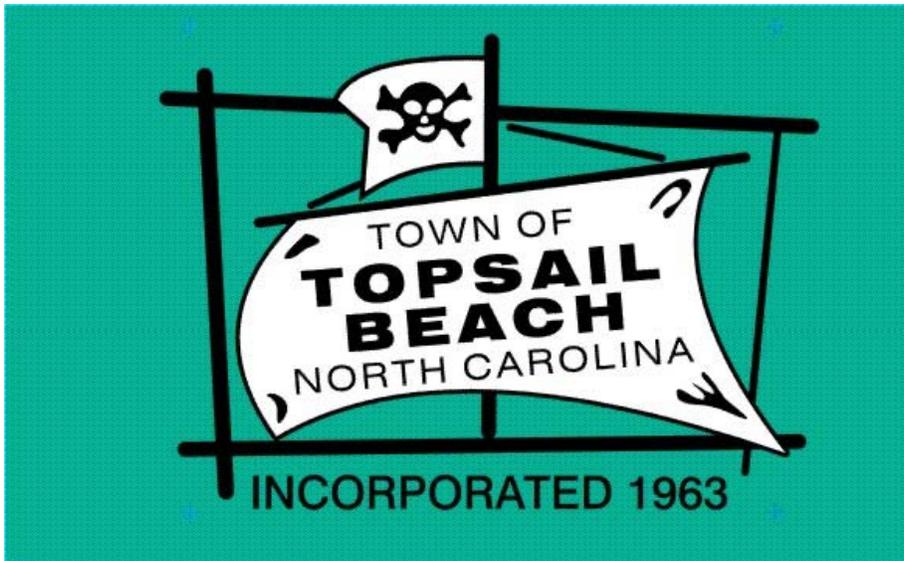
Taxes Released 10,130

Taxes Written Off 53

Total Collections and Credits \$ 1,807,851

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Analysis of Current Tax Levy
 Town-Wide Levy
 June 30, 2015

	Town-Wide		Total Levy		
	Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property Taxed at					
Current Year's Rate	\$ 612,536,782	0.2925	\$ 1,802,055	\$ 1,787,181	\$ 14,874
Penalties	-		-	-	-
	<u>612,536,782</u>		<u>1,802,055</u>	<u>1,787,181</u>	<u>14,874</u>
Discoveries:					
Current Year Taxes	-	0.2925	-	-	-
Penalties	-		-	-	-
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Abatements:					
Property Taxes -					
Current Year's Rate	-	0.2925	\$ -	-	-
	<u>-</u>		<u>\$ -</u>	<u>-</u>	<u>-</u>
Total Property Valuations	<u>\$ 612,536,782</u>				
Net Levy			1,802,055	1,787,181	14,874
Uncollected Taxes at June 30, 2015			11,364	11,364	-
Current Year's Taxes Collected			<u>\$ 1,790,691</u>	<u>\$ 1,775,817</u>	<u>\$ 14,874</u>
Current Levy Collection Percentage			<u>99.37%</u>	<u>99.36%</u>	<u>100.00%</u>



Compliance Section

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises the Town of Topsail Beach's basic financial statements, and have issued our report thereon dated August 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of 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 Topsail Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Topsail Beach's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 15-1.

Town of Topsail Beach's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

W Greene PLLC

Whiteville, North Carolina
August 27, 2015

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance;
In accordance with OMB Circular A-133;
and the State Single Audit Implementation Act**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Topsail Beach, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Topsail Beach's major federal programs for the year ended June 30, 2015. The Town of 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 its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of 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 Topsail Beach's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Topsail Beach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Town of 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 Topsail Beach's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

W Greene PLLC

Whiteville, North Carolina
August 27, 2015

**Report on Compliance for Each Major State Program;
Report on Internal Control Over Compliance;
In accordance with OMB Circular A-133;
and the State Single Audit Implementation Act**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of 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 Topsail Beach's major state programs for the year ended June 30, 2015. The Town of 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 its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of 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 applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 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 Topsail Beach's compliance.

Opinion on Each Major State Program

In our opinion, the Town of 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, 2015.

Report on Internal Control Over Compliance

Management of the Town of 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 Topsail Beach's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

W Greene PLLC

Whiteville, North Carolina
August 27, 2015

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(s) identified that are not considered to be material weaknesses _____ Yes X No

Noncompliance material to financial statements noted X Yes _____ No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(s) 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 the Section 510(a) of Circular A-133 _____ Yes X No

Identification of major federal programs:

<u>CFDA#</u>	<u>Program Name</u>
97.036	Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B Program \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION I. SUMMARY OF AUDITOR'S RESULTS (Continued)
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State Awards

Internal control over major State programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(s) 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 federal programs:

Program Name

Water Resources Development Grant

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding: 15-1

MATERIAL NONCOMPLIANCE

Criteria : G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.

Condition: Town of Topsail Beach expended \$2,133 more for police than appropriated in the annual budget ordinance.

Effect: Moneys were spent that had not been appropriated.

Cause: The Town expended funds at year-end that had not been budgeted for in the budget ordinance and a budget amendment was not adopted.

Recommendation: Budget amendments should be adopted when expenditures exceed the budget ordinance.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2015

SECTION IV. STATE AWARD FINDINGS AND QUESTIONED COSTS
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None Reported.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Corrective Action Plan

For the Fiscal Year Ended June 30, 2015

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding: 15-1

Name of contact person: Michael Moore, Interim Town Manager

Corrective Action: The Board members will review a budget-to-actual report prepared by the finance officer at each monthly board meeting. Budget amendments will be made as necessary.

Proposed Completion Date: The Board will implement the above procedures at their next meeting.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

SECTION IV. STATE AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2015

None Reported.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2015

Grantor Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantors Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Federal Awards:					
<u>U.S. Department of Homeland Security</u>					
<i>Passed thru N.C. Department of Public Safety</i>					
<i>Division of Emergency Management</i>					
Public Assistance Grants	97.036	-	\$ 2,592,211	\$ 393,793	\$ -
Total Federal Awards			2,592,211	393,793	-
State Awards:					
<u>N.C. Department of Transportation</u>					
Non-State System Street-Aid Allocation					
(Powell Bill)					
	-	38086	-	27,981	-
<u>N.C. Department of Cultural Resources</u>					
Park and Recreation Trust Fund	-	2013-770	-	176,676	180,276
<u>N.C. Department of Environment and Natural Resources</u>					
Water Resources Development Project	-	6026	-	3,747,027	3,614,717
Public Beach & Coastal Waterfront Access	-	6029/5864	-	11,669	22,908
<u>N.C. Department of Insurance</u>					
Volunteer Fire Department Fund	-	-	-	10,635	10,635
Total State Awards			-	3,973,988	3,828,536
Total Federal and State Awards			\$ 2,592,211	\$ 4,367,781	\$ 3,828,536

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to Schedule of Expenditures of Federal and State Financial Awards

For the Year Ended June 30, 2015

I. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (SEFSA) includes the federal and state grant activity of the Town of Topsail Beach under the programs of the federal government and the State of North Carolina for the year ended June 30, 2015. The information in this SEFSA is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Because the SEFSA presents only a select portion of the operations of the Town of Topsail Beach, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town of Topsail Beach.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or cost principles contained in Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursements.