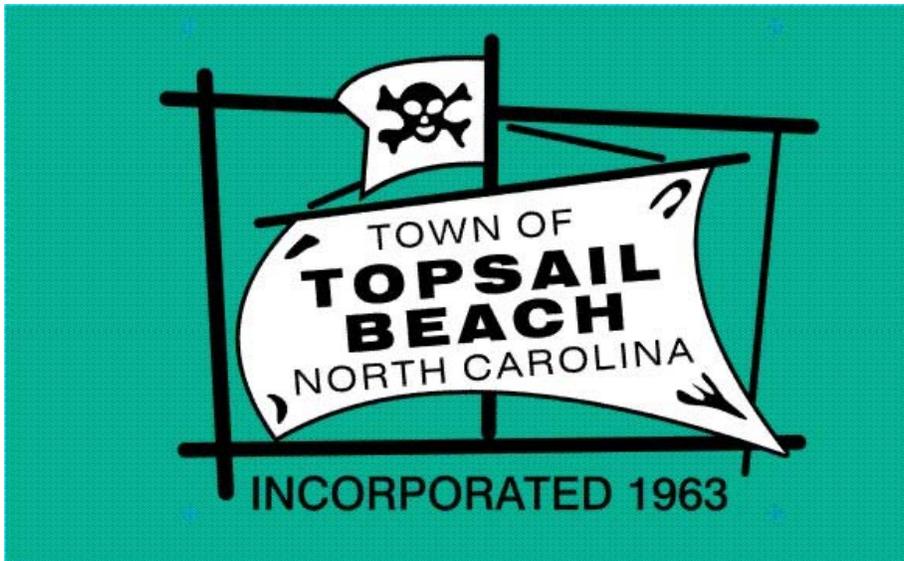


**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Report of Audit

For the Fiscal Year Ended June 30, 2016



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## 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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement.

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

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

## Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2016, 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 Schedule of Employer Contributions and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *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 and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the combining and individual statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016 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

October 18, 2016

## Management's Discussion and Analysis

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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, 2016 . We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

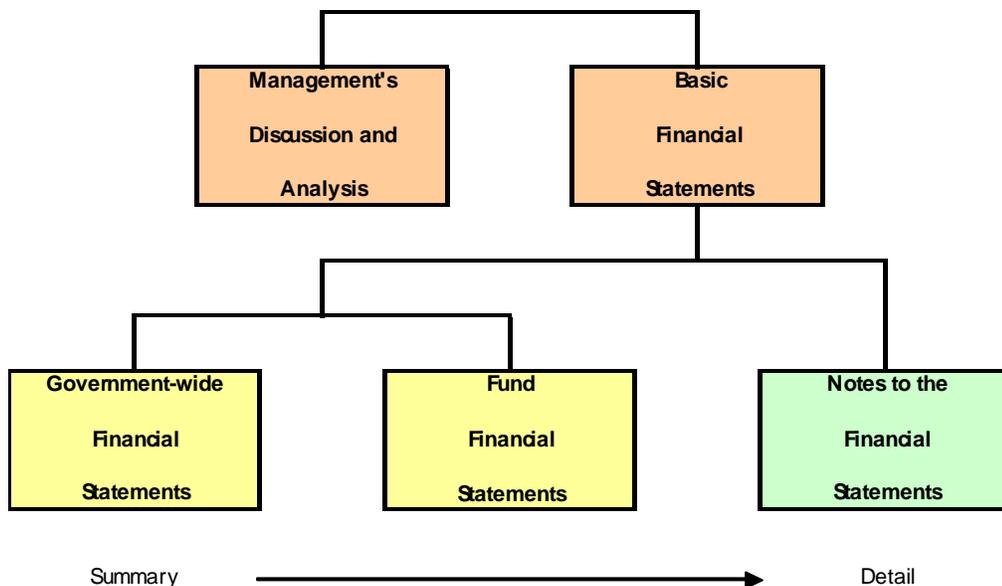
- The assets and deferred outflows of resources of the Town of Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$12,504,312 (net position).
- The government's total net position increased by \$3,125,712 primarily due to a decrease in expenses.
- As of the close of the current fiscal year, the Town of Topsail Beach's governmental funds reported combined ending fund balances of \$4,695,199, with an increase of \$2,355,198 in comparison with the prior year.
- At the end of the current fiscal year, fund balance available for the General Fund was \$2,522,615, or 77 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 20 through 23) 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 24 through 35) 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, public safety, 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 20 through 23 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of 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 36 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 Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,722,712	\$ 3,521,226	\$ 1,774,589	\$ 1,684,053	\$ 6,497,301	\$ 5,205,279
Capital assets	5,131,365	4,871,199	5,944,486	6,047,590	11,075,851	10,918,789
Deferred outflows of resources	46,809	47,371	10,224	11,263	57,033	58,634
Total assets and deferred outflows of resources	9,900,886	8,439,796	7,729,299	7,742,906	17,630,185	16,182,702
Long-term liabilities outstanding	719,226	799,159	3,838,139	4,098,482	4,557,365	4,897,641
Other liabilities	164,804	1,328,803	363,977	360,025	528,781	1,688,828
Deferred inflows of resources	32,605	175,828	7,122	41,805	39,727	217,633
Total liabilities and deferred inflows of resources	916,635	2,303,790	4,209,238	4,500,312	5,125,873	6,804,102
Net position:						
Net investment in capital assets	4,412,615	3,929,219	1,856,521	1,683,447	6,269,136	5,612,666
Restricted	221,780	1,950,696	-	-	221,780	1,950,696
Unrestricted	4,349,856	256,091	1,663,540	1,559,147	6,013,396	1,815,238
Total net position	\$ 8,984,251	\$ 6,136,006	\$ 3,520,061	\$ 3,242,594	\$ 12,504,312	\$ 9,378,600

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 \$12,504,312 as of June 30, 2016. The Town's net position increased by \$3,125,712 for the fiscal year ended June 30, 2016. However, the largest portion (50%) 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 \$221,780 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$6,013,396 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.46%
- Unrestricted intergovernmental revenues increased by \$209,969 over fiscal year 2015.

## Management's Discussion and Analysis (Continued)

### The Town of Topsail Beach's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 421,589	\$ 409,345	\$ 924,861	\$ 946,572	\$ 1,346,450	\$ 1,355,917
Operating grants and contributions	948,674	6,891,178	-	-	948,674	6,891,178
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	1,838,204	1,805,222	-	-	1,838,204	1,805,222
Other taxes	1,466,870	1,254,490	-	-	1,466,870	1,254,490
Other	506,911	203,021	16,104	2,223	523,015	205,244
<b>Total revenues</b>	<b>5,182,248</b>	<b>10,563,256</b>	<b>940,965</b>	<b>948,795</b>	<b>6,123,213</b>	<b>11,512,051</b>
<b>Expenses:</b>						
Governing Body	68,389	58,190	-	-	68,389	58,190
Administration	384,976	374,431	-	-	384,976	374,431
Police	675,157	709,055	-	-	675,157	709,055
Fire	321,718	301,691	-	-	321,718	301,691
Inspections	25,527	42,763	-	-	25,527	42,763
Public Services	171,705	164,804	-	-	171,705	164,804
Powell Bill	10,609	29,593	-	-	10,609	29,593
Sanitation	268,404	284,156	-	-	268,404	284,156
Beach Management Tourism	262,949	247,285	-	-	262,949	247,285
Marina	21,801	21,455	-	-	21,801	21,455
Federal Beach Project	-	15,000	-	-	-	15,000
Beach/Inlet/Sound Maintenance	131,373	10,347,748	-	-	131,373	10,347,748
Interest on Long-term Debt	22,066	25,107	-	-	22,066	25,107
Water	-	-	632,827	624,326	632,827	624,326
<b>Total expenses</b>	<b>2,364,674</b>	<b>12,621,278</b>	<b>632,827</b>	<b>624,326</b>	<b>2,997,501</b>	<b>13,245,604</b>
Increase(Decrease) in net position before transfers	2,817,574	(2,058,022)	308,138	324,469	3,125,712	(1,733,553)
Transfers	30,671	-	(30,671)	-	-	-
Change in net position	2,848,245	(2,058,022)	277,467	324,469	3,125,712	(1,733,553)
Net position, July 1	6,136,006	8,194,028	3,242,594	2,918,125	9,378,600	11,112,153
Net position, June 30	\$ 8,984,251	\$ 6,136,006	\$ 3,520,061	\$ 3,242,594	\$ 12,504,312	\$ 9,378,600

**Governmental activities.** Governmental activities increased the Town's net position by \$2,848,245 primarily due to decreases in expenses.

**Business-type activities:** Business-type activities increased the Town of Topsail Beach's net position by \$277,467.

### 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.

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 \$2,522,615 while total fund balance reached \$2,737,034. The Town currently has an available fund balance of 77% of general fund expenditures, while total fund balance represents 84% 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 intergovernmental revenues as well as sales and service income. Total expenditures were less than budgeted.

**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 \$1,663,540. The total change in net position for the proprietary fund was an increase of \$277,467.

## 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, 2016, totals \$11,075,851 (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 Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 3,951,454	\$ 3,951,454	\$ 1,303,353	\$ 1,303,353	\$ 5,254,807	\$ 5,254,807
Construction in Progress	185,882	150,027	-	-	185,882	150,027
Buildings	485,071	246,829	1,067	1,317	486,138	248,146
Infrastructure	349,325	322,929	-	-	349,325	322,929
Vehicles	63,555	112,745	-	-	63,555	112,745
Plant and Distribution	-	-	4,587,997	4,721,562	4,587,997	4,721,562
Equipment	96,078	87,215	52,069	21,358	148,147	108,573
<b>Total</b>	<b>\$ 5,131,365</b>	<b>\$ 4,871,199</b>	<b>\$ 5,944,486</b>	<b>\$ 6,047,590</b>	<b>\$ 11,075,851</b>	<b>\$ 10,918,789</b>

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

**Long-term Debt.** As of June 30, 2016, Town of Topsail Beach had total long-term debt outstanding of \$4,806,715. 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 Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
	Installment purchases	\$ 718,750	\$ 941,980	\$ 4,087,965	\$ 4,364,143	\$ 4,806,715
Capital Leases	-	-	-	-	-	-
<b>Total</b>	<b>\$ 718,750</b>	<b>\$ 941,980</b>	<b>\$ 4,087,965</b>	<b>\$ 4,364,143</b>	<b>\$ 4,806,715</b>	<b>\$ 5,306,123</b>

The Town of Topsail Beach's total debt decreased by \$499,408 during the fiscal year.

## Management's Discussion and Analysis (Continued)

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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 \$50,215,845. The Town of Topsail Beach does not have any authorized but un-issued debt at June 30, 2016.

Additional information regarding Town of Topsail Beach's long-term debt can be found beginning on page 60 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, 2017

The recommended General Operating Budget for FY 2017 is a balanced budget totaling \$5,224,406 for the General Fund, Restricted Funds and the Utility Enterprise Funds. This compares to \$7,838,922 in FY 2015 – 2016, a decrease of approximately \$2.61 million. The General Fund, which comprises the core services provided by the Town, accounts for \$2,749,790 of the total budget, while Powell Bill transportation-related improvements (\$17,000), and the Beach, Inlet, and Sound (BIS) Capital Fund (\$1,576,700) account for the remainder of the General Fund budget. The Utility Enterprise Fund is budgeted at \$880,916. Under this proposal, the budget addresses current departmental needs and anticipates future needs as the Town continues to provide key services to meet the needs of our residents and property owners.

In order to meet the needs of the community and provide the high level of service that citizens have come to expect, this budget proposes a two cent increase to the tax rate, increasing it from \$0.2925 per \$100 valuation to \$0.3125 per \$100 valuation. The General Fund tax rate would increase from \$0.1725 per \$100 valuation to \$0.1925 per \$100 valuation, while the BIS Fund would remain at \$0.12 per \$100 valuation. The combined tax rate for Topsail Beach of \$0.3125 is still in line with similar coastal communities in the area, and in many cases considerably lower.

In preparing this budget staff considered many factors that impact Topsail Beach today. Although relatively small in geographic size and population, Topsail Beach provides services to a large number of people, particularly during the vacation season. As part of the greater Wilmington region, Topsail Beach is host to many weekly renters and day trippers that come to experience our large, clean beaches and easy-going lifestyle. Providing these services takes a lot of effort by the Town, and its huge success in our Beach Nourishment Programs and erosion control efforts has made Topsail Beach a premier location. This is evidenced by the recognition we received from the American Shore & Beach Preservation Association (ASBPA) as one of the Top 5 Best Restored Beaches for 2016 in the nation! This was accomplished by hard work, smart planning, and cooperative efforts by our elected officials, citizens, and staff, along with the help of the State. The Town must remain diligent in these efforts to maintain our pristine beaches, as well as continuing to provide our core services at a high level. This year's recommended General Operating Budget is a balanced budget totaling \$5,224,406 for the General Fund, Restricted Funds and the Utility Enterprise Funds. This compares to \$7,838,922 in FY 2015 – 2016, a decrease of approximately \$2.61 million. The General Fund, which comprises the core services provided by the Town, accounts for \$2,749,790 of the total budget, while Powell Bill transportation-related improvements (\$17,000), and the Beach, Inlet, and Sound (BIS) Capital Fund (\$1,576,700) account for the remainder of the General Fund budget. The Utility Enterprise Fund is budgeted at \$880,916. Under this proposal, the budget addresses current departmental needs and anticipates future needs as the Town continues to provide key services to meet the needs of our residents and property owners.

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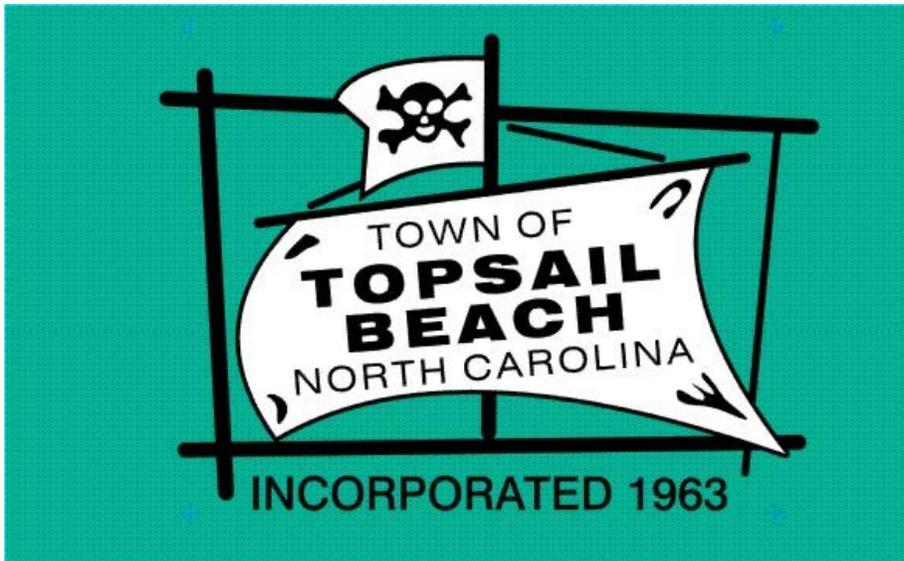
valuation. The combined tax rate for Topsail Beach of \$0.3125 is still in line with similar coastal communities in the area, and in many cases considerably lower.

In preparing this budget staff considered many factors that impact Topsail Beach today. Although relatively small in geographic size and population, Topsail Beach provides services to a large number of people, particularly during the vacation season. As part of the greater Wilmington region, Topsail Beach is host to many weekly renters and day trippers that come to experience our large, clean beaches and easy-going lifestyle. Providing these services takes a lot of effort by the Town, and its huge success in our Beach Nourishment Programs and erosion control efforts has made Topsail Beach a premier location. This is evidenced by the recognition we received from the American Shore & Beach Preservation Association (ASBPA) as one of the Top 5 Best Restored Beaches for 2016 in the nation! This was accomplished by hard work, smart planning, and cooperative efforts by our elected officials, citizens, and staff, along with the help of the State. The Town must remain diligent in these efforts to maintain our pristine beaches, as well as continuing to provide our core services at a high level.

### **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*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Net Position

June 30, 2016

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 4,378,014	\$ 1,588,267	\$ 5,966,281
Receivables (net):			
Ad Valorem Taxes	17,511	-	17,511
Accommodations Taxes	123,114	-	123,114
Interest	2,690	-	2,690
Accounts	25,783	186,322	212,105
Other	-	-	-
Due from Other Governments	167,039	-	167,039
Prepaid Items	600	-	600
Restricted Cash and Cash Equivalents	7,961	-	7,961
Net Pension Asset	-	-	-
Total Current Assets	4,722,712	1,774,589	6,497,301
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	4,137,336	1,303,353	5,440,689
Other Capital Assets, Net of Depreciation	994,029	4,641,133	5,635,162
Total Noncurrent Assets	5,131,365	5,944,486	11,075,851
<b>Total Assets</b>	<b>9,854,077</b>	<b>7,719,075</b>	<b>17,573,152</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to Pension Plan in Current Fiscal Year	46,809	10,224	57,033
<b>Total Deferred Outflows of Resources</b>	<b>\$ 46,809</b>	<b>\$ 10,224</b>	<b>\$ 57,033</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Net Position (Continued)  
June 30, 2016

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable and			
Accrued Liabilities	\$ 7,312	\$ 7,876	\$ 15,188
Interest Payable	13,742	5,052	18,794
Customer Deposits	-	74,870	74,870
Current Portion of Long-Term Liabilities	143,750	276,179	419,929
<b>Total Current Liabilities</b>	<b>164,804</b>	<b>363,977</b>	<b>528,781</b>
Long-Term Liabilities:			
Due in More Than One year	719,226	3,838,139	4,557,365
<b>Total Liabilities</b>	<b>884,030</b>	<b>4,202,116</b>	<b>5,086,146</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid Taxes	-	-	-
Pension Deferrals	32,605	7,122	39,727
<b>Total Deferred Inflows of Resources</b>	<b>32,605</b>	<b>7,122</b>	<b>39,727</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	4,412,615	1,856,521	6,269,136
Restricted for:			
Transportation	7,961	-	7,961
Stabilization by State Statute	213,819	-	213,819
Unrestricted	4,349,856	1,663,540	6,013,396
<b>Total Net Position</b>	<b>\$ 8,984,251</b>	<b>\$ 3,520,061</b>	<b>\$ 12,504,312</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Activities

June 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
Governing Body	\$ 68,389	\$ -	\$ -	\$ -
Administration	384,976	-	893,273	-
Police	675,157	6,373	-	-
Fire	321,718	-	38,682	-
Inspections	25,527	52,381	-	-
Public Services	171,705	-	-	-
Powell Bill	10,609	-	16,532	-
Sanitation	268,404	297,551	187	-
Beach Management and Tourism	262,949	22,545	-	-
Marina	21,801	42,739	-	-
Federal Beach Project	-	-	-	-
Beach/Inlet/Sound Maintenance	131,373	-	-	-
Interest on long-term debt	22,066	-	-	-
<b>Total Governmental Activities</b>	<b>2,364,674</b>	<b>421,589</b>	<b>948,674</b>	<b>-</b>
<b>Total Primary Government</b>	<b>2,364,674</b>	<b>421,589</b>	<b>948,674</b>	<b>-</b>
<b>Business-Type Activities:</b>				
Water	632,827	924,861	-	-
<b>Total Business-Type Activities</b>	<b>\$ 632,827</b>	<b>\$ 924,861</b>	<b>\$ -</b>	<b>\$ -</b>

**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**

**Net Position - End of Year**

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Activities (Continued)

June 30, 2016

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**Net (Expense) Revenue and Changes in Net Position**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (68,389)	\$ -	\$ (68,389)
508,297	-	508,297
(668,784)	-	(668,784)
(283,036)	-	(283,036)
26,854	-	26,854
(171,705)	-	(171,705)
5,923	-	5,923
29,334	-	29,334
(240,404)	-	(240,404)
20,938	-	20,938
-	-	-
(131,373)	-	(131,373)
(22,066)	-	(22,066)
(994,411)	-	(994,411)
(994,411)	-	(994,411)
-	292,034	292,034
-	292,034	292,034
1,838,204	-	1,838,204
1,466,870	-	1,466,870
2,391	9,495	11,886
504,520	6,609	511,129
30,671	(30,671)	-
3,842,656	(14,567)	3,828,089
2,848,245	277,467	3,125,712
6,136,006	3,242,594	9,378,600
\$ 8,984,251	\$ 3,520,061	\$ 12,504,312

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet

Governmental Funds

June 30, 2016

	<u>Major Funds</u>		
	General Fund	Beach, Inlet, and Sound Capital Project Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,521,766	\$ 1,856,248	\$ 4,378,014
Restricted Cash	7,961	-	7,961
Receivables (net):			-
Ad Valorem Taxes	10,327	7,184	17,511
Accommodations Tax	21,593	101,521	123,114
Accounts	25,783	-	25,783
Other	-	-	-
Prepaid Items	600	-	600
Due from Other Governments	166,443	596	167,039
<b>Total Assets</b>	<u>\$ 2,754,473</u>	<u>\$ 1,965,549</u>	<u>\$ 4,720,022</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 7,112	\$ 200	\$ 7,312
<b>Total Liabilities</b>	<u>7,112</u>	<u>200</u>	<u>7,312</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Receivable	10,327	7,184	17,511
<b>Total Deferred Inflows of Resources</b>	<u>10,327</u>	<u>7,184</u>	<u>17,511</u>
<b>FUND BALANCES</b>			
Non Spendable			
Prepaid Items	600	-	600
Restricted			
Stabilization by State Statute	213,819	-	213,819
Streets	7,961	-	7,961
Committed			
Beach/Inlet/Sound Maintenance	-	1,958,165	1,958,165
Future Capital Expenditures	242,096	-	242,096
Assigned			
Subsequent Year's Expenditures:	-	-	-
Unassigned	2,272,558	-	2,272,558
<b>Total Fund Balances</b>	<u>2,737,034</u>	<u>1,958,165</u>	<u>4,695,199</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 2,754,473</u>		

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet (Continued)

Governmental Funds

June 30, 2016

		<b>Total Governmental Funds</b>
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Total Governmental Fund Balance		\$ 4,695,199
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Gross capital assets at historical costs	\$ 6,957,286	
Accumulated depreciation	<u>(1,825,921)</u>	5,131,365
<p>Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position</p>		
		46,809
<p>Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred</p>		
Accrued interest - taxes	<u>2,690</u>	2,690
<p>Liabilities for earned revenues considered deferred inflows of resources in fund statements.</p>		
Ad valorem taxes	17,511	
Other taxes	<u>-</u>	17,511
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
Accrued interest payable	(13,742)	
Installment purchases	(718,750)	
Net pension obligation	(19,427)	
Other postemployment benefits	(2,351)	
Net Pension Liability	(55,067)	
Compensated absences	<u>(67,381)</u>	(876,718)
Pension Related Deferrals		<u>(32,605)</u>
<b>Net position of governmental activities.</b>		<u><u>\$ 8,984,251</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, 2016

	<b>Major Funds</b>		
	<b>General Fund</b>	<b>Beach, Inlet, and Sound Capital Project Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Ad Valorem Taxes	\$ 1,083,405	\$ 753,809	\$ 1,837,214
Other Taxes and Licenses	129,052	758,960	888,012
Unrestricted Intergovernmental	578,858	-	578,858
Restricted Intergovernmental	946,174	2,500	948,674
Permits and Fees	124,038	-	124,038
Sales and Services	368,049	-	368,049
Investment Earnings	1,465	926	2,391
Miscellaneous	184,022	-	184,022
<b>Total Revenues</b>	<b>3,415,063</b>	<b>1,516,195</b>	<b>4,931,258</b>
<b>Expenditures</b>			
Current			
Governing Body	68,389	-	68,389
Administration	379,618	-	379,618
Police	668,574	-	668,574
Fire	248,088	-	248,088
Inspections	24,207	-	24,207
Public Services	168,939	-	168,939
Powell Bill	8,572	-	8,572
Marina	15,400	-	15,400
Sanitation	268,190	-	268,190
Beach Management and Tourism	243,465	-	243,465
Beach/Inlet/Sound Maintenance	-	131,373	131,373
Federal Beach Project	-	-	-
Debt Service			
Principal	223,230	-	223,230
Interest and Other charges	22,066	-	22,066
Capital Outlay			
Police	15,533	-	15,533
Public Service	5,661	-	5,661
Sanitation	21,395	-	21,395
Beach Management and Tourism	94,031	-	94,031
<b>Total Expenditures</b>	<b>2,475,358</b>	<b>131,373</b>	<b>2,606,731</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>939,705</b>	<b>1,384,822</b>	<b>2,324,527</b>
<b>Other Financing Sources (Uses)</b>			
Transfers from Other Funds	256,334	573,343	829,677
Transfers to Other Funds	(799,006)	-	(799,006)
Installment Purchase Obligations Issued	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(542,672)</b>	<b>573,343</b>	<b>30,671</b>
<b>Net Change in Fund Balance</b>	<b>397,033</b>	<b>1,958,165</b>	<b>2,355,198</b>
<b>Fund Balance - Beginning of Year</b>	<b>2,340,001</b>	<b>-</b>	<b>2,340,001</b>
<b>Fund Balance - End of Year</b>	<b>\$ 2,737,034</b>	<b>\$ 1,958,165</b>	<b>\$ 4,695,199</b>

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

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

Net changes in fund balances - total governmental funds \$ 2,355,198

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	136,620	
Contributed Assets	250,000	
Depreciation expense	<u>(126,454)</u>	260,166

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities

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	1,087	
Interest earned on ad valorem taxes	<u>(97)</u>	990

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>223,230</u>	223,230

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	-	
Compensated absences	(8,356)	
Pension Expense	17,411	
Net pension obligation	1,766	
Other postemployment benefits	<u>(2,160)</u>	8,661

Total changes in net position of governmental activities \$ 2,848,245

**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, 2016**

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
<b>Revenues</b>				
Ad Valorem Taxes	\$ 1,782,087	\$ 1,083,475	1,083,405	\$ (70)
Other Taxes and Licenses	680,000	124,000	129,052	5,052
Unrestricted Intergovernmental	260,000	457,852	578,858	121,006
Restricted Intergovernmental	-	109,783	946,174	836,391
Permits and Fees	-	111,586	124,038	12,452
Sales and Services	285,748	356,948	368,049	11,101
Investment Earnings	-	1,500	1,465	(35)
Miscellaneous	644,159	506,361	184,022	(322,339)
<b>Total Revenues</b>	<b>3,651,994</b>	<b>2,751,505</b>	<b>3,415,063</b>	<b>663,558</b>
<b>Expenditures</b>				
Governing Body	73,520	245,521	68,389	177,132
Administration	397,938	397,938	379,618	18,320
Police	688,917	692,123	684,107	8,016
Fire	339,563	339,621	329,020	10,601
Inspections	50,950	47,745	24,207	23,538
Public Services	180,437	183,642	174,600	9,042
Powell Bill Funds	18,300	18,300	8,572	9,728
Marina	187,624	187,624	179,764	7,860
Sanitation	300,500	310,501	289,585	20,916
Beach Management and Tourism	256,543	330,647	337,496	(6,849)
Beach/Inlet/Sound Maintenance	1,156,652	963,562	-	963,562
Federal Beach Project	1,050	6,050	-	6,050
<b>Total Expenditures</b>	<b>3,651,994</b>	<b>3,723,274</b>	<b>2,475,358</b>	<b>1,247,916</b>
<b>Revenues Over (Under) Expenditures</b>	<b>-</b>	<b>(971,769)</b>	<b>939,705</b>	<b>1,911,474</b>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds		968,562	14,238	(954,324)
Transfers To Other Funds		(211,425)	(799,006)	(587,581)
Installment Purchase Obligations Issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>757,137</b>	<b>(784,768)</b>	<b>(1,541,905)</b>
<b>Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>-</b>	<b>(214,632)</b>	<b>154,937</b>	<b>369,569</b>
<b>Appropriated Fund Balance</b>		<b>214,632</b>	<b>-</b>	<b>(214,632)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>154,937</b>	<b>\$ 154,937</b>
<b>Fund Balance - Beginning of Year</b>			<b>2,340,001</b>	
<b>Fund Balance - End of Year</b>			<b>\$ 2,494,938</b>	

**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, 2016**

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<b>Fund Balance - End of Year</b>	<u>\$ 2,494,938</u>
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A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:

	211,425
Transfer from the General Fund	30,671
Transfer from the Water Fund	
Fund Balance - Beginning	-
	<u>242,096</u>

<b>Fund Balance - End of Year (Consolidated)</b>	<u><u>\$ 2,737,034</u></u>
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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Fund Net Position  
Proprietary Fund  
June 30, 2016

	<u>Water Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 1,588,267
Accounts Receivable (net)	<u>186,322</u>
<b>Total Current Assets</b>	<u>1,774,589</u>
<b>Noncurrent Assets</b>	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	1,303,353
Other Capital Assets, Net of Depreciation	<u>4,641,133</u>
Total Capital Assets	<u>5,944,486</u>
<b>Total Noncurrent Assets</b>	<u>5,944,486</u>
<b>Total Assets</b>	<u><u>7,719,075</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions to Pension Plan	<u>10,224</u>
<b>Total Deferred Outflows of Resources</b>	<u><u>\$ 10,224</u></u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Fund Net Position  
Proprietary Fund  
June 30, 2016

	<u>Water Fund</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable and Accrued Liabilities	\$ 7,876
Interest Payable	5,052
Customer Deposits	74,870
Installment Notes Payable	276,179
<b>Total Current Liabilities</b>	<u>363,977</u>
<b>Noncurrent Liabilities</b>	
Installment Notes Payable	3,811,786
Other Postemployment Benefits	2,445
Net Pension Liability	12,028
Compensated Absences Payable	11,880
<b>Total Noncurrent Liabilities</b>	<u>3,838,139</u>
<b>Total Liabilities</b>	<u><u>4,202,116</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension Deferrals	7,122
<b>Total Deferred Inflows of Resources</b>	<u>7,122</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	1,856,521
Unrestricted	1,663,540
<b>Total Net Position</b>	<u><u>\$ 3,520,061</u></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, 2016

	<b>Water Fund</b>
<b>Operating Revenues</b>	
Water Charges	\$ 847,301
Water Taps	12,800
Impact Fees	64,760
Miscellaneous	6,609
<b>Total Operating Revenues</b>	<u>931,470</u>
<b>Operating Expenses</b>	
Water Operations	448,041
Depreciation	156,411
<b>Total Operating Expenses</b>	<u>604,452</u>
<b>Operating Income (Loss)</b>	<u>327,018</u>
<b>Nonoperating Revenues (Expenses)</b>	
Investment Earnings	9,495
Interest Expense	(28,375)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(18,880)</u>
<b>Total Income (Loss) Before Transfers</b>	308,138
Transfers to Other Funds	<u>(30,671)</u>
<b>Change in Net Position</b>	<u>277,467</u>
<b>Total Net Position - Beginning of Year</b>	<u>3,242,594</u>
<b>Total Net Position - End of Year</b>	<u>\$ 3,520,061</u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2016

	<b>Water Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers and Users	\$ 892,721
Cash Paid for Goods and Services	(193,764)
Cash Paid to Employees for Services	(256,665)
Customer Deposits Received	5,980
Customer Deposits Returned	(1,150)
<b>Net Cash Provided(Used) by Operating Activities</b>	<u>447,122</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers out	(30,671)
<b>Net Cash Provided(Used) by Noncapital Financing Activities</b>	<u>(30,671)</u>
<b>Cash Flows from Capital Financing Activities</b>	
Acquisition of Capital Assets	(53,307)
Installment Loan Proceeds	-
Interest Paid on Installment Purchases	(27,987)
Principal Paid on Installment Purchases	(276,178)
<b>Net Cash Provided(Used) by Capital Financing Activities</b>	<u>(357,472)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	9,495
<b>Net Cash Provided(Used) by Investing Activities</b>	<u>9,495</u>
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	68,474
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>1,519,793</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 1,588,267</u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Cash Flows (Continued)  
Proprietary Fund  
For the Year Ended June 30, 2016

	<u>Water Fund</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	<u>\$ 327,018</u>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Depreciation	156,411
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(38,749)
(Increase) Decrease in Net Pension Asset	16,687
(Increase) Decrease in Contributions to Pension Plan	1,039
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(1,266)
Increase (Decrease) in Customer Deposits	4,830
Increase (Decrease) in Net Pension Liability	12,028
Increase (Decrease) in Pension Deferrals - Deferred Inflows of Resources	(34,683)
Increase (Decrease) in Other Postemployment Benefits	2,159
Increase (Decrease) in Compensated Absences Payable	<u>1,648</u>
Total Adjustments	<u>120,104</u>
<b>Net Cash Provided(Used) by Operating Activities</b>	<u><u>\$ 447,122</u></u>

## TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements  
For the Year Ended June 30, 2016

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### 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 non-major 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, 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, 2016

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### 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 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. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 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, 2016

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### 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 in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of 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. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

#### D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and 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.

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

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

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

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 136-41.4.

**Town of Topsail Beach Restricted Cash**

Governmental Activities	
General Fund	
Streets	\$ 7,961
Total governmental activities	<u>7,961</u>
 Total Restricted Cash	 <u>\$ 7,961</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<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2015.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

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**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. Prepaid Items**

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

**7. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**8. Deferred Outflows/Inflows of Resources**

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

**9. 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.

**10. 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.

**11. 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.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**11. Net Position/Fund Balances (Continued)**

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.

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

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

Restricted for 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 (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Beach, Inlet and Sound Management – portion of fund balance assigned by the Board for coastal management.

Committed for Future Capital Expenditures – portion of fund balance assigned by the Board for future capital outlay items.

**Assigned Fund Balance** – portion of fund balance that Town of 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.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**11. Net Position/Fund Balances (Continued)**

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.

**12. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (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.

**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 the Town's name. 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, 2016

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**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. Assets (Continued)**

**1. Deposits (Continued)**

At June 30, 2016, the Town's deposits had a carrying amount of \$5,561,237 and a bank balance of \$5,598,548. 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, 2016, the Town of Topsail Beach had \$413,005 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, 2016 are net of the following allowances for doubtful accounts:

Fund	06/30/2016
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, 2016

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. Assets (Continued)**

**4. Capital Assets**

**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 3,951,454	\$ -	\$ -	\$ 3,951,454
Construction in Progress	150,027	35,855	-	185,882
Total capital assets not being depreciated	<u>4,101,481</u>	<u>35,855</u>	<u>-</u>	<u>4,137,336</u>
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	518,039	250,000	-	768,039
Equipment	338,317	27,056	-	365,373
Vehicles	1,163,690	30,533	-	1,194,223
Infrastructure	449,139	43,176	-	492,315
Total capital assets being depreciated	<u>2,469,185</u>	<u>350,765</u>	<u>-</u>	<u>2,819,950</u>
<b>Less accumulated depreciation for:</b>				
Buildings and Improvements	271,210	11,758	-	282,968
Equipment	251,102	18,193	-	269,295
Vehicles	1,050,945	79,723	-	1,130,668
Infrastructure	126,210	16,780	-	142,990
Total accumulated depreciation	<u>1,699,467</u>	<u>126,454</u>	<u>-</u>	<u>1,825,921</u>
Total capital assets being depreciated, net	<u>769,718</u>			<u>994,029</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 4,871,199</u>			<u>\$ 5,131,365</u>

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

Administration	\$ 3,230
Police	18,760
Fire	71,821
Public Services	4,333
Sanitation	214
Beach Management and Tourism	19,658
Marina	6,401
Powell Bill	2,037
Total	<u>\$ 126,454</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2016

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Water Fund</i>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,303,353	\$ -	\$ -	\$ 1,303,353
Construction In Progress	-	-	-	-
Total capital assets not being depreciated	1,303,353	-	-	1,303,353
<b>Capital assets being depreciated:</b>				
Buildings	5,000	-	-	5,000
Equipment	195,104	23,583	-	218,687
Vehicles	59,289	29,724	-	89,013
Plant and distribution systems	5,826,567	-	-	5,826,567
Total capital assets being depreciated	6,085,960	53,307	-	6,139,267
<b>Less accumulated depreciation for:</b>				
Buildings	3,683	250	-	3,933
Equipment	173,746	21,110	-	194,856
Vehicles	59,289	1,486	-	60,775
Plant and distribution systems	1,105,005	133,565	-	1,238,570
Total accumulated depreciation	1,341,723	156,411	-	1,498,134
Total capital assets being depreciated, net	4,744,237			4,641,133
<b>Water fund capital assets, net</b>	<b>\$ 6,047,590</b>			<b>\$ 5,944,486</b>

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 governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who 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](http://www.osc.nc.gov).

## TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

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### 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, 2016, 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 \$57,033 for the year ended June 30, 2016.

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, 2016 the Town reported a liability of \$67,095 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.01495%, which was an increase of 0.00022% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$22,340. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 15,771
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	19,101
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	4,855
Town contributions subsequent to the measurement date	57,033	-
Total	\$ 57,033	\$ 39,727

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

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**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**a. Local Governmental Employees' Retirement System (Continued)**

\$57,033 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30:</b>		
2017	\$	(23,850)
2018		(23,850)
2019		(23,811)
2020		31,784
2021		-
Thereafter		-
	<u>\$</u>	<u>(39,727)</u>

**Actuarial Assumptions.** The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary 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, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

**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, 2015 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	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	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 3.00%. All rates of return and inflation are annualized.

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 liability (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)	\$ 467,863	\$ 67,095	\$ (270,543)

**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.

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, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Active plan members	8
Total	<u>9</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 G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The 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 postretirement benefit increases.

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	\$	14,491
Interest on net pension obligation		1,060
Adjustment to annual required contribution		(1,862)
Annual pension cost		<u>13,689</u>
Contributions made		<u>15,455</u>
Increase (decrease) in net pension obligation		(1,766)
Net pension obligation beginning of year		<u>21,193</u>
Net pension obligation end of year	\$	<u><u>19,427</u></u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2014	11,739	131.66%	23,706
2015	12,942	119.42%	21,193
2016	13,689	112.90%	19,427

4. Funded Status and Funding Progress

As of December 31, 2015, 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 \$71,211. The covered payroll (annual payroll of active employees covered by the plan) was \$373,557, and the ratio of UAAL to the covered payroll was 19.06 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, 2016

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**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, 2016 were \$39,923, which consisted of \$25,118 from the Town and \$14,805 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, 2016, total contributions to the plan equaled \$44,055, which consisted of \$23,006 from the Town and \$21,049 from the participating employees.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. 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, 2015, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	1	1
Active plan members	10	7
Total	11	8

*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 2.38% of annual covered payroll. For the current year the Town contributed \$14,902 or 1.85% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town’s contributions totaled \$14,902 in fiscal year 2016. 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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. 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	\$	19,220
Interest on net OPEB obligation		19
Adjustment to annual required contribution		(18)
Annual OPEB cost (expense)		19,221
Contributions made		14,902
Increase (decrease) in net OPEB obligation		4,319
Net OPEB obligation, beginning of year		477
Net OPEB obligation, end of year	\$	4,796

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 19,221	77.5%	\$ 4,796
2015	19,267	142.5%	477
2014	16,922	25.6%	8,660

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

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II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

1. Healthcare Benefits (Continued)

**Funded Status and Funding Progress.** As of December 31, 2015, 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 \$180,548. The covered payroll (annual payroll of active employees covered by the plan) was \$807,123, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 22.4 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.

**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.

**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	\$ 57,033	\$ -
Total	\$ 57,033	\$ -

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

	Unavailable Revenue	Unearned Revenue
Prepaid taxes	\$ -	\$ -
Taxes receivable	17,511	-
Pension Deferrals	39,727	-
Total	\$ 57,238	\$ -

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. Liabilities (Continued)**

**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.

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, 2016, the Town did not have any litigation pending.

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. Liabilities (Continued)**

**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. \$1,416,500 Installment agreement with interest 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. \$3,500,000 installment agreement with interest at an annual rate of 0.00%.

Annual debt service payments of the installment purchases as of June 30, 2016, including \$205,458 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
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	143,750	3,436	276,179	16,325
2022-2026	-	-	1,380,895	46,643
2027-2031	-	-	976,175	2,332
2032-2036	-	-	350,000	-
<b>Total</b>	<b>\$ 718,750</b>	<b>\$ 51,535</b>	<b>\$ 4,087,965</b>	<b>\$ 153,923</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2016

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. Liabilities (Continued)**

**6. Long-Term Obligations (Continued)**

**b. Changes in Long-Term Liabilities**

	Balance			Balance	Current
	07/01/15	Increases	Decreases	06/30/16	Portion
					of Balance
Governmental activities:					
Installment notes	\$ 941,980	\$ -	\$ (223,230)	\$ 718,750	\$ 143,750
Compensated absences	59,025	8,356	-	67,381	-
Other postemployment benefits	191	9,611	(7,451)	2,351	-
Net pension liability (LGERS)	-	55,067	-	55,067	-
Net pension obligation (LEO)	<u>21,193</u>	<u>-</u>	<u>(1,766)</u>	<u>19,427</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 1,022,389</u>	<u>\$ 73,034</u>	<u>\$ (232,447)</u>	<u>\$ 862,976</u>	<u>\$ 143,750</u>
Business-type activities:					
Installment purchase	\$ 4,364,143	\$ -	\$ (276,178)	\$ 4,087,965	\$ 276,179
Compensated absences	10,232	1,648	-	11,880	-
Other postemployment benefits	286	9,610	(7,451)	2,445	-
Net pension liability (LGERS)	<u>-</u>	<u>12,028</u>	<u>-</u>	<u>12,028</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 4,374,661</u>	<u>\$ 23,286</u>	<u>\$ (283,629)</u>	<u>\$ 4,114,318</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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2016, consist of the following:

From the General Fund to the Capital Reserve Fund	\$ 211,425
From the General Fund to the Beach Inlet Sound Capital Project Fund	587,581
From the Beach Inlet Sound Capital Project Fund to the General Fund	14,238
From the Water Fund to the Capital Reserve Fund	30,671
Total	<u>\$ 843,915</u>

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	\$ 5,131,365	\$ 5,944,486
less: long-term debt	718,750	4,087,965
add: unexpended debt proceeds		
Net investment in capital asset	<u>\$ 4,412,615</u>	<u>\$ 1,856,521</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>	\$ 2,737,034
Less:	
Prepays	600
Stabilization by State Statute	213,819
Streets	7,961
Beach/Inlet/Sound Maintenance	-
Future Capital Expenditures	242,096
Appropriated Fund Balance in 2017 budget	-
Remaining Fund Balance	<u>\$ 2,272,558</u>

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, 2016

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**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.

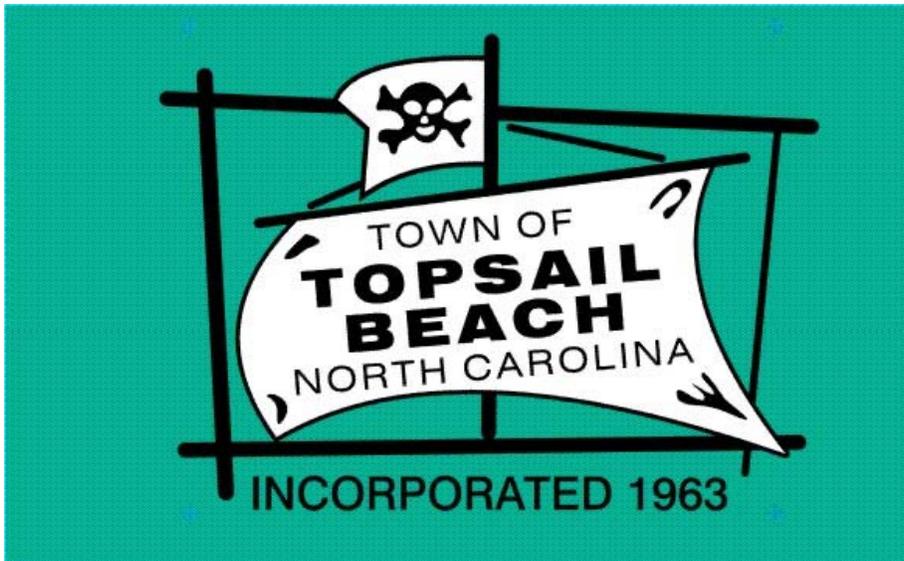
**IV. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 18, 2016, 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, 2016, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for the Beach Management and Tourism Department by \$6,849. Management and the Board will more closely review the budget reports to ensure compliance in future years.



*Required Supplementary*

*Financial Data*

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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
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	91,268	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%
12/31/2015	-	71,211	71,211	0.00%	373,557	19.06%

Notes to the Required Schedules:

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

Valuation Date	12/31/2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Remaining Amortization Period	15 Years
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	3.57%
Projected Salary Increases	3.5% - 7.35%
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%
12/31/2015	-	180,548	180,548	0.00%	807,123	22.4%

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, 2015
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	Market Value of Assets
Actuarial Assumptions:	
Investment Rate of Return*	4.00%
Medical Trend Assumptions:	
Pre-Medicare Trend Rate	7.75-5.00%
Year of Ultimate Trend Rate	2022
*Includes inflation at	3.00%

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Other Postemployment Benefits  
Required Supplementary Information  
Schedule of Employer Contributions

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<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%
2016	19,221	77.5%

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

**Local Government Employees' Retirement System**

	2016	2015	2014
Topsail Beach's proportion of the net pension liability (asset) (%)	0.01495%	0.01473%	0.01560%
Topsail Beach's proportion of the net pension liability (asset) (\$)	\$ 67,095	\$ (86,870)	\$ 188,040
Topsail Beach's covered-employee payroll	\$ 848,594	\$ 822,768	\$ 802,375
Topsail Beach's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.91%	(10.56%)	23.44%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

\*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\*This will be the same percentage for all participant employers in the LGERS plan.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Town of Topsail Beach's Contributions

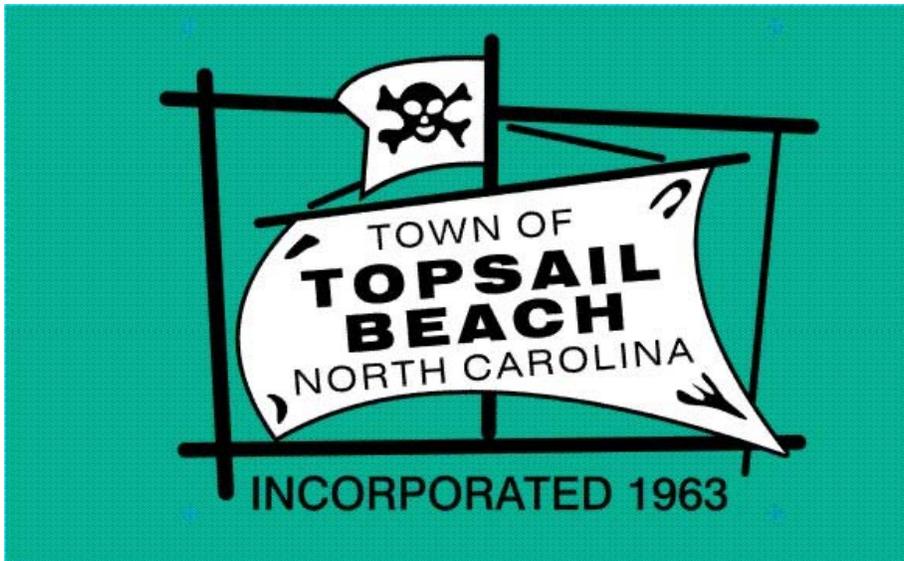
Required Supplementary Information

Last Three Fiscal Years

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**Local Government Employees' Retirement System**

	2016	2015	2014
Contractually required contribution	\$ 57,033	\$ 58,634	\$ 33,960
Contributions in relation to the contractually required contribution	57,033	58,634	33,960
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Topsail Beach's covered employee payroll	\$ 823,179	\$ 848,594	\$ 822,768
Contributions as a percentage of covered-employee payroll	6.93%	6.91%	4.13%



*Major Governmental Funds*

*General Fund*

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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 Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
<b>Ad Valorem Taxes</b>			
Taxes		\$ 1,082,030	
Penalties and Interest		1,375	
<b>Total Ad Valorem Taxes</b>	<b>\$ 1,083,475</b>	<b>1,083,405</b>	<b>\$ (70)</b>
<b>Other Taxes and Licenses</b>			
Business Registration Fees		-	
Accommodations Tax		129,052	
<b>Total Other Taxes and Licenses</b>	<b>124,000</b>	<b>129,052</b>	<b>5,052</b>
<b>Unrestricted Intergovernmental</b>			
Local Option Sales Tax		369,361	
Utility Sales Tax		167,847	
Telecommunications Tax		6,913	
Video Franchise Fee		19,351	
Beer and Wine Tax		15,386	
<b>Total Unrestricted Intergovernmental</b>	<b>457,852</b>	<b>578,858</b>	<b>121,006</b>
<b>Restricted Intergovernmental</b>			
Powell Bill Allocation		16,532	
Solid Waste Disposal Tax		187	
Grants		929,455	
<b>Total Restricted Intergovernmental</b>	<b>109,783</b>	<b>946,174</b>	<b>836,391</b>
<b>Permits and Fees</b>			
Building Permits		52,381	
Police Fines		5,788	
Court Fees		585	
CAMA Fees		100	
Beach Access Permits		22,445	
Boat Ramp/Slip Fees		42,739	
<b>Total Permits and Fees</b>	<b>111,586</b>	<b>124,038</b>	<b>12,452</b>
<b>Sales and Services</b>			
Solid Waste		297,551	
Rental Fees		70,498	
<b>Total Sales and Services</b>	<b>356,948</b>	<b>368,049</b>	<b>11,101</b>
<b>Investment Earnings</b>			
General		1,465	
<b>Total Investment Earnings</b>	<b>1,500</b>	<b>1,465</b>	<b>(35)</b>

**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, 2016

	Final Budget	Actual	Variance Positive (Negative)
<b>Miscellaneous</b>			
Sale of Assets		172,000	
Donations		1,416	
Other		10,606	
<b>Total Miscellaneous</b>	506,361	184,022	(322,339)
<b>Total Revenues</b>	2,751,505	3,415,063	663,558
<b>Expenditures</b>			
<b>Governing Body</b>			
Salaries, Wages and Employee Benefits		19,337	
Other Expenditures		49,052	
<b>Total Governing Body</b>	245,521	68,389	177,132
<b>Administration</b>			
Salaries, Wages and Employee Benefits		252,645	
Other Expenditures		126,973	
<b>Total Administration</b>	397,938	379,618	18,320
<b>Police</b>			
Salaries, Wages and Employee Benefits		591,504	
Other Expenditures		77,070	
Capital Outlay		15,533	
<b>Total Police</b>	692,123	684,107	8,016
<b>Fire</b>			
Salaries, Wages and Employee Benefits		214,965	
Other Expenditures		33,123	
Debt - Interest		1,452	
Debt - Principal		79,480	
<b>Total Fire</b>	339,621	329,020	10,601
<b>Inspections</b>			
Salaries, Wages and Employee Benefits		12,016	
Other Expenditures		12,191	
<b>Total Planning and Zoning</b>	47,745	24,207	23,538
<b>Public Services</b>			
Salaries, Wages and Employee Benefits		140,697	
Other Expenditures		28,242	
Capital Outlay		5,661	
<b>Total Public Services</b>	183,642	174,600	9,042
<b>Powell Bill</b>			
Other Expenditures		8,572	
<b>Total Powell Bill</b>	18,300	8,572	9,728

**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, 2016

	Final Budget	Actual	Variance Positive (Negative)
<b>Marina</b>			
Salaries, Wages and Employee Benefits		9,693	
Other Operating		5,707	
Debt - Interest		20,614	
Debt - Principal		143,750	
<b>Total Marina</b>	187,624	179,764	7,860
<b>Sanitation</b>			
Other Expenditures		268,190	
Capital Outlay		21,395	
<b>Total Sanitation</b>	310,501	289,585	20,916
<b>Beach Management and Tourism</b>			
Salaries, Wages and Employee Benefits		17,603	
Other Expenditures		225,862	
Capital Outlay		94,031	
<b>Total Beach Management and Tourism</b>	330,647	337,496	(6,849)
<b>Beach/Inlet/Sound Maintenance</b>			
Other Expenditures		-	
<b>Total Beach/Inlet/Sound Maintenance</b>	963,562	-	963,562
<b>Federal Beach Project</b>			
Other Expenditures		-	
<b>Total Federal Beach Project</b>	6,050	-	6,050
<b>Total Expenditures</b>	3,723,274	2,475,358	1,247,916
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(971,769)	939,705	1,911,474
<b>Other Financing Sources (Uses)</b>			
Transfers In:			
Beach, Inlet, and Sound Capital Project Fund	968,562	14,238	(954,324)
Transfers Out:			
Capital Reserve Fund	(211,425)	(211,425)	-
Beach, Inlet, and Sound Capital Project Fund	-	(587,581)	(587,581)
Installment Purchase Obligations Issued	-	-	-
<b>Total Other Financing Sources (Uses)</b>	757,137	(784,768)	(1,541,905)
<b>Fund Balance Appropriated</b>	214,632	-	(214,632)
<b>Net Change in Fund Balance</b>	\$ -	154,937	\$ 154,937
<b>Fund Balance - Beginning of Year</b>		2,340,001	
<b>Fund Balance - End of Year</b>		\$ 2,494,938	

*Special Revenue Funds*  
*Consolidated With General Fund*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Nonmajor Special Revenue Fund - Capital Reserve Fund  
For the Fiscal Year Ended June 30, 2016

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>			
<b>Miscellaneous</b>			
Other	\$ -	\$ -	\$ -
<b>Other Financing Sources</b>			
Transfers in:			
General Fund		211,425	
Water Fund		30,671	
<b>Total Other Financing Sources</b>	<u>242,096</u>	<u>242,096</u>	<u>-</u>
<b>Appropriated Fund Balance</b>	<u>(242,096)</u>	<u>-</u>	<u>242,096</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>242,096</u>	<u>\$ 242,096</u>
<b>Fund Balance - Beginning of Year</b>		<u>-</u>	
<b>Fund Balance - End of Year</b>		<u>\$ 242,096</u>	

*Major Governmental Funds*

*Capital Project Funds*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Major Capital Project Fund - Beach, Inlet, and Sound Capital Project Fund  
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
<b>Ad Valorem Taxes</b>			
Taxes		\$ 752,852	
Penalties and Interest		957	
<b>Total Ad Valorem Taxes</b>	<b>\$ 731,112</b>	<b>753,809</b>	<b>\$ 22,697</b>
<b>Other Taxes and Licenses</b>			
Accommodations Tax		758,960	
<b>Total Other Taxes and Licenses</b>	<b>711,000</b>	<b>758,960</b>	<b>47,960</b>
<b>Restricted Intergovernmental</b>			
Grants		2,500	
<b>Total Restricted Intergovernmental</b>	<b>963,562</b>	<b>2,500</b>	<b>(961,062)</b>
<b>Investment Earnings</b>			
General		926	
<b>Total Investment Earnings</b>	<b>-</b>	<b>926</b>	<b>926</b>
<b>Total Revenues</b>	<b>2,405,674</b>	<b>1,516,195</b>	<b>(889,479)</b>
<b>Expenditures</b>			
<b>Beach/Inlet/Sound Maintenance</b>			
Other Operating Expenditures		131,373	
<b>Total Administration</b>	<b>156,200</b>	<b>131,373</b>	<b>24,827</b>
<b>Total Expenditures</b>	<b>156,200</b>	<b>131,373</b>	<b>24,827</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,249,474</b>	<b>1,384,822</b>	<b>(864,652)</b>
<b>Other Financing Sources</b>			
Transfers in:			
General Fund	580,413	573,343	(7,070)
Transfers out:			
General Fund	(968,562)	-	968,562
<b>Total Other Financing Sources</b>	<b>(388,149)</b>	<b>573,343</b>	<b>961,492</b>
<b>Appropriated Fund Balance</b>	<b>(1,861,325)</b>	<b>-</b>	<b>1,861,325</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>1,958,165</b>	<b>\$ 1,958,165</b>
<b>Fund Balance - Beginning of Year</b>		<b>-</b>	
<b>Fund Balance - End of Year</b>		<b>\$ 1,958,165</b>	

*Enterprise Funds*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Water Fund

Schedule of Revenues and Expenditures

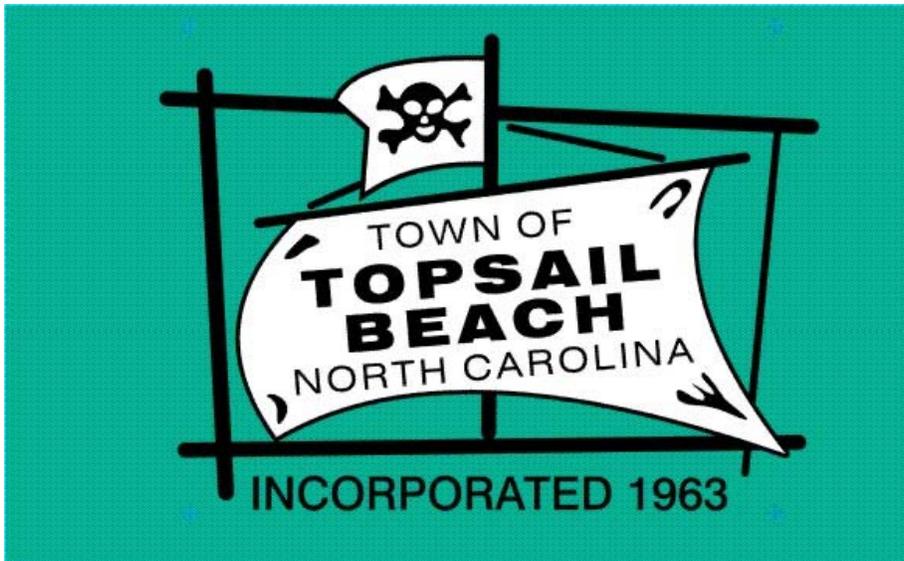
Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water Charges		\$ 847,301	
Water Taps		12,800	
Impact Fees		64,760	
Investment Earnings		9,495	
Miscellaneous		6,609	
<b>Total Revenues</b>	<b>\$ 862,465</b>	<b>940,965</b>	<b>\$ 78,500</b>
<b>Expenditures</b>			
<b>Water and Sewer Operations</b>			
Salaries and Employee Benefits		220,138	
Repairs and Maintenance		94,917	
Other Expenditures		134,108	
Capital Outlay		53,307	
Debt Service			
Principal Retirement		276,178	
Interest Expense		27,987	
<b>Total Water Operations</b>	<b>872,465</b>	<b>806,635</b>	<b>65,830</b>
<b>Total Expenditures</b>	<b>872,465</b>	<b>806,635</b>	<b>65,830</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(10,000)</b>	<b>134,330</b>	<b>144,330</b>
<b>Other Financing Sources (Uses)</b>			
Transfers out:			
Capital Reserve Fund	(40,671)	(30,671)	10,000
<b>Total Other Financing Sources (Uses)</b>	<b>(40,671)</b>	<b>(30,671)</b>	<b>10,000</b>
<b>Appropriated Fund Balance</b>	<b>50,671</b>	<b>-</b>	<b>(50,671)</b>
<b>Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>\$ -</b>	<b>\$ 103,659</b>	<b>\$ 103,659</b>

**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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>			
Revenues and Other Sources Over Expenditures and Other Uses		\$ 103,659	
Reconciling Items:			
Depreciation Expense		(156,411)	
Net Pension Asset		(16,687)	
Deferred Outflows of Resources - Pensions		(1,039)	
Net Pension Liability		(12,028)	
Deferred Inflows of Resources - Pensions		34,683	
Accrued Interest Payable		(388)	
Compensated Absences Payable		(1,648)	
Other Postemployment Benefits Payable		(2,159)	
Capital Outlay		53,307	
Principal Retirement		276,178	
Total Reconciling Items		<u>173,808</u>	
<b>Change in Net Position</b>		<u>\$ 277,467</u>	



*Other Schedules*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund and Beach, Inlet, and Sound Capital Project Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2016

Fiscal Year	Uncollected Balance 7-1-15	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-16
2015-16	\$ -	\$ 1,836,170	\$ 1,826,295	\$ 9,875
2014-15	11,364	-	6,992	4,372
2013-14	3,212	-	82	3,130
2012-13	555	-	54	501
2011-12	903	-	51	852
2010-11	298	-	39	259
2009-10	124	-	-	124
2008-09	289	-	152	137
2007-08	1,475	-	1,320	155
2006-07	106	-	-	106
2005-06	98	-	98	-
	<u>\$ 18,424</u>	<u>\$ 1,836,170</u>	<u>\$ 1,835,083</u>	19,511

Less: Allowance for Uncollectible Accounts:

General Fund and Beach, Inlet, and Sound Capital Project Fund 2,000

Ad Valorem Taxes Receivable - Net \$ 17,511

Reconciliation with Revenues

Ad Valorem Taxes - General Fund \$ 1,083,405

Ad Valorem Taxes - Beach, Inlet, and Sound Capital Project Fund 753,809

Reconciling Items:

Interest and Penalties Collected (2,332)

Taxes Released 103

Taxes Written Off 98

Total Collections and Credits \$ 1,835,083

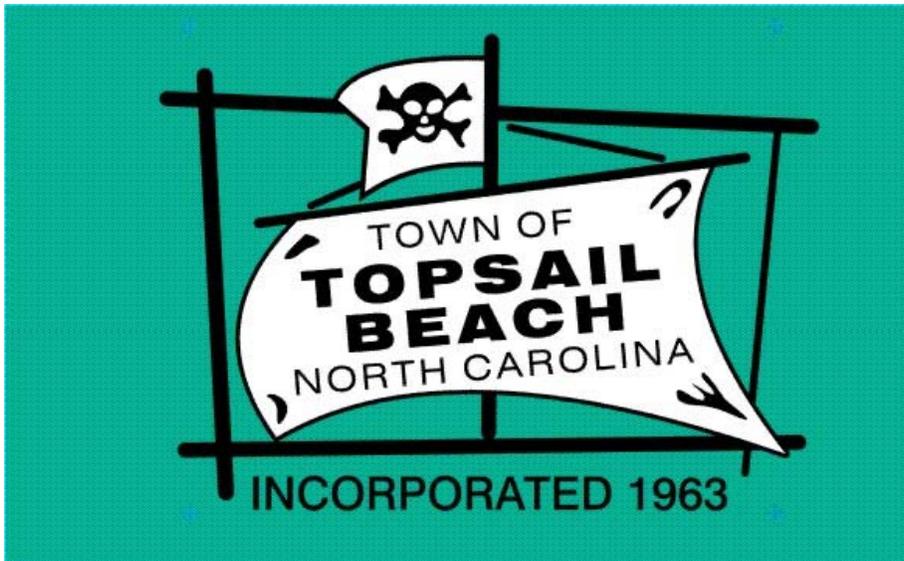
**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2016

	Town-Wide		Total Levy		
	Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property Taxed at					
Current Year's Rate	\$ 627,698,061	0.2925	\$ 1,836,170	\$ 1,818,215	\$ 17,955
Penalties	-		-	-	-
	<u>627,698,061</u>		<u>1,836,170</u>	<u>1,818,215</u>	<u>17,955</u>
<b>Discoveries:</b>					
Current Year Taxes	-	0.2925	-	-	-
Penalties	-		-	-	-
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Abatements:</b>					
Property Taxes -					
Current Year's Rate	-	0.2925	\$ -	-	-
	<u>-</u>		<u>\$ -</u>	<u>-</u>	<u>-</u>
<b>Total Property Valuations</b>	<u>\$ 627,698,061</u>				
<b>Net Levy</b>			1,836,170	1,818,215	17,955
<b>Uncollected Taxes at June 30, 2016</b>			9,875	9,875	-
<b>Current Year's Taxes Collected</b>			<u>\$ 1,826,295</u>	<u>\$ 1,808,340</u>	<u>\$ 17,955</u>
<b>Current Levy Collection Percentage</b>			<u>99.46%</u>	<u>99.46%</u>	<u>100.00%</u>



*Compliance Section*

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

**Independent Auditor's Report**

To the Honorable Mayor and  
Members of the 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, 2016, 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 October 18, 2016.

**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 responses as item 16-1.

### **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 responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***W Greene PLLC***

Whiteville, North Carolina  
October 18, 2016

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Responses

For the Fiscal Year Ended June 30, 2016

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<b>SECTION I. SUMMARY OF AUDITOR'S RESULTS</b>
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**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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Responses

For the Fiscal Year Ended June 30, 2016

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<b>SECTION II. FINANCIAL STATEMENT FINDINGS</b>
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*Finding: 16-1*

**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 \$6,849 more for Beach Management and Tourism 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**

Corrective Action Plan

For the Fiscal Year Ended June 30, 2016

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<b>SECTION II. FINANCIAL STATEMENT FINDINGS</b>
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*Finding: 16-1*

Name of contact person: Michael Rose, 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.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2016

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<b>SECTION II. FINANCIAL STATEMENT FINDINGS</b>
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Finding: 15-1 Budget Violation

Status: This finding is repeated as 16-1

