

TOWN OF PINE KNOLL SHORES NORTH CAROLINA



AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

TOWN OF PINE KNOLL SHORES NORTH CAROLINA



TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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MARTIN STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

To the Honorable Mayor and
Board of Commissioners
Town of Pine Knoll Shores, 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 Pine Knoll Shores, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, 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 Pine Knoll Shores, North Carolina, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows 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 Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and the Total Pension Liability as a Percentage of Covered Payroll, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, 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 Town of Pine Knoll Shores, North Carolina's, basic financial statements. The budget and actual schedules, supplemental ad valorem tax schedules, and other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget and actual schedules, supplemental ad valorem tax schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget and actual schedules, supplemental ad valorem tax schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019 on our consideration of the Town of Pine Knoll Shores, North Carolina's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of the Town of Pine Knoll Shores' 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 the Town of Pine Knoll Shores' internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 27, 2019

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Management's Discussion and Analysis

As management of the Town of Pine Knoll Shores (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended June 30, 2019, with comparisons to the prior year, where appropriate. 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.

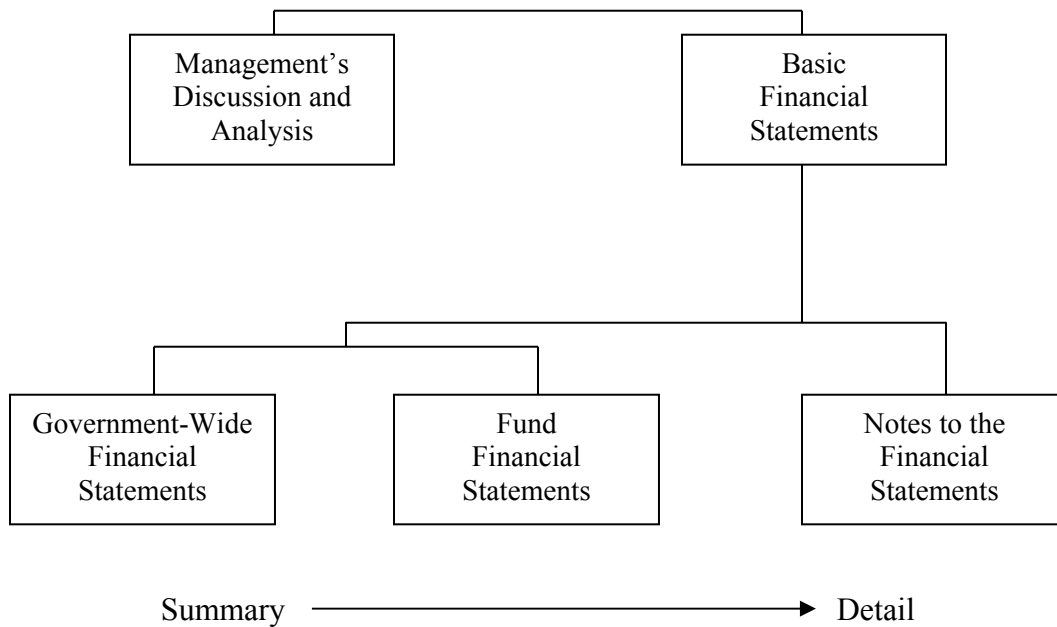
Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources on June 30, 2019 by \$13,374,880.
- The Town's net position increased by \$1,535,438, primarily due to the Town's accumulation of beach tax in the Capital Reserve Fund, insurance savings, and the delay of some capital projects.
- On a government-wide basis for governmental activities, the Town had expenses net of program revenues of \$2,061,949. Total program revenues were \$2,713,826, and expenses were \$4,775,775.
- On a government-wide basis for business-type activities (Water Fund), the Town had income net of program expenses of \$163,717.
- As of June 30, 2019, the Town's governmental funds reported combined ending fund balances of \$6,261,762 with a net increase of \$858,673. The increase was primarily due to the Town's accumulation of beach tax in the Capital Reserve Fund, insurance savings, and the delay of some capital projects.
- As of June 30, 2019, expendable, available fund balance for the General Fund was \$2,696,272.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise two components: 1) government-wide financial statements and 2) fund financial statements along with the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through J) 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 four parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements, and 4) the fiduciary fund statement.

The next section of the basic financial statements is in 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 can also be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Town's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, transportation, and environmental protection. The business-type activities of the Town of Pine Knoll Shores include water.

The government-wide financial statements can be found on Exhibits A and B of this report.

In accordance with the Governmental Accounting Standards Board criteria for inclusion in the reporting entity, the Town has no component units that must be included in this report.

Fund Financial Statements

The fund financial statements 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, 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 Pine Knoll Shores can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

At year-end, the Town maintained two individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Beach Capital Reserve Fund, which are major governmental funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits C-F of this report.

Proprietary Funds. The Town utilizes one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The Water Fund is considered a major fund of the Town.

The basic proprietary fund financial statements can be found on Exhibits G-I of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Pine Knoll Shores has one fiduciary fund, which is an agency fund.

The basic fiduciary fund financial statement can be found on Exhibit J of this report.

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 can be found after Exhibit J 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.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

Town of Pine Knoll Shores' Net Position Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets and Deferred Outflows of Resources:						
Current and other assets	\$ 6,854,045	\$ 5,664,251	\$ 1,034,914	\$ 897,903	\$ 7,888,959	\$ 6,562,154
Capital assets	6,930,349	6,630,842	3,281,586	3,425,872	10,211,935	10,056,714
Deferred outflows of resources	<u>455,951</u>	<u>306,054</u>	<u>48,295</u>	<u>32,696</u>	<u>504,246</u>	<u>338,750</u>
Total assets and deferred outflows of resources	<u>14,240,345</u>	<u>12,601,147</u>	<u>4,364,795</u>	<u>4,356,471</u>	<u>18,605,140</u>	<u>16,957,618</u>
Liabilities and Deferred Inflows of Resources:						
Current liabilities	402,972	445,769	116,860	120,516	519,832	566,285
Non-current liabilities	1,821,527	1,560,636	2,703,577	2,856,192	4,525,104	4,416,828
Deferred inflows of resources	<u>177,585</u>	<u>128,202</u>	<u>7,739</u>	<u>6,861</u>	<u>185,324</u>	<u>135,063</u>
Total liabilities and deferred inflows of resources	<u>2,402,084</u>	<u>2,134,607</u>	<u>2,828,176</u>	<u>2,983,569</u>	<u>5,230,260</u>	<u>5,118,176</u>
Net Position:						
Net investment						
in capital assets	5,658,491	5,426,594	576,586	549,872	6,235,077	5,976,466
Restricted	3,704,693	3,071,101	-	-	3,704,693	3,071,101
Unrestricted	<u>2,475,077</u>	<u>1,968,845</u>	<u>960,033</u>	<u>823,030</u>	<u>3,435,110</u>	<u>2,791,875</u>
Total net position	<u>\$ 11,838,261</u>	<u>\$ 10,466,540</u>	<u>\$ 1,536,619</u>	<u>\$ 1,372,902</u>	<u>\$ 13,374,880</u>	<u>\$ 11,839,442</u>

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. The Town's assets and deferred outflows exceeded liabilities and deferred inflows by \$13,374,880 on June 30, 2019 compared to \$11,839,442 for the year ended June 30, 2018. The Town's net position increased by \$1,535,438 for the year ended June 30, 2019.

The largest portion of the Town's net position (47%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$3,704,693 of the Town's net position (28% compared to 26% on June 30, 2018) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$3,435,110 may be used to meet the government's ongoing obligation to citizens and creditors.

Town of Pine Knoll Shores' Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,288,461	\$ 794,701	\$ 843,766	\$ 809,757	\$ 2,132,227	\$ 1,604,458
Operating grants and contributions	1,404,195	119,130	-	-	1,404,195	119,130
Capital grants and contributions	21,170	18,600	-	-	21,170	18,600
General revenues:						
Property taxes	2,138,136	2,129,411	-	-	2,138,136	2,129,411
Other taxes	1,194,271	1,075,503	-	-	1,194,271	1,075,503
Investment earnings	<u>101,263</u>	<u>48,376</u>	<u>14,986</u>	<u>6,576</u>	<u>116,249</u>	<u>54,952</u>
Total revenues	<u>6,147,496</u>	<u>4,185,721</u>	<u>858,752</u>	<u>816,333</u>	<u>7,006,248</u>	<u>5,002,054</u>
Expenses:						
General government	959,796	896,069	-	-	959,796	896,069
Public safety	2,157,766	1,911,597	-	-	2,157,766	1,911,597
Transportation	90,486	114,338	-	-	90,486	114,338
Environmental protection	1,542,308	382,739	-	-	1,542,308	382,739
Interest on long-term debt	25,419	31,243	-	-	25,419	31,243
Water	<u>-</u>	<u>-</u>	<u>695,035</u>	<u>697,465</u>	<u>695,035</u>	<u>697,465</u>
Total expenses	<u>4,775,775</u>	<u>3,335,985</u>	<u>695,035</u>	<u>697,465</u>	<u>5,470,810</u>	<u>4,033,451</u>
Change in net position	1,371,721	849,736	163,717	118,868	1,535,438	968,604
Net Position:						
Beginning of year, July 1	<u>10,466,540</u>	<u>9,616,804</u>	<u>1,372,902</u>	<u>1,254,034</u>	<u>11,839,442</u>	<u>10,870,838</u>
End of year, June 30	<u>\$ 11,838,261</u>	<u>\$ 10,466,540</u>	<u>\$ 1,536,619</u>	<u>\$ 1,372,902</u>	<u>\$ 13,374,880</u>	<u>\$ 11,839,442</u>

Governmental Activities. Governmental activities increased the Town's net position by \$1,371,721 accounting for 89% of the total \$1,535,438 growth in the net position of the Town.

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

The Town's accumulation of beach tax in the Capital Reserve Fund, insurance savings, and the delay of some capital projects all contributed to the increase in governmental net position.

Business-Type Activities. Business-type activities increased the Town's net position by \$163,717. For the year ended June 30, 2018, business-type activities increased the Town's net position by \$118,868.

Key elements of this increase are as follows: insurance savings, investment in capital assets, and aggressive pay down of debt.

Financial Analysis of the Government's Funds

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town of Pine Knoll Shores' fund balance available in the General Fund was \$2,696,272 while total fund balance reached \$3,257,573. The Town currently has an available fund balance of 52% of General Fund expenditures and transfers out, while total fund balance represents 63% of that same amount.

Overall fund balance increased by \$858,673. Included in this increase in fund balance is an increase of \$416,221 for the Beach Capital Reserve Fund.

The significant change in fund balance levels over the prior year is primarily due to the Town's accumulation of beach tax in a Capital Reserve Fund, insurance savings, and the delay of some capital projects.

The Town appropriated \$195,000 of fund balance in the 2020 General Fund budget.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

Net position of the Water Fund increased by \$163,717 at year-end.

General Fund Budgetary Highlights

During the fiscal year, the Town revised the budget on a couple of 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 or expand services. Significant amendments to its General Fund budget included: increase to revenues and expenses from debris removal, equipment needs and public property repair claims as a result of Hurricane Florence; increase to revenues and expenses as a result of a post-hurricane tree replanting initiative and the beach nourishment engineering phase; replacement of a damaged police vehicle; and recognition of increased revenues in property taxes, sales and use tax, ambulance fees, and investment earnings.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2019 amounts to \$10,211,935 (net of accumulated depreciation), which is an increase of \$155,221. Net capital assets on June 30, 2018 were \$10,056,714. The investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, and streets. The total increase in the Town's investment in capital assets for the current year was 2%.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,824,372	\$ 1,824,372	\$ -	\$ -	\$ 1,824,372	\$ 1,824,372
Computer equipment	123,292	123,292	-	-	123,292	123,292
Equipment	841,988	803,756	153,496	153,496	995,484	957,252
Vehicles	1,669,022	1,403,395	65,922	65,922	1,734,944	1,469,317
Buildings	2,747,174	2,747,411	-	-	2,747,174	2,747,411
Infrastructure	3,653,249	3,653,249	-	-	3,653,249	3,653,249
Construction in progress	405,427	-	35,980	16,438	441,407	16,438
Plant and distribution system	-	-	4,673,752	4,673,752	4,673,752	4,673,752
Subtotal	11,264,524	10,555,475	4,929,150	4,909,608	16,193,674	15,465,083
Accumulated depreciation	(4,334,175)	(3,924,633)	(1,647,564)	(1,483,736)	(5,981,739)	(5,408,369)
Capital assets, net	<u>\$ 6,930,349</u>	<u>\$ 6,630,842</u>	<u>\$ 3,281,586</u>	<u>\$ 3,425,872</u>	<u>\$ 10,211,935</u>	<u>\$ 10,056,714</u>

Additional information on the Town's capital assets can be found in Note 2A.

Long-Term Debt. Long-term debt as of June 30, 2019 is summarized below:

Town of Pine Knoll Shores' Outstanding Debt
Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Notes payable	\$ 1,271,858	\$ 1,204,248	\$ -	\$ -	\$ 1,271,858	\$ 1,204,248
Net pension liability (LGERS)	566,231	428,160	62,915	47,573	629,146	475,733
Total pension liability (LEOSSA)	105,096	84,544	-	-	105,096	84,544
Compensated absences	67,758	71,076	12,762	10,619	80,520	81,695
General obligation bonds	-	-	2,705,000	2,876,000	2,705,000	2,876,000
Total	<u>\$ 2,010,943</u>	<u>\$ 1,788,028</u>	<u>\$ 2,780,677</u>	<u>\$ 2,934,192</u>	<u>\$ 4,791,620</u>	<u>\$ 4,722,220</u>

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed valuation located within that government's boundaries. The legal debt margin for the Town is \$72,284,568.

Additional information on the Town's long-term debt can be found in Note 2B of this report.

Economic Factors and Next Year's Budgets and Rates

The Town's ad valorem tax rate remains unchanged at 19.7 cents per hundred for the FY 2019-2020 budget year. With this tax rate, the Board of Commissioners was able to maintain the level of services that the citizens deserve and desire. The beach tax rate also remains unchanged for the FY 2019-2020 budget year at 6.0 cents per hundred for oceanfront property and 1.6 cents per hundred for non-oceanfront property.

The Water Fund rates also remain unchanged for the FY 2019-2020 budget year. Additionally, in the FY 2019-2020 Water Enterprise Fund budget, the Town has included an additional principal payment on its bonded debt and expenditures for several capital projects such as compound meter installation, hydrant replacements, and road bores.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional financial information should be addressed to the Finance Officer, Town of Pine Knoll Shores, 100 Municipal Circle, Pine Knoll Shores, NC 28512.

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TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 5,779,864	\$ 812,808	\$ 6,592,672
Taxes receivable, net	3,017	-	3,017
Accounts receivable, net	51,141	217,993	269,134
Prepaid items	15,545	-	15,545
Due from other governments	761,526	-	761,526
Inventory	30,352	-	30,352
Restricted cash and investments	212,600	4,113	216,713
Total current assets	6,854,045	1,034,914	7,888,959
Non-current assets:			
Land and construction in progress	2,229,799	35,980	2,265,779
Other capital assets, net of depreciation	4,700,550	3,245,606	7,946,156
Capital assets, net	6,930,349	3,281,586	10,211,935
Total assets	13,784,394	4,316,500	18,100,894
Deferred Outflows of Resources:			
Pension deferrals	455,951	48,295	504,246
Total deferred outflows of resources	455,951	48,295	504,246
Liabilities:			
Current liabilities:			
Accounts payable	96,832	4,013	100,845
Accrued expenses	73,926	16,336	90,262
Customer deposits payable from restricted assets	27,500	4,113	31,613
Prepaid lease	15,298	15,298	30,596
Current portion - compensated absences	65,000	3,100	68,100
Current portion of long-term debt	124,416	74,000	198,416
Total current liabilities	402,972	116,860	519,832
Long-term liabilities:			
Net pension liability - LGERS	566,231	62,915	629,146
Total pension liability - LEOSSA	105,096	-	105,096
Non-current portion of long-term debt	1,150,200	2,640,662	3,790,862
Total long-term liabilities	1,821,527	2,703,577	4,525,104
Total liabilities	2,224,499	2,820,437	5,044,936
Deferred Inflows of Resources:			
Pension deferrals	85,245	7,739	92,984
Grant received in advance	90,545	-	90,545
Prepaid taxes	1,795	-	1,795
Total deferred inflows of resources	177,585	7,739	185,324
Net Position:			
Net investment in capital assets	5,658,491	576,586	6,235,077
Restricted stabilization by state statute	515,674	-	515,674
Restricted environmental protection	3,003,919	-	3,003,919
Restricted general government	76,224	-	76,224
Restricted streets	108,876	-	108,876
Unrestricted	2,475,077	960,033	3,435,110
Total net position	\$ 11,838,261	\$ 1,536,619	\$ 13,374,880

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 959,796	\$ 760,895	\$ -	\$ 21,170
Public safety	2,157,766	115,751	113,239	-
Transportation	90,486	-	44,488	-
Environmental protection	1,542,308	411,815	1,246,468	-
Interest on long-term debt	25,419	-	-	-
Total governmental activities	<u>4,775,775</u>	<u>1,288,461</u>	<u>1,404,195</u>	<u>21,170</u>
Business-Type Activities:				
Water Fund	<u>695,035</u>	<u>843,766</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,470,810</u>	<u>\$ 2,132,227</u>	<u>\$ 1,404,195</u>	<u>\$ 21,170</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs:			
Primary Government:			
Governmental Activities:			
General government	\$ (177,731)	\$ -	\$ (177,731)
Public safety	(1,928,776)	-	(1,928,776)
Transportation	(45,998)	-	(45,998)
Environmental protection	115,975	-	115,975
Interest on long-term debt	(25,419)	-	(25,419)
Total governmental activities	<u>(2,061,949)</u>	<u>-</u>	<u>(2,061,949)</u>
Business-Type Activities:			
Water Fund	<u>-</u>	<u>148,731</u>	<u>148,731</u>
Total primary government	<u>(2,061,949)</u>	<u>148,731</u>	<u>(1,913,218)</u>
General Revenues:			
Ad valorem taxes	2,138,136	-	2,138,136
Local option sales taxes	972,143	-	972,143
Other taxes and licenses	222,128	-	222,128
Interest earned on investments	101,263	14,986	116,249
Total general revenues	<u>3,433,670</u>	<u>14,986</u>	<u>3,448,656</u>
Change in net position	1,371,721	163,717	1,535,438
Net Position:			
Beginning of year - July 1	<u>10,466,540</u>	<u>1,372,902</u>	<u>11,839,442</u>
End of year - June 30	<u>\$ 11,838,261</u>	<u>\$ 1,536,619</u>	<u>\$ 13,374,880</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Beach Capital Reserve Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 2,775,945	\$ 3,003,919	\$ 5,779,864
Taxes receivable, net	2,394	623	3,017
Accounts receivable, net	51,141	-	51,141
Prepaid items	15,545	-	15,545
Due from other governments	761,256	270	761,526
Inventory	30,352	-	30,352
Restricted cash and cash equivalents	212,600	-	212,600
Total assets	<u>\$ 3,849,233</u>	<u>\$ 3,004,812</u>	<u>\$ 6,854,045</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ 96,832	\$ -	\$ 96,832
Accrued expenses	60,303	-	60,303
Unearned revenue	15,298	-	15,298
Payable from restricted assets:			
Customer deposits	27,500	-	27,500
Total liabilities	<u>199,933</u>	<u>-</u>	<u>199,933</u>
Deferred Inflows of Resources:			
Property taxes receivable	2,394	623	3,017
Grants received in advance	90,545	-	90,545
Grant receivable	296,008	-	296,008
Prepaid taxes	1,795	-	1,795
Solid waste receivables	985	-	985
Total deferred inflows of resources	<u>391,727</u>	<u>623</u>	<u>392,350</u>
Fund Balances:			
Non-spendable	45,897	-	45,897
Restricted stabilization by state statute	515,404	270	515,674
Restricted other	185,100	3,003,919	3,189,019
Committed	866,776	-	866,776
Assigned	195,000	-	195,000
Unassigned	1,449,396	-	1,449,396
Total fund balances	<u>3,257,573</u>	<u>3,004,189</u>	<u>6,261,762</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,849,233</u>	<u>\$ 3,004,812</u>	

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:

Net pension liability - LGERS	(566,231)
Total pension liability - LEO	(105,096)
Deferred outflow of resources related to pensions on the Statement of Net Position	455,951
Deferred inflow of resources related to pensions on the Statement of Net Position	(85,245)
Capital assets used in governmental activities are financial resources and, therefore, are not reported in the funds.	6,930,349
Liabilities for earned revenues considered deferred inflows of resources in fund statements	300,010
Some liabilities, including bonds payable, accrued interest, and compensated absences are not due and payable in the current period and, therefore, are not included in the funds.	(1,353,239)
Net position of governmental activities per Exhibit A	<u>\$ 11,838,261</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Beach Capital Reserve Fund	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 1,815,760	\$ 322,713	\$ 2,138,473
Other taxes and licenses	973,225	-	973,225
Unrestricted intergovernmental revenues	221,046	-	221,046
Restricted intergovernmental revenues	1,036,878	-	1,036,878
Permits and fees	608,428	-	608,428
Investment earnings	50,755	50,508	101,263
Other	946,335	-	946,335
Total revenues	<u>5,652,427</u>	<u>373,221</u>	<u>6,025,648</u>
Expenditures:			
Current:			
General government	997,536	-	997,536
Public safety	2,313,738	-	2,313,738
Transportation	46,004	-	46,004
Environmental protection	1,850,047	-	1,850,047
Debt service:			
Principal repayments	162,390	-	162,390
Interest and fees	27,260	-	27,260
Total expenditures	<u>5,396,975</u>	<u>-</u>	<u>5,396,975</u>
Revenues over (under) expenditures	<u>255,452</u>	<u>373,221</u>	<u>628,673</u>
Other Financing Sources (Uses):			
Issuance of long-term debt	230,000	-	230,000
Transfers in	-	43,000	43,000
Transfers out	(43,000)	-	(43,000)
Total other financing sources (uses)	<u>187,000</u>	<u>43,000</u>	<u>230,000</u>
Net change in fund balances	442,452	416,221	858,673
Fund Balances:			
Beginning of year - July 1	<u>2,815,121</u>	<u>2,587,968</u>	<u>5,403,089</u>
End of year - June 30	<u>\$ 3,257,573</u>	<u>\$ 3,004,189</u>	<u>\$ 6,261,762</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 858,673
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(311,393)
Capital outlays are reported as expenditures in the governmental funds financial statement. However, in the Statement of Activities, capital items are reported as an increase in assets.	791,600
Disposal of capital assets does not require current resources, therefore, is not reported in Exhibit D.	(180,700)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund statements.	
Property taxes	(337)
Solid waste fees	40
Grant receivable	296,008
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	132,573
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 the governmental:	
Pension expense	(152,292)
Change in accrued vacation	3,318
Change in accrued interest	1,841
The issuance of long-term debt provide current financial resources to governmental funds.	(230,000)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>162,390</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 1,371,721</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with Final Budget Over/Under
	Original	Final	Actual	
Revenues:				
Ad valorem taxes	\$ 1,791,000	\$ 1,815,000	\$ 1,815,760	\$ 760
Other taxes and licenses	834,000	889,000	973,225	84,225
Unrestricted intergovernmental revenues	209,000	218,500	221,046	2,546
Restricted intergovernmental revenues	74,680	1,103,680	1,036,878	(66,802)
Permits and fees	570,000	585,850	608,428	22,578
Investment earnings	15,525	45,525	50,755	5,230
Other	232,500	1,053,150	946,335	(106,815)
Total revenues	<u>3,726,705</u>	<u>5,710,705</u>	<u>5,652,427</u>	<u>(58,278)</u>
Expenditures:				
General government	917,500	1,079,500	997,536	81,964
Public safety	2,279,180	2,434,180	2,313,738	120,442
Transportation	103,500	118,500	46,004	72,496
Environmental protection	430,000	1,989,000	1,850,047	138,953
Debt service:				
Principal repayment	180,500	164,000	162,390	1,610
Interest and fees	40,500	29,000	27,260	1,740
Contingency	16,500	258,500	-	258,500
Total expenditures	<u>3,967,680</u>	<u>6,072,680</u>	<u>5,396,975</u>	<u>675,705</u>
Revenues over (under) expenditures	<u>(240,975)</u>	<u>(361,975)</u>	<u>255,452</u>	<u>617,427</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	230,000	230,000	230,000	-
Transfers in	-	10,000	-	(10,000)
Transfers out	(93,000)	(104,000)	(43,000)	61,000
Appropriated fund balance	<u>103,975</u>	<u>225,975</u>	<u>-</u>	<u>(225,975)</u>
Total other financing sources (uses)	<u>240,975</u>	<u>361,975</u>	<u>187,000</u>	<u>(174,975)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	442,452	<u>\$ 442,452</u>
Fund Balance:				
Beginning of year - July 1			<u>2,815,121</u>	
End of year - June 30			<u>\$ 3,257,573</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	Business-Type Activities Water Fund
Assets:	
Current assets:	
Cash and cash equivalents	\$ 812,808
Accounts receivable, net	217,993
Restricted cash and cash equivalents	4,113
Total current assets	<u>1,034,914</u>
Non-current assets:	
Land and construction in progress	35,980
Other capital assets, net of depreciation	3,245,606
Total non-current assets	<u>3,281,586</u>
Total assets	<u>4,316,500</u>
Deferred Outflows of Resources:	
Pension deferrals	<u>48,295</u>
Liabilities:	
Current liabilities:	
Accounts payable	4,013
Accrued expenses	16,336
Accrued vacation	3,100
Prepaid fees	15,298
Current portion of long-term debt	74,000
Liabilities payable from restricted assets:	
Customer deposits	4,113
Total current liabilities	<u>116,860</u>
Non-current liabilities:	
Net pension liability - LGERS	62,915
Long-term debt	2,640,662
Total non-current liabilities	<u>2,703,577</u>
Total liabilities	<u>2,820,437</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>7,739</u>
Net Position:	
Net investment in capital assets	576,586
Unrestricted	960,033
Total net position	<u>\$ 1,536,619</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Water Fund
Operating Revenues:	
Charges for services	\$ 757,281
Other operating revenues	9,603
Total operating revenues	<u>766,884</u>
Operating Expenses:	
Salaries and benefits	216,556
Other operating expenses	200,273
Depreciation	163,828
Total operating expenses	<u>580,657</u>
Operating income (loss)	<u>186,227</u>
Non-Operating Revenues (Expenses):	
Interest earned on investments	14,986
Cell phone tower leases	76,882
Interest on long-term debt	(114,378)
Total non-operating revenues (expenses)	<u>(22,510)</u>
Change in net position	163,717
Net Position:	
Beginning of year - July 1	<u>1,372,902</u>
End of year - June 30	<u><u>\$ 1,536,619</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Water Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 749,847
Cash paid for goods and services	(203,083)
Cash paid to/on behalf of employees	(212,765)
Net cash provided (used) by operating activities	<u>333,999</u>
Cash Flows from Capital and Related Financing Activities:	
Cell phone tower lease payments received	76,882
Acquisition of capital assets	(19,542)
Principal repaid on long-term debt	(171,000)
Interest paid on long-term debt	(114,939)
Net cash provided (used) by capital and related financing activities	<u>(228,599)</u>
Cash Flows from Investing Activities:	
Investment income received	<u>14,986</u>
Net increase (decrease) in cash and cash equivalents	120,386
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>696,535</u>
End of year - June 30	<u><u>\$ 816,921</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 186,227
Depreciation	163,828
Pension (benefit) expense	
Change in assets and liabilities:	
(Increase) decrease in accounts receivables	(16,628)
(Increase) decrease in deferred outflows for pensions	(15,599)
Increase (decrease) in net pension liability	15,342
Increase (decrease) in accounts payable	(3,255)
Increase (decrease) in deferred inflows of resources for pensions	878
Increase (decrease) in customer deposits	(409)
Increase (decrease) in accrued vacation	2,143
Increase (decrease) in accrued salaries	1,027
Increase (decrease) in prepaid fees	445
Net cash provided (used) by operating activities	<u><u>\$ 333,999</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA**STATEMENT OF FIDUCIARY NET POSITION****FIDUCIARY FUND****JUNE 30, 2019**

	Agency Fund
Assets:	
Cash and cash equivalents	\$ 3,718
Receivables	3,506
Total assets	<u>\$ 7,224</u>
Liabilities:	
Miscellaneous liabilities	\$ 7,224
Total liabilities	<u>\$ 7,224</u>

The accompanying notes are an integral part of the financial statements.

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TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Significant Accounting Policies

A. Nature of Operations

The Town of Pine Knoll Shores, North Carolina, (the “Town”), is a municipal corporation governed by an elected Mayor and a five-member Board of Commissioners. The Town operates under a commissioners-manager form of government and provides the following services as authorized by its charter: public safety, transportation, environmental protection, and water services.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

B. Basis of Presentation

The government-wide financial statements (Exhibit A - Statement of Net Position and Exhibit B - Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements in all material areas. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Town’s funds including the fiduciary fund. Separate financial statements are provided for *governmental, proprietary, and fiduciary funds*. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The General Fund, the Beach Capital Reserve Fund, and the Water Fund are major funds of the Town for the year ended June 30, 2019.

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, local option sales taxes, state grants, and solid waste fees. The primary expenditures are for general government, public safety, transportation, and environmental protection.

Beach Capital Reserve Fund. This capital project fund is used to accumulate the beach tax assessed on an ad valorem basis to retire debt and provide future resources for beach re-nourishment, operation of the public beach accesses, and other associated beach expenses.

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

The Town has the following fund categories:

Governmental Funds. Governmental funds are those used to account for the Town's expendable financial resources and related liabilities (except those accounted for in another fund). The following are the Town's governmental fund types:

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is a major fund for fund financial statement reporting purposes.

Capital Project Fund. Capital project funds are used to account for multi-year budget construction projects of governmental capital assets. The Town has one capital project fund: the Beach Capital Reserve Fund.

Enterprise Fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund is the only enterprise fund of the Town.

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town holds on behalf of others. The Town bills and collects taxes for the Town of Indian Beach.

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.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for the agency fund which has no measurement focus. 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 are 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 non-operating 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's Enterprise Fund are charges to customers for sales and services. 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 non-operating 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. Long-term debt issued and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a 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 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 all registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes which 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 inflow of resources.

Sales taxes collected and certain intergovernmental revenues, such as the beer and wine 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 Pine Knoll Shores because the tax is levied by Carteret County and then remitted to and distributed by the state. 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 are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Beach Capital Reserve Fund, and the Enterprise Fund. A multi-year project budget is adopted for all other capital project funds. 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 department level for all annually budgeted funds and for multi-year funds. The Finance Officer is authorized to transfer appropriations within a department. With the approval of the Town Manager, the Finance Officer shall be authorized to effect interdepartmental transfers in the same fund, not to exceed 10% of the appropriated monies for the department whose allocation is reduced. Consent agenda approval of all such transfers is required at the next succeeding meeting of the governing board. During the year, several amendments to the original budget were necessary. 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

Deposits and Investments

All deposits of the Town are made in Board-designated official depositories and are secured as required by G.S. 159-31. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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) Government Portfolio, an SEC-registered (2a-7) government money market fund.

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The NCCMT's Government Portfolio's securities and the NCCMT Term Portfolio securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

Cash and Cash Equivalents

The Town pools monies 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.

For purposes of the Statement of Cash Flows, the Town considers all deposits and investments with an original maturity date of three months or less, which are not limited as to use, to be cash equivalents.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. \$108,876 of Powell Bill funds, in the General Fund, 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. \$27,500 of customer deposits in the General Fund and \$4,113 of customer deposits in the Water Fund are classified as restricted because they are held by the Town before any services are supplied are restricted to the service for which the deposit was collected. \$76,224 of donations received by the Town in the General Fund are restricted for the purpose specified by the donor.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2018.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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.

Prepaid Items

Prepaid items represent cash payments for goods and services that were not received by June 30, 2019. These items will be recognized as expenditures in the subsequent year.

Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Inventories of the Town's funds consist primarily of fuel.

Capital Assets

In conjunction with implementing GASB 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold of \$2,500 will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003, were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003. 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. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical value.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital assets are depreciated on the straight-line basis, applying the following useful lives to the cost of the assets:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	40 years
Infrastructure	40 years
Furniture	10 years
Equipment and fixtures	7 years
Vehicles (excluding fire trucks and ambulances)	5 years
Fire trucks and ambulances	10 years
Computer equipment	3 years

Compensated Absences

The vacation policies of the Town provide for the accumulation of up to 240 hours of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide presentation, an expense and a liability are recorded as vacation leave is earned. The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. Accrued vacation for governmental activities and business-type activities was \$67,758 and \$12,762, respectively, at June 30, 2019.

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance cost, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals. In addition to liabilities, the Statement of Net 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 six items that meet the criteria for this category – solid waste receivables, prepaid taxes, property taxes receivable, grant receivable, grant received in advance, and pension deferrals.

Net Position

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

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:

Non-Spendable 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 and Prepaid Items – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories and prepaid items, which are not spendable resources. Non-spendable fund balance at June 30, 2019 was \$45,897.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

	<u>General Fund</u>	<u>Beach Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
<i>Restricted for Stabilization by State Statute</i> – portion of fund balance that is restricted by state statute [G.S. 159-8(a)]	\$ 515,404	\$ 270	\$ 515,674
<i>Restricted for Streets – Powell Bill</i> – portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures	108,876	-	108,876
<i>Restricted for General Government</i> – donations restricted for the purpose specified by the donor	76,224	-	76,224
<i>Restricted for Environmental Protection</i> – Beach Capital Reserve Fund balance that is restricted by revenue source for beach renourishment expenditures	<u>-</u>	<u>3,003,919</u>	<u>3,003,919</u>
Total restricted fund balances/net position	<u>\$ 700,504</u>	<u>\$ 3,004,189</u>	<u>\$ 3,704,693</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Committed Fund Balance: This classification represents the portion of fund balance that can only be used for specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that 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 the limitation. A summary, by purpose, of the committed fund balances of the governmental funds are as follows:

Storm emergency	\$ 251,640
Key employee	41,327
Building	53,659
Fire vehicle	307,618
EMS vehicle	67,210
Streets	123,565
Police separation	1,121
Unemployment benefits	<u>20,636</u>
Total Board of Commissioners' commitments	<u>\$ 866,776</u>

Assigned Fund Balance: Assigned fund balance is the portion of fund balance that the Town intends to use for specific purposes.

Subsequent Year's Expenditures – \$195,000 of fund balance that is appropriated in next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

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

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: debt proceeds, federal funds, state funds, local non-Town funds, and 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.

The Town has adopted a financial policy to maintain the total of committed, assigned, and unassigned fund balance of the General Fund to 50% of the general operating budget. A portion of the balance will be committed for long-term purposes. The Town has established a Beach Capital Reserve Fund.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Fund Balance Available for Appropriation

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

Total fund balance - General Fund	\$ 3,257,573
Less:	
Inventories and prepaid items	(45,897)
Stabilization by state statute	<u>(515,404)</u>
Fund balance available for appropriation	<u><u>\$ 2,696,272</u></u>

Defined Benefit Cost-Sharing Plan

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 Pine Knoll Shores' employer contributions are recognized when due and the Town of Pine Knoll Shores has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Interfund Transactions

Interfund services provided are accounted for as revenues or expenses in the government-wide financial statements since they would be treated as such if they involved organizations external to the Town. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are: allowance for doubtful accounts and depreciation lives.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

2. Detail Notes on All Funds

A. Assets

Deposits

The Town deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with the securities held by the Town's agent in the unit'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 agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, 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 policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$974,671 and a bank balance of \$1,018,869. The Town only has deposits in institutions that collateralize under the Pooling Method. Of the bank balance, \$550,000 was covered by federal depository insurance, and the remainder was covered by collateral held by authorized escrow agents in the name of the State Treasurer. The Town had \$2,150 cash on hand at June 30, 2019.

Investments

At June 30, 2019, the Town had \$5,836,282 invested with North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Receivables

Disaggregation information and allowance for doubtful accounts related to receivables reported in the exhibits are as follows:

	<u>Accounts</u>	<u>Due From Other Governments</u>	<u>Taxes</u>	<u>Total</u>
Governmental Activities:				
General	\$ 68,597	\$ 761,526	\$ 4,192	\$ 834,315
Allowance for doubtful accounts	(17,456)	-	(1,175)	(18,631)
Total governmental activities	<u>\$ 51,141</u>	<u>\$ 761,526</u>	<u>\$ 3,017</u>	<u>\$ 815,684</u>
Business-Type Activities:				
Water utility billing	\$ 146,336	\$ -	\$ -	\$ 146,336
Cell tower lease receivable	16,152	-	-	16,152
Unbilled revenue - water	55,505	-	-	55,505
Total business-type activities	<u>\$ 217,993</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,993</u>

Due from other governments consisted of the following:

Governmental Activities:	
Local option sales tax	\$ 274,000
Franchise tax	50,000
Grant	296,008
Other intergovernmental amounts	122,985
Sales tax refund receivable	18,533
Total	<u>\$ 761,526</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital Assets

Governmental Capital Assets

A summary of changes in the Town's capital assets used in governmental activities follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2019</u>
By Asset Type:				
Non-Depreciable Assets:				
Land	\$ 1,824,372	\$ -	\$ -	\$ 1,824,372
Construction in progress	<u>-</u>	<u>405,427</u>	<u>-</u>	<u>405,427</u>
Total non-depreciable assets	<u>1,824,372</u>	<u>405,427</u>	<u>-</u>	<u>2,229,799</u>
Depreciable Assets:				
Computer equipment	123,292	-	-	123,292
Equipment	803,756	54,419	(16,187)	841,988
Vehicles	1,403,395	317,844	(52,217)	1,669,022
Buildings	2,747,411	13,910	(14,147)	2,747,174
Infrastructure	<u>3,653,249</u>	<u>-</u>	<u>-</u>	<u>3,653,249</u>
Total depreciable assets	<u>8,731,103</u>	<u>386,173</u>	<u>(82,551)</u>	<u>9,034,725</u>
Less Accumulated Depreciation:				
Computer equipment	112,012	3,695	-	115,707
Equipment	611,456	47,056	(16,187)	642,325
Vehicles	1,176,692	82,238	(52,217)	1,206,713
Buildings	1,474,406	66,297	(7,310)	1,533,393
Infrastructure	<u>723,930</u>	<u>112,107</u>	<u>-</u>	<u>836,037</u>
Total accumulated depreciation	<u>4,098,496</u>	<u>\$ 311,393</u>	<u>\$ (75,714)</u>	<u>4,334,175</u>
Depreciable capital assets, net	<u>4,632,607</u>			<u>4,700,550</u>
Total capital assets, net	<u>\$ 6,456,979</u>			<u>\$ 6,930,349</u>

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

General government	\$ 112,547
Public safety	144,529
Environmental protection	9,947
Transportation	<u>44,370</u>
Total	<u>\$ 311,393</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The Town recognized an impairment loss in the amount of \$173,859 for damage to the Town's public safety building during Hurricane Florence. This loss was offset by insurance recoveries of \$298,143 resulting in an impairment gain of \$124,284. The public safety building asset group had a carrying amount \$983,066 at June 30, 2019.

Enterprise Fund Capital Assets

The capital assets for the Enterprise Fund of the Town at June 30, 2019 are as follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2019</u>
By Asset Type:				
Non-Depreciable Assets:				
Construction in progress	\$ 16,438	\$ 19,542	\$ -	\$ 35,980
Total non-depreciable assets	<u>16,438</u>	<u>19,542</u>	<u>-</u>	<u>35,980</u>
Depreciable Assets:				
Equipment	153,496	-	-	153,496
Vehicles	65,922	-	-	65,922
Plant and distribution system	<u>4,673,752</u>	<u>-</u>	<u>-</u>	<u>4,673,752</u>
Total depreciable assets	<u>4,893,170</u>	<u>-</u>	<u>-</u>	<u>4,893,170</u>
Less Accumulated Depreciation:				
Equipment	109,780	5,712	-	115,492
Vehicles	50,833	8,590	-	59,423
Plant and distribution system	<u>1,323,123</u>	<u>149,526</u>	<u>-</u>	<u>1,472,649</u>
Total accumulated depreciation	<u>1,483,736</u>	<u>\$ 163,828</u>	<u>\$ -</u>	<u>1,647,564</u>
Depreciable capital assets, net	<u>3,409,434</u>			<u>3,245,606</u>
Total capital assets, net	<u>\$ 3,425,872</u>			<u>\$ 3,281,586</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2019 is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 6,930,349	\$ 3,281,586
Long-term debt	(1,271,858)	(2,705,000)
Net investment in capital assets	<u>\$ 5,658,491</u>	<u>\$ 576,586</u>

B. Liabilities

Long-Term Obligations

The Town records long-term debt of the governmental funds at face value in the government-wide Statement of Net Position. All general obligation bonds serviced by the Town's General Fund are collateralized by the full-faith credit and taxing power of the Town. Principal and interest payments are appropriated when due.

Changes in Long-Term Debt

The following is a summary of changes in the Town's governmental activities long-term debt:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2019</u>	<u>Current Maturities</u>
Notes from direct borrowings and direct placements	\$ 1,204,248	\$ 230,000	\$ (162,390)	\$ 1,271,858	\$ 124,416
Net pension liability (LGERS)	428,160	138,071	-	566,231	-
Total pension liability (LEOSSA)	84,544	20,552	-	105,096	-
Compensated absences	71,076	80,101	(83,419)	67,758	65,000
Total	<u>\$ 1,788,028</u>	<u>\$ 468,724</u>	<u>\$ (245,809)</u>	<u>\$ 2,010,943</u>	<u>\$ 189,416</u>

Compensated absences and pension obligations typically have been liquidated in the General Fund and are accounted for on a first-in, first-out basis.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The following is a summary of changes in the Town's business-type activities long-term debt:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Maturities</u>
General obligation bonds- direct placement	\$ 2,876,000	\$ -	\$ (171,000)	\$ 2,705,000	\$ 74,000
Net pension liability (LGERS)	47,573	15,342		62,915	-
Compensated absences	10,619	5,228	(3,085)	12,762	3,100
Total	<u>\$ 2,934,192</u>	<u>\$ 20,570</u>	<u>\$ (174,085)</u>	<u>\$ 2,780,677</u>	<u>\$ 77,100</u>

Installment Loans – Governmental

0% NCDEQ Water Quality Grant & Loan, payable in twenty annual installments of \$15,770, beginning May 2015 through 2034 for stormwater project \$ 236,544

2.90% note, payable in annual installments of \$35,633 the first year and \$89,479 thereafter, plus interest, beginning December 2014 through December 2027, secured by building 805,314

3.73% note, payable in annual installments of \$19,167, including interest, beginning April 2005 through 2031, secured by an ambulance 230,000

Total notes payable - governmental \$ 1,271,858

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Annual debt service requirements to maturity for the Direct Borrowings and Direct Placements – Governmental are as follows:

Year Ending				
June 30	Principal	Interest	Total	
2020	\$ 124,416	\$ 31,933	\$ 156,349	
2021	124,416	28,623	153,039	
2022	124,416	25,313	149,729	
2023	124,416	22,003	146,419	
2024	124,416	18,694	143,110	
2025-2029	532,603	43,822	576,425	
2030-2034	<u>117,175</u>	<u>2,145</u>	<u>119,320</u>	
Total	<u>\$ 1,271,858</u>	<u>\$ 172,533</u>	<u>\$ 1,444,391</u>	

The Town's outstanding notes from direct placement related to governmental activities of \$230,000 is secured with collateral of an ambulance. This borrowing contain provisions that an event of default would result in (a) the unpaid principal components of the installment payments would become immediately due and payable (b) proceed by appropriate court action to enforce the Town's performance of the applicable covenants or the recover for the breach thereof (c) proceed to execute upon the equipment including recovery of attorneys' fees and other expenses.

The Town's outstanding notes from direct placement related to governmental activities of \$805,314 is secured with collateral of a building. This borrowing contain provisions that an event of default would result in (a) the unpaid principal components of the installment payments would become immediately due and payable (b) proceed by appropriate court action to enforce the Town's performance of the applicable covenants or the recover for the breach thereof (c) proceed to execute upon the property including recovery of attorneys' fees and other expenses.

The Town's outstanding notes from direct borrowing related to governmental activities of \$236,544 contain provisions that the Town may be required to prepay the note if the Town fails to adopt on or before completion of Project, place into effect, and agree to maintain until the principal sum is paid, a schedule of fees, charges and other available funds, that will adequately provide for proper operation, maintenance, and administration of the project and for repayment of all principal and interest on the loan.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

General Obligation Bonds – Enterprise Fund

Serviced by Water Fund:

The 2005 direct placement Water Bond was issued in September 2005 for \$4 million to finance the purchase of the water system that serves the Town. The bond requires annual installments through June 2045 of between \$191,500 and \$211,131; including principal and interest at 4.125%, and is collateralized by the full-faith credit and taxing power of the Town.

\$2,705,000

In the event of default, the Town agrees to pay the purchaser, on demand, interest on any and all amounts due and owing by the Town under the related agreements.

Annual debt service requirements to maturity for the direct placement general obligation bonds are as follows:

Year Ending June 30	Serviced by Water Fund		
	Principal	Interest	Total
2020	\$ 74,000	\$ 111,581	\$ 185,581
2021	77,000	108,529	185,529
2022	80,000	105,353	185,353
2023	84,000	102,053	186,053
2024	87,000	98,588	185,588
2025-2029	492,000	436,055	928,055
2030-2034	603,000	325,793	928,793
2035-2039	739,000	190,658	929,658
2040-2044	469,000	37,208	506,208
Total	<u>\$ 2,705,000</u>	<u>\$ 1,515,818</u>	<u>\$ 4,220,818</u>

Statutory Debt Limitation

The Town is subject to the Municipal Finance Law of North Carolina, which limits the amount of net bonded debt (exclusive of revenue and special assessment bonds) the Town may have outstanding to 8% of the appraised value of property subject to taxation. At June 30, 2019, the Town's debt margin was \$72,284,568.

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Pine Knoll Shores is a participating employer in the state-wide 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

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (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. The Town of Pine Knoll Shores 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 Pine Knoll Shores' contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Pine Knoll Shores were \$132,573 for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$629,146 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018, the Town's proportion was 0.02652%, which was an decrease of 0.00462% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$138,779. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 97,062	\$ 3,257
Changes of assumptions	166,951	-
Net difference between projected and actual earnings on pension plan investments	86,363	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	74,135
Town contributions subsequent to the measurement date	132,573	-
Total	<u>\$ 482,949</u>	<u>\$ 77,392</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

\$132,573 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 ending June 30, 2020. Other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Amount
2020	\$ 138,497
2021	88,281
2022	7,267
2023	38,939
Total	<u>\$ 272,984</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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, 2018 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%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	<u>6.0%</u>	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2018 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Sensitivity of the Town's Proportionate Share of the Net Pension Liability (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 7.00%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 1,511,261	\$ 629,146	\$ (107,965)

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.

Pension Plan Obligations

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees currently receiving benefits and and terminated employees entitled to, but not yet receiving, benefits	1
Active plan members	7
Total	8

A separate report was not issued for the plan.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

The Separation Allowance has no assets accumulated in a trust that meets the criteria, which are outlined in GASB Statement 73.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2017 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increase	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index.

Mortality rates are as follows:

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths Before Retirement: RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 103% for males and 99% for females.

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 through appropriations made in the General Fund operating budget. The Town's obligation to contribute to the plan is established and may be amended by the North Carolina General Assembly. The Town paid \$3,395 as benefits came due for the reporting period.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

At June 30, 2019, the Town reported a total pension liability of \$105,096. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was rolled forward to December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$14,133.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,359	\$ 8,889
Changes of assumptions	6,938	6,703
Total	<u>\$ 21,297</u>	<u>\$ 15,592</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2020	\$ 1,078
2021	1,078
2022	1,078
2023	1,402
2024	1,069
Thereafter	-
Total	<u>\$ 5,705</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64%) or 1-percentage-point higher (4.64%) than the current rate:

	1% Decrease (2.64%)	1% Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 119,167	\$ 105,096	\$ 92,893

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

	2019
Beginning balance	\$ 84,544
Service cost	10,437
Interest on the total pension liability	2,618
Differences between expected and actual experience in the measurement of the total pension liability	17,401
Changes of assumptions or other inputs	(6,509)
Benefit payments	(3,395)
Ending balance of the total pension liability	<u>\$ 105,096</u>

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 138,779	\$ 14,133	\$ 152,912
Pension liability	629,146	105,096	734,242
Proportionate share of net pension liability	0.02652%	N/A	-

Deferred Outflows of Resources:

Differences between expected and actual experience	97,062	14,359	111,421
Changes of assumptions	166,951	6,938	173,889
Net difference between projected and actual earnings on pension plan investments	86,363	-	86,363
Town contributions subsequent to the measurement date	132,573	-	132,573

Deferred Inflows of Resources:

Differences between expected and actual experience	3,257	8,889	12,146
Changes of assumptions	-	6,703	6,703
Changes in proportion and differences between Town contributions and proportionate share of contributions	74,135	-	74,135

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.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019, were \$23,917, which consisted of \$18,182 from the Town and \$5,735 from the law enforcement officers. No amounts were forfeited.

Supplemental Retirement Income Plan for Non-Law Enforcement Employees

All non-law enforcement employees employed by the Town participate in the Supplemental Retirement Income Plan, a defined contribution pension plan. Participation begins after the completion of at least three (3) months continuous employment with the Town. The Town has no requirement or obligation under state statutes to contribute to this plan; however, the Town has adopted the Supplemental Retirement Plan of North Carolina 401(k) for its non-law enforcement employees. The Town contributes 5% of each employee's salary, and all amounts contributed are vested immediately. Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019, were \$104,047, which consisted of \$65,253 from the Town and \$38,794 from the non-law enforcement employees. No amounts were forfeited.

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. 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 his/her death, but the benefit may not be less than \$25,000 and no more than \$50,000. 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 Trust 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.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Deferred Outflows and Inflows of Resources

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

	<u>Statement of Net Position</u>	<u>Fund Balance Sheet</u>
General Fund:		
Deferred Inflows of Resources:		
Taxes receivable, net	\$ -	\$ 2,394
Solid waste receivables, net	-	985
Grants receivable	-	296,008
Grants received in advance	90,545	90,545
Prepaid taxes	1,795	1,795
Changes in proportion and differences between Town contributions and proportionate share of contributions	74,135	-
Differences between expected and actual experience	12,146	-
Changes of assumptions	6,703	-
Deferred Outflows of Resources:		
Differences between expected and actual experience	111,421	-
Changes of assumptions	173,889	-
Net difference between projected and actual earnings on pension plan investments	86,363	-
Town contributions subsequent to the measurement date	132,573	-
Beach Capital Reserve Fund:		
Deferred Inflows of Resources:		
Taxes receivable, net	-	623

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 coverage up to \$5 million general

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

liability and auto liability coverage of \$2 million per occurrence, property coverage up to the statutory limits, and employee health coverage up to \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$500,000, up to \$500,000 for property, and \$250,000 up to \$5 million for workers' compensation. The Town also has flood coverage of \$5 million per occurrence with a \$5 million annual aggregate limit.

The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of \$1,000,000 for the aggregate losses in a single year. After the property pool has paid out \$1,000,000, then the pool will be liable for a \$10,000 per claim maintenance deductible on future property losses for that year. The remainder of each claim will be borne by the reinsurer. Settlements have not exceeded insurance coverage during any of the past three years. There were no significant reductions in insurance coverage during the year.

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 is bonded for \$100,000, and the Tax Collector is bonded for \$100,000. Remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

On-Behalf Payments for Fringe Benefits and Salaries

The Town has recognized as a revenue and expenditure, on-behalf payments for fringe benefits and salaries of \$6,680 for the salary supplement and stipend benefits paid to eligible firemen by the local Board of Trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2019. Under state law, the local Board of Trustees for the fund receives an amount each year, which the Board may use at its own discretion for eligible firemen or their departments.

Contingencies

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 monies to the grantor agencies. Management believes that any amounts to be refunded to be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Transfers From/To Other Funds

In fiscal year 2019, the Town made the following transfers within its fund structure:

Fund Name	From	To	Purpose
General Fund (Beach Expense Reserve Fund)	\$ 43,000	\$ -	Funding source for capital reserve
Beach Capital Reserve Fund	-	43,000	

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the state. The state passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town obtains an ongoing financial benefit from the fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the Board of Trustees. During the fiscal year ended June 30, 2019, the Town reported revenues and expenditures for the payments of \$6,680 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2019. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST THREE FISCAL YEARS

Law Enforcement Officers' Special Separation Allowance

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 84,544	\$ 77,959	\$ 79,357
Service cost	10,437	9,811	8,517
Interest on the total pension liability	2,618	2,944	2,655
Differences between expected and actual experience in the measurement of the total pension liability	17,401	(12,633)	-
Changes of assumptions or other inputs	(6,509)	9,858	(2,574)
Benefit payments	<u>(3,395)</u>	<u>(3,395)</u>	<u>(9,996)</u>
Ending balance of the total pension liability	<u>\$ 105,096</u>	<u>\$ 84,544</u>	<u>\$ 77,959</u>

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

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST THREE FISCAL YEARS**

Law Enforcement Officers' Special Separation Allowance			
	2019	2018	2017
Total pension liability	\$ 105,096	\$ 84,544	\$ 77,959
Covered payroll	310,845	344,151	328,731
Total pension liability as a percentage of covered payroll	33.81%	24.57%	23.72%

Notes to the Schedules:

The Town of Pine Knoll Shores has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS *

Local Governmental Employees' Retirement System						
	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.0265%	0.0311%	0.0274%	0.0311%	0.0318%	0.0315%
Town's proportion of the net pension liability (asset) (\$)	\$ 629,146	\$ 475,733	\$ 581,944	\$ 139,485	\$ (187,657)	\$ 379,696
Town's covered payroll	\$ 1,510,524	\$ 1,415,293	\$ 1,341,156	\$ 1,314,816	\$ 1,260,398	\$ 1,125,535
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	41.65%	33.61%	43.39%	10.61%	(14.89%)	33.73%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA**CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS**

Local Government Employees' Retirement System						
	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 132,573	\$ 116,100	\$ 105,621	\$ 91,396	\$ 93,946	\$ 89,711
Contributions in relation to the contractually required contribution	<u>132,573</u>	<u>116,100</u>	<u>105,621</u>	<u>91,396</u>	<u>93,946</u>	<u>89,711</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,668,686	\$ 1,510,524	\$ 1,415,293	\$ 1,341,156	\$ 1,314,816	\$ 1,260,398
Contributions as a percentage of covered payroll	7.94%	7.69%	7.46%	6.81%	7.15%	7.12%

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

	2019			2018
	Final Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad Valorem Taxes:				
Town-wide levy/current year	\$ 1,809,200	\$ 1,809,608	\$ 408	\$ 1,802,707
Town-wide levy/prior years	1,600	1,947	347	873
Penalties and interest	4,200	4,205	5	3,272
Total ad valorem taxes	<u>1,815,000</u>	<u>1,815,760</u>	<u>760</u>	<u>1,806,852</u>
Other Taxes and Licenses:				
Local option sales tax	888,000	972,143	84,143	856,300
Solid waste tax	1,000	962	(38)	930
Privilege licenses	-	120	120	105
Total other taxes and licenses	<u>889,000</u>	<u>973,225</u>	<u>84,225</u>	<u>857,335</u>
Unrestricted Intergovernmental Revenues:				
Beer and wine tax	7,500	6,052	(1,448)	8,830
Utilities franchise tax	211,000	214,994	3,994	209,338
Total unrestricted intergovernmental revenues	<u>218,500</u>	<u>221,046</u>	<u>2,546</u>	<u>218,168</u>
Restricted Intergovernmental Revenues:				
CAMA Grant	1,000	825	(175)	2,390
FEMA grants	1,015,000	949,635	(65,365)	-
State Firemen's Relief Fund contribution	6,680	6,680	-	12,320
Police Grant	36,250	35,250	(1,000)	20,250
Powell Bill	44,750	44,488	(262)	45,492
Other grants	-	-	-	17,000
Total restricted intergovernmental revenues	<u>1,103,680</u>	<u>1,036,878</u>	<u>(66,802)</u>	<u>97,452</u>
Permits and Fees:				
Building permits	53,500	61,472	7,972	92,599
Cable franchise fee	23,000	22,253	(747)	23,835
Public safety fees	102,100	116,972	14,872	90,251
Trash collection fees	407,250	407,731	481	405,190
Total permits and fees	<u>585,850</u>	<u>608,428</u>	<u>22,578</u>	<u>611,875</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

	2019			2018
	Final Budget	Actual	Variance Over/Under	Actual
Investment Earnings:				
Interest	45,525	50,755	5,230	27,155
Total investment earnings	45,525	50,755	5,230	27,155
Other Revenues:				
Insurance claims	339,500	338,734	(766)	27,642
Cell tower lease	75,000	76,882	1,882	74,027
Miscellaneous	520,400	409,434	(110,966)	59,318
Donations	104,750	108,104	3,354	61,357
Sale of capital assets	13,500	13,181	(319)	13,425
Total other revenues	1,053,150	946,335	(106,815)	235,769
Total revenues	5,710,705	5,652,427	(58,278)	3,854,606
Expenditures:				
Current:				
General Government:				
Governing Board:				
Governing board fees and benefits	23,200	22,188	1,012	22,782
Operating expenses	99,800	82,228	17,572	98,673
Total governing board	123,000	104,416	18,584	121,455
Administration:				
Salaries and benefits	321,000	306,080	14,920	293,879
Operating expenses	286,500	265,096	21,404	149,401
Total administration	607,500	571,176	36,324	443,280
Public Buildings:				
Salaries and benefits	156,100	134,803	21,297	117,572
Operating expenses	136,700	132,228	4,472	75,918
Capital outlay	56,200	54,913	1,287	7,800
Total public buildings	349,000	321,944	27,056	201,290
Total general government	1,079,500	997,536	81,964	766,025

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

	2019			2018
	Final Budget	Actual	Variance Over/Under	Actual
Public Safety:				
Police:				
Salaries and benefits	540,200	492,467	47,733	423,646
Operating expenses	154,300	133,390	20,910	99,784
Capital outlay	103,000	102,923	77	68,916
Total police	797,500	728,780	68,720	592,346
Fire/EMS:				
Salaries and benefits	950,750	934,338	16,412	871,674
Operating expenses	126,750	106,934	19,816	92,200
Firemen's Relief Fund on-behalf-of payments	6,680	6,680	-	12,320
Capital outlay	250,000	248,140	1,860	86,318
Total fire/EMS	1,334,180	1,296,092	38,088	1,062,512
Emergency Management:				
Salaries and benefits	57,300	57,764	(464)	52,640
Operating expenses	51,700	47,000	4,700	43,304
Total emergency management	109,000	104,764	4,236	95,944
Planning and Inspections:				
Salaries and benefits	179,500	172,697	6,803	155,842
Operating expenses	14,000	11,405	2,595	8,689
Capital outlay	-	-	-	2,500
Total planning and inspections	193,500	184,102	9,398	167,031
Total public safety	2,434,180	2,313,738	120,442	1,917,833
Transportation:				
Streets and Waterways:				
Salaries and benefits	25,500	6,377	19,123	11,263
Operating expenses	3,000	2,846	154	1,365
Street lights	19,000	18,171	829	19,274
Street maintenance	71,000	18,610	52,390	78,296
Total transportation	118,500	46,004	72,496	110,198

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

	2019			2018
	Final Budget	Actual	Variance Over/Under	Actual
Environmental Protection:				
Beach maintenance	74,800	74,516	284	45,864
Other operating expenses	1,097,700	1,093,763	3,937	10,665
Capital outlay	472,500	347,853	124,647	17,000
Garbage trash collection	344,000	333,915	10,085	316,878
Total environmental protection	1,989,000	1,850,047	138,953	390,407
Debt Service:				
Principal	164,000	162,390	1,610	208,317
Interest	29,000	27,260	1,740	33,084
Total debt service	193,000	189,650	3,350	241,401
Contingency	258,500	-	258,500	-
Total expenditures	6,072,680	5,396,975	675,705	3,425,864
Revenue over (under) expenditures	(361,975)	255,452	617,427	428,742
Other Financing Sources (Uses):				
Issuance of long-term debt	230,000	230,000	-	-
Transfers in	10,000	-	(10,000)	-
Transfers out	(104,000)	(43,000)	61,000	(96,000)
Appropriated fund balance	225,975	-	(225,975)	-
Total other financing sources (uses)	361,975	187,000	(174,975)	(96,000)
Net change in fund balance	\$ -	442,452	\$ 442,452	332,742
Fund Balance:				
Beginning of year - July 1		2,815,121		2,482,379
End of year - June 30		\$ 3,257,573		\$ 2,815,121

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

BEACH CAPITAL RESERVE FUND - MAJOR CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Variance with Final Budget Over/Under
	Final	Actual	
Revenues:			
Beach tax	\$ 322,800	\$ 322,713	\$ (87)
Investment earnings	49,200	50,508	1,308
Total revenues	<u>372,000</u>	<u>373,221</u>	<u>1,221</u>
Other Financing Sources (Uses):			
Transfers out	(476,000)	-	476,000
Transfers in	<u>104,000</u>	<u>43,000</u>	<u>(61,000)</u>
Total other financing sources (uses)	<u>(372,000)</u>	<u>43,000</u>	<u>415,000</u>
Net change in fund balance	<u>\$ -</u>	<u>416,221</u>	<u>\$ 416,221</u>
Fund Balance:			
Beginning of year - July 1		<u>2,587,968</u>	
End of year - June 30		<u>\$ 3,004,189</u>	

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

ENTERPRISE FUND - WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Net fees from water operations	\$ 730,000	\$ 757,281	\$ 27,281
Other operating revenues	8,500	9,603	1,103
Total operating revenues	<u>738,500</u>	<u>766,884</u>	<u>28,384</u>
Non-operating revenues:			
Interest earned on investments	14,500	14,986	486
Cell phone tower rental	75,000	76,882	1,882
Total non-operating revenues	<u>89,500</u>	<u>91,868</u>	<u>2,368</u>
Total revenues	<u>828,000</u>	<u>858,752</u>	<u>30,752</u>
Expenditures:			
Salaries and benefits	226,500	212,765	13,735
Operating expenses	199,500	148,900	50,600
Repairs and maintenance	77,500	49,623	27,877
Capital outlay	131,500	21,292	110,208
Total operating expenses	<u>635,000</u>	<u>432,580</u>	<u>202,420</u>
Debt Service:			
Principal repayment	171,000	171,000	-
Interest	122,000	114,938	7,062
Total debt service	<u>293,000</u>	<u>285,938</u>	<u>7,062</u>
Total expenditures	<u>928,000</u>	<u>718,518</u>	<u>209,482</u>
Revenues over (under) expenditures	<u>(100,000)</u>	<u>140,234</u>	<u>240,234</u>
Other Financing Sources (Uses):			
Appropriated fund balance	100,000	-	(100,000)
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>140,234</u>	<u>\$ 140,234</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Reconciling items:			
Depreciation		(163,828)	
Capitalized items		19,542	
Pension benefit (expense)		(621)	
Change in accrued interest		560	
Change in accrued salaries		(1,027)	
Change in accrued vacation		(2,143)	
Repayment of long-term debt principal		<u>171,000</u>	
Change in net position		<u>\$ 163,717</u>	

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA**AGENCY FUND****COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2019</u>
Town of Indian Beach				
Assets:				
Cash and cash equivalents	\$ 5,387	\$ 1,144,158	\$ 1,145,827	\$ 3,718
Receivables	<u>5,508</u>	<u>1,048,131</u>	<u>1,050,133</u>	<u>3,506</u>
Total assets	<u>\$ 10,895</u>	<u>\$ 2,192,289</u>	<u>\$ 2,195,960</u>	<u>\$ 7,224</u>
Liabilities:				
Miscellaneous liabilities	<u>\$ 10,895</u>	<u>\$ 2,192,289</u>	<u>\$ 2,195,960</u>	<u>\$ 7,224</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE

JUNE 30, 2019

Fiscal Year	General Fund and Beach Renourishment Special Revenue Fund			
	Uncollected Balance July 1, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 2,134,186	\$ 2,131,755	\$ 2,431
2017-2018	2,575	-	2,380	195
2016-2017	593	-	202	391
2015-2016	186	-	-	186
2014-2015	74	-	-	74
2013-2014	174	-	-	174
2012-2013	169	-	-	169
2011-2012	280	-	-	280
2010-2011	187	-	-	187
2009-2010	105	-	-	105
Total	<u>\$ 4,343</u>	<u>\$ 2,134,186</u>	<u>\$ 2,134,337</u>	4,192
Less allowance for uncollectible ad valorem taxes receivable:				<u>(1,175)</u>
Ad valorem taxes receivable, net				<u>\$ 3,017</u>
Ad Valorem Taxes Receivable, Net Reported In:				
General Fund				\$ 2,394
Beach Capital Reserve Fund				<u>623</u>
				<u>\$ 3,017</u>
Reconciliation of Collections and Credits with Revenues:				
Taxes, ad valorem, General Fund				\$ 1,815,760
Taxes, ad valorem, Beach Capital Reserve Fund				322,713
Penalties and interest				(4,351)
Miscellaneous adjustments and releases of prior year taxes				<u>215</u>
Total collections and credits				<u>\$ 2,134,337</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY - GENERAL FUND PROPERTY TAX
FOR THE YEAR ENDED JUNE 30, 2019

	Town-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy	\$ 920,880,739	\$ 0.197	\$ 1,814,135	\$ 1,773,090	\$ 41,045
Discoveries	352,260	0.197	694	694	-
Abatements	<u>(1,777,677)</u>	0.197	<u>(3,502)</u>	<u>(3,502)</u>	<u>-</u>
Total property valuation	<u>\$ 919,455,322</u>				
Net Levy			1,811,327	1,770,282	41,045
Less uncollected taxes at June 30, 2019			<u>(1,852)</u>	<u>(1,577)</u>	<u>(275)</u>
Current Year's Taxes Collected			<u>\$ 1,809,475</u>	<u>\$ 1,768,705</u>	<u>\$ 40,770</u>
Current Levy Collection Percentage			<u>99.90%</u>	<u>99.91%</u>	<u>99.34%</u>
Prior Year's Collection Percentage			<u>99.88%</u>	<u>99.89%</u>	<u>99.56%</u>

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY - SAND TAX
FOR THE YEAR ENDED JUNE 30, 2019

	Town-Wide		Total Levy	
	Property Valuation	Rate	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:				
Non-oceanfront	\$ 497,253,889	\$ 0.0160	\$ 79,561	\$ -
Oceanfront	399,437,118	0.0600	239,662	-
Motor vehicles	20,835,183	0.0185	-	3,869
Total	917,526,190		319,223	3,869
Discoveries:				
Non-oceanfront	352,260	0.0160	56	-
Total	352,260		56	-
Abatements:				
Non-oceanfront	(1,767,871)	0.0160	(283)	-
Oceanfront	(9,806)	0.0600	(6)	-
Total	(1,777,677)		(289)	-
Total property valuation	<u>\$ 916,100,773</u>			
Net Levy			322,859	3,869
Less uncollected taxes at June 30, 2019			(579)	(22)
Current Year's Taxes Collected			<u>\$ 322,280</u>	<u>\$ 3,847</u>
Current Levy Collection Percentage			<u>99.82%</u>	<u>99.43%</u>
Prior Year's Collection Percentage			<u>99.86%</u>	<u>99.62%</u>

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"A Professional Association of Certified Public Accountants and Management Consultants"

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
Board of Commissioners
Town of Pine Knoll Shores, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 Pine Knoll Shores, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Pine Knoll Shores' 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 Pine Knoll Shores' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pine Knoll Shores' 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings, Responses and Questioned Costs as 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Town of Pine Knoll Shores' Response to Finding

The Town of Pine Knoll Shores' response to the finding identified in our audit is described in the accompanying Schedule of Findings, Responses and Questioned Costs. The Town of Pine Knoll Shores' 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 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 27, 2019

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Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With OMB Uniform Guidance And The State Single Audit Implementation Act

Independent Auditor's Report

To the Honorable Mayor and
Board of Commissioners
Town of Pine Knoll Shores, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Town of Pine Knoll Shores, North Carolina's, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Town of Pine Knoll Shores' major federal programs for the year ended June 30, 2019. The Town of Pine Knoll Shores' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Town of Pine Knoll Shores complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.
Hickory, North Carolina
September 27, 2019

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency identified? Yes

Non-compliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(s) identified? None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Disaster grants – Public Assistance	97.036

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$750,000</u>
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Auditee qualified as low-risk auditee? No

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

2. Financial Statements Findings

Finding 2019-001:

Significant Deficiency

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: Due to the limited number of personnel in the Town office, there are inherent limitations to segregation of duties. Presently, the same individual can open the mail, prepare deposits, and post cash receipts. Bank reconciliations and journal entries are prepared by an individual that has full access to the accounting software. However, the Town Manager reviews a monthly report of all general ledger journal entries.

Effect: Adjustments could be made without oversight.

Cause: There are a limited number of personnel for certain functions.

Identification of a Repeat Finding: This is a repeat finding for the immediate previous audit, 2018-001.

Recommendation: Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. To the extent possible, alternative controls should be used to compensate for any lack of segregation of duties.

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding and will adhere to the Correction Action Plan in this audit report.

3. Federal Awards Findings and Questioned Costs

None reported.



The Town of Pine Knoll Shores

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2019

Financial Statement Findings

Significant Deficiency

Finding 2019-001

Name of Contact Person: Brian J. Kramer, Town Manager

Corrective Action: The Town of Pine Knoll Shores employs only 32 people on a full-time basis with over two-thirds of those employees in a police, fire, or public works capacity. The Town's ability to segregate duties in the Finance Department is limited by staffing levels with adequate knowledge or expertise of the subject matter. However, because the town continues to seek ways to provide strong internal controls and segregation of duties, credit card bills will be reconciled by Human Resources Officer/Administrative Support Specialist and payroll will be done the Tax Collector.

Proposed Completion Date: Immediately

Brian J. Kramer
Town Manager

100 Municipal Circle ♦ Pine Knoll Shores, North Carolina 28512 ♦ tele: 252-247-4353 ext. 16
fax: 252-247-4355 ♦ e-mail: manager@townofpks.com ♦ website: www.townofpks.co

TOWN OF PINE KNOLL SHORES, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Finding 2018-001

Status:

Finding was repeated as 2019-001.

Duties are being separated as much as possible and alternative controls have been implemented to the extent possible to compensate for lack of separation.

TOWN OF PINE KNOLL SHORES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2019

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-Through Grantor Number	Federal (Direct & Pass-Through) Expenditures	State Expenditures	Passed-Through to Subrecipients
<u>Federal Awards:</u>					
U.S. Department of Homeland Security:					
Passed-Through N.C Department of Public Safety:					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	69013, 66684, 66675,	\$ 934,232	\$ 311,411	\$ -
Total federal awards			934,232	311,411	-
<u>State Awards:</u>					
North Carolina Department of Transportation:					
Powell Bill			-	19,231	-
Total state awards			-	19,231	-
Total federal and state awards			\$ 934,232	\$ 330,642	\$ -

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

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Pine Knoll Shores under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the schedule presents only a selected portion of the operations of the Town of Pine Knoll Shores, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Pine Knoll Shores.

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

The Town of Pine Knoll Shores has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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