

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Report of Audit

For the Fiscal Year Ended June 30, 2019



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Financial Section

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 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 financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Topsail Beach, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2019 on our consideration of the Town of Topsail Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Topsail Beach's internal control over financial reporting and compliance.

W Greene PLLC

Whiteville, North Carolina
August 26, 2019

Management's Discussion and Analysis

As management of the Town of Topsail Beach, we offer readers of the Town of Topsail Beach's financial statements this narrative overview and analysis of the financial activities of Town of Topsail Beach for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

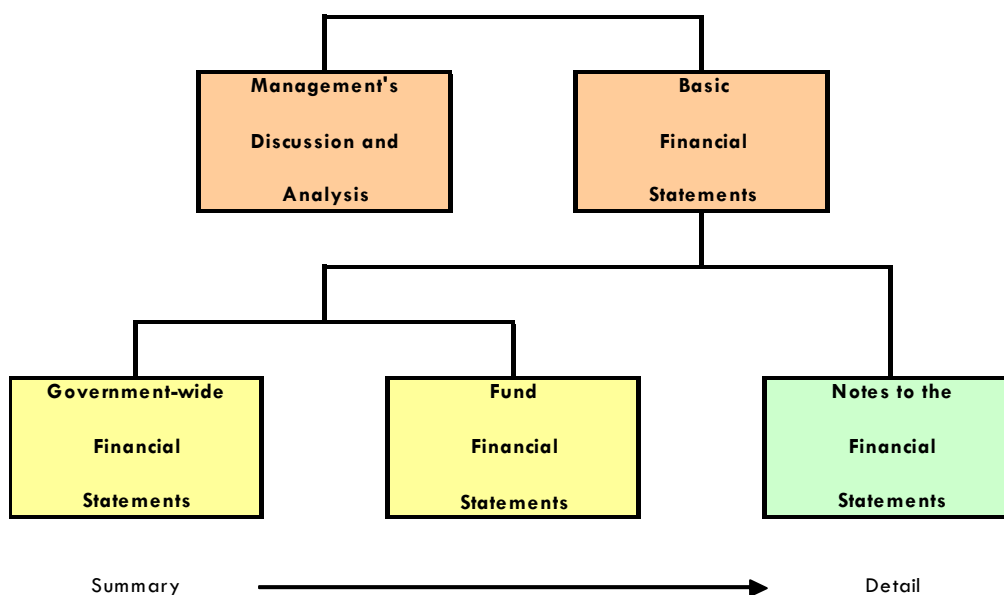
- The assets and deferred outflows of resources of the Town of Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$17,884,431 (net position).
- The government's total net position increased by \$1,814,766.
- As of the close of the current fiscal year, the Town of Topsail Beach's governmental funds reported combined ending fund balances of \$9,169,521, with an increase of \$1,541,432 in comparison with the prior year.
- Of the \$9,169,521 ending fund balance, \$2,859,670 is part of the total fund balance for the General Fund. The remaining \$6,309,851 has been designated to the Beach, Inlet, and Sound Fund (BIS) by the Town.
- At the end of the current fiscal year, fund balance available for the General Fund was \$2,611,367, or 89.65 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Topsail Beach's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Town of Topsail Beach.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 22 through 25) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (pages 26 through 37) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-wide Financial Statements

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

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

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

The government-wide financial statements are on pages 22 through 25 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Topsail Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Topsail Beach can be divided into two categories: governmental funds and proprietary funds.

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 38 through 68 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Topsail Beach's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 70 of this report.

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

Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis

Town of Topsail Beach's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 9,345,133	\$ 7,833,635	\$ 2,167,309	\$ 2,131,335	\$ 11,512,442	\$ 9,964,970
Capital assets	5,230,934	5,235,167	5,511,866	5,657,367	10,742,800	10,892,534
Deferred outflows of resources	250,863	173,875	45,594	31,237	296,457	205,112
Total assets and deferred outflows of resources	14,826,930	13,242,677	7,724,769	7,819,939	22,551,699	21,062,616
Long-term liabilities outstanding	832,950	876,992	3,082,924	3,340,479	3,915,874	4,217,471
Other liabilities	333,450	356,702	369,426	381,307	702,876	738,009
Deferred inflows of resources	42,465	32,165	6,053	5,306	48,518	37,471
Total liabilities and deferred inflows of resources	1,208,865	1,265,859	3,458,403	3,727,092	4,667,268	4,992,951
Net position:						
Net investment in capital assets	4,881,872	4,722,885	2,252,437	2,121,759	7,134,309	6,844,644
Restricted	295,398	249,942	-	-	295,398	249,942
Unrestricted	8,440,795	7,003,991	2,013,929	1,971,088	10,454,724	8,975,079
Total net position	\$ 13,618,065	\$ 11,976,818	\$ 4,266,366	\$ 4,092,847	\$ 17,884,431	\$ 16,069,665

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Topsail Beach exceeded liabilities and deferred inflows by \$17,884,431 as of June 30, 2019. The Town's net position increased by \$1,814,766 for the fiscal year ended June 30, 2019. However, a large portion (39.89%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Topsail Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Topsail Beach's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Topsail Beach's net position \$295,398 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$10,454,724 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.51%
- Increased collections of several state-shared revenues and local accommodation taxes.
- Continued oversight of expenditures.

Management's Discussion and Analysis (Continued)

Town of Topsail Beach's Net Position

Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 554,031	\$ 537,085	\$ 854,390	\$ 949,324	\$ 1,408,421	\$ 1,486,409
Operating grants and contributions	4,359,604	435,571	4,622		4,364,226	435,571
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	2,003,972	1,991,051	-	-	2,003,972	1,991,051
Other taxes	1,696,672	1,686,039	-	-	1,696,672	1,686,039
Other	227,039	90,003	38,231	3,049	265,270	93,052
Total revenues	8,841,318	4,739,749	897,243	952,373	9,738,561	5,692,122
Expenses:						
Governing Body	116,683	119,569	-	-	116,683	119,569
Administration	491,199	442,983	-	-	491,199	442,983
Police Department	905,044	796,282	-	-	905,044	796,282
Fire Department	345,251	342,869	-	-	345,251	342,869
Planning and Inspections	79,404	59,605	-	-	79,404	59,605
Public Services	285,198	296,328	-	-	285,198	296,328
Powell Bill Funds	6,697	9,169	-	-	6,697	9,169
Sanitation	336,581	291,845	-	-	336,581	291,845
Beach Management Tourism	160,734	186,221	-	-	160,734	186,221
Marina	78,241	24,982	-	-	78,241	24,982
Beach/Inlet/Sound Maintenance	4,385,134	408,692	-	-	4,385,134	408,692
Interest on Long-Term Debt	9,905	13,751			9,905	13,751
Water	-	-	723,724	701,121	723,724	701,121
Total expenses	7,200,071	2,992,296	723,724	701,121	7,923,795	3,693,417
Increase(Decrease) in net position before transfers	1,641,247	1,747,453	173,519	251,252	1,814,766	1,998,705
Transfers		(20,000)	-	20,000	-	-
Change in net position	1,641,247	1,727,453	173,519	271,252	1,814,766	1,998,705
Net position, July 1 (consolidated)	11,976,818	10,457,917	4,092,847	3,849,241	16,069,665	14,307,158
Restatement	-	(208,552)	-	(27,646)	-	(236,198)
Net Position, July 1- Restated	11,976,818	10,249,365	4,092,847	3,821,595	16,069,665	14,070,960
Net position, June 30	\$ 13,618,065	\$ 11,976,818	\$ 4,266,366	\$ 4,092,847	\$ 17,884,431	\$ 16,069,665

Governmental activities. Governmental activities increased the Town's net position by \$1,641,247 primarily due to increases in property tax revenue and increased revenues from unrestricted intergovernmental revenues and other taxes and fees.

Business-type activities: Business-type activities increased the Town of Topsail Beach's net position by \$173,519.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Topsail Beach's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Topsail Beach's financing requirements.

The general fund is the chief operating fund of the Town of Topsail Beach. At the end of the current fiscal year, the Town of Topsail Beach's fund balance available in the General Fund was \$2,611,367 while total fund balance reached \$2,859,670. The Town currently has an available fund balance of 89.65% of general fund expenditures, while total fund balance represents 98.18% of that same amount.

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

Revenues were more than the budgeted amounts primarily because of an increase in intergovernmental revenues as well as sales and service income. Total expenditures were less than budgeted.

Proprietary Funds. The Town of Topsail Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary fund at the end of the fiscal year amounted to \$2,013,929. The total change in net position for the proprietary fund was an increase of \$173,519.

Capital Asset and Debt Administration

Capital assets. The Town of Topsail Beach's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$10,742,800 (net of accumulated depreciation). These assets include buildings, land, and equipment.

Major capital asset transactions during the year include the following:

- Equipment for the governmental funds of \$52,410
- Vehicles for police and public works departments in the general fund of \$69,403

Management's Discussion and Analysis (Continued)

Town of Topsail Beach's Net Position
(net of depreciation)
Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,981,242	\$ 3,981,242	\$ 1,303,353	\$ 1,303,353	\$ 5,284,595	\$ 5,284,595
Buildings	614,993	633,647	317	567	615,310	634,214
Infrastructure	314,049	332,534	-	-	314,049	332,534
Vehicles	206,563	205,014	10,403	16,348	216,966	221,362
Plant and Distribution	-	-	4,187,316	4,320,873	4,187,316	4,320,873
Equipment	114,087	82,730	10,477	16,226	124,564	98,956
Total	\$ 5,230,934	\$ 5,235,167	\$ 5,511,866	\$ 5,657,367	\$ 10,742,800	\$ 10,892,534

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

Long-term Debt. As of June 30, 2019, Town of Topsail Beach had total long-term debt outstanding of \$4,355,789. Of this, \$-0- is debt backed by the full faith and credit of Town of Topsail Beach.

Town of Topsail Beach's Outstanding Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment purchase debt	\$ 349,062	\$ 512,282	\$ 3,259,429	\$ 3,535,608	\$ 3,608,491	\$ 4,047,890
Compensated absences	112,879	78,473	18,646	13,879	131,525	92,352
Other postemployment benefits	191,349	199,045	30,154	31,689	221,503	230,734
Pension related debt (LGERS)	257,056	172,899	50,874	35,482	307,930	208,381
Pension related debt (LEO)	86,340	77,513	-	-	86,340	77,513
Total	\$ 996,686	\$ 1,040,212	\$ 3,359,103	\$ 3,616,658	\$ 4,355,789	\$ 4,656,870

The Town of Topsail Beach's total debt decreased by \$301,081 during the fiscal year. North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Topsail Beach is \$50,839,645. The Town of Topsail Beach does not have any authorized but un-issued debt at June 30, 2019.

Additional information regarding Town of Topsail Beach's long-term debt can be found beginning on page 65 in the Notes to the Financial Statements.

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets Rates

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

- Growth in the number of short term seasonal rentals and day visitors
- New construction

Budget Highlights for the Fiscal Year Ending June 30, 2020

This year's recommended General Operating Budget is a balanced budget totaling \$29,627,475 for the General Fund, Restricted Funds and the Utility Enterprise Funds. This compares to \$28,571,406 in FY 2018 – 2019. In both years, over \$24 million was designated for our next Storm Damage Reduction Project budgeted in the BIS Fund. The project has carried over from FY 2019 as much of the project was held over to this new fiscal year. A closer look at the breakdown of the budget by fund shows the following:

	<u>FY 2019</u>	<u>Proposed FY 2020</u>
General Fund	\$2,988,155	\$3,189,475
BIS Fund	\$24,578,895	\$25,545,000
Utility Enterprise Fund	\$1,004,356	\$893,000

This proposed budget recommends lowering the tax rate level from \$0.3125 per \$100 valuation to \$0.29 per \$100 valuation. Under this proposal, the General Fund tax rate would be \$0.1875 per \$100 valuation, while the BIS Fund would be \$0.1025 per \$100 valuation. The combined tax rate for Topsail Beach of \$0.29 is still in line with similar coastal communities in the area, and in many cases considerably lower.

This year Pender County has completed a Property Reappraisal for all properties including Topsail Beach. As a part of the process, local governments are required to prepare a revenue-neutral tax rate for consideration. It is intended to make the property tax reappraisal and rate setting process more transparent. The rate is required to be calculated and published by local governments but need not actually be adopted for the coming fiscal year. If adopted, the rate is revenue-neutral for the town as a whole but not necessarily for individual taxpayers.

What is the revenue-neutral tax rate ("RNTR") and why does it exist?

NCGS 159-11(e) defines the RNTR and requires that it be included in the proposed budget submitted by the finance officer to the governing board "for comparison purposes" in reappraisal years. Counties (and therefore the municipalities in those counties) must conduct reappraisals of real property at least every four to eight years. Pender County uses an eight-year reappraisal cycle.

When a reappraisal occurs, the tax base for that county and its municipalities changes because real property values are pegged back to market value. In "normal" economic times, the real property tax base increases after a reappraisal, usually between 20% and 40% depending on how long it's been since the county's last reappraisal. Unfortunately, the process of reappraisal was nearly completed when Hurricane Florence hit, making the analysis more difficult. It may also result in a higher number of appeals to the property values which could have a significant impact on tax collections for the Town.

When the tax base changes, local governments may experience a change in tax revenue if its tax rate were to remain unchanged for the new fiscal year. The RNTR is intended to show the tax rate that would keep the local government's revenue neutral given its new tax base, although the statutory calculation does allow for increases to the current year's revenue by the average annual growth rate experienced by the local government's tax base since the last reappraisal.

RNTR only applies to real and personal property assessments and does not consider any gains or losses to other revenue streams. When preparing a budget and determining the appropriate tax rate, the Town must consider growth or decline in all revenue sources. For Topsail Beach, impacts to Accommodation Tax collection as a result of Hurricane Florence have a major effect on the budget. In addition, the RNTR does not factor in any inflationary rates to expenses over the same period however, which must be accounted for within the overall budget.

Management's Discussion and Analysis (Continued)

Staff has calculated the RNTR based on the formulas provide by the State, a copy of which is attached. Based on these calculations, the RNTR for Topsail Beach is \$0.2687 per \$100 valuation. This compares to the current rate of \$0.3125 per \$100 valuation, and the proposed rate of \$0.29 per \$100 valuation.

Revenues for the Town's General Fund are divided into several different major categories: Property Tax, Taxes and Fees, Unrestricted Intergovernmental Revenues, Restricted Revenues and Capital Reserve Funds. This does not include the revenues related to the BIS or Utility Enterprise, which has been established as separate funds. Within each of these categories are several sources of revenue which are described below. Property Tax (42%) makes up the largest segment of the revenue generation, followed by Taxes and Fees (26%) and Intergovernmental Revenues (20%). Of these, the Town controls property tax levies and some fee schedules, but much of the State-Shared revenues are determined by other actions in the NC General Assembly or other external factors.

Revenues are shown by sources and by funds. Revenue projections can be made more accurately when revenues are segregated by source and managed accordingly. The major revenues by source are as follows:

PROPERTY TAX

- ❖ **Ad Valorem Tax:** Pender County performs all calculations of assessed property valuations, real and personal, including the recent reappraisal. The total property tax is calculated based upon a compilation of projected assessed value from the Pender County Tax Assessor's Office and current year levy as set by Town Board. The proposed property tax rate currently is set at \$0.29 per one hundred dollars (\$100) of assessed valuation: \$0.1875 of which is for general government and \$0.1025 of which is designated for the BIS Fund. There is a total assessed value of \$732,303,970 inside the town limits.
- ❖ **DMV Tax:** The DMV, or automobile tax is calculated based on an average local fair market value as set by Pender County at the Town Board adopted property tax rate. The total assessed value for the Town is \$5,086,930.
- ❖ **Interest – Ad Valorem Taxes:** The revenue generated by penalties and interest is estimated with the use of trend analysis. Penalties are assessed on payments made after January 5. For the period from January 6 to February 1, interest accrues at the rate of 2%. Thereafter, interest accrues at the rate of 3/4% per month until outstanding balances are paid in full.

TAXES AND FEES

- **Topsail Accommodations Tax:** The Town imposes a tax levy of three percent (3%) of the gross receipts of any person, firm, corporation or association derived from the rental of any sleeping room or lodging. This includes both hotel/motel facilities and private residences. By law, all accommodation taxes received shall be used for "tourism-related" expenditures, which include but is not limited to public safety, public facilities, and solid waste collection. This budget allocates fifty percent (50%) of the revenue collected the BIS Fund and fifty percent (50%) is allocated to General Fund. This budget anticipates a decrease as a result of lost rentals due to Hurricane Florence. The total amount budgeted is \$400,000 for FY 20, compared to a total amount of \$430,000 in FY 19. Of this amount, \$200,000 is allocated to the General Fund. (The rest is for the BIS Fund).
- **Tower Lease:** The Town leases property behind Town Hall for a communications tower. Space on the tower is leased for a fee to the following: T-Mobile, Verizon, CenturyLink and AT&T. These are based on existing lease agreements that are reviewed and considered for extensions upon contract.
- **Solid Waste Fees:** Solid Waste fees are charged to each resident to cover the cost of contracted service in the Town. The current fee is \$15/month for one cart, with additional fees charged for additional carts if requested by the property owner. There is a recycling fee of \$3/month per residential unit developed to cover the costs to operate the Recycling Center located on Carolina Avenue.
- **Fees and Receipts:** Several of the departments charge various fees for services, rentals, or other activities. These include but are not limited to zoning and building permit fees, temporary permits, compliance permits, and similar items. Also included are the boat ramp and boat slip fees, as well as the beach

access fees for vehicles. These fees are designed to cover much of the costs incurred for the provision of related services. With the planned Beach Project scheduled for this fall, the budget does not include revenue for beach access passes. Under normal years, this can generate more than \$25,000 in revenue for the Town.

UNRESTRICTED INTERGOVERNMENTAL REVENUES

- **Utilities Franchise Tax:** As a result of tax reform legislation passed by the North Carolina General Assembly, the distribution method for electricity sales tax and piped natural gas changed in FY 2015, creating a greater distribution of revenue to the municipalities. After seeing a decline in revenue over the last few years, FY 2019 had a slight uptick. According to the NCLM, another slight increase is anticipated for FY 2020. This revenue is highly sensitive to weather; cool summers and mild winters can dramatically affect these receipts. For the purpose of this summary, it is assumed we will see a slight increase in revenues this year.
- **Alcohol Beverage:** Cities share in the tax on sales of both beer and wine based upon municipal population levels. The State of NC typically distributes this revenue source late in May. In addition, Pender County collects revenues on gross receipts of ABC sales for the county and distributes thirty-five percent (35%) of the revenue to the six municipalities based on a per capita distribution.
- **Local Sales Tax:** The State collects and distributes the proceeds from locally levied tax on retail sales to local governments. This revenue source is subject to further significant swings related to the population of the Town of Topsail Beach as compared with other Pender County local governments. Any significant change (increase or decrease) in other governments' population can result in significant changes to the Town's share of local sales tax distributions. A conservative estimate based on recent trends has been applied to this budget.
- **County Option 4 Tax:** Distribution for Article 40 and 42 Sales Tax is determined by the County. In 1992, special legislation was enacted creating an equitable method for distribution known as the "Option Four Redistribution" for Pender County. The State distributes the sales tax revenues on a per capita basis. The formula then allocates to the beach communities the amount they would receive using an ad valorem basis. The cost is then redistributed on a pro-rata basis to the County, School Board, and the municipalities. As a result, the beach communities receive more than they would using per capita basis, but less than under the ad valorem system.

RESTRICTED REVENUES

- ✓ **Powell Bill** The Town of Topsail Beach receives an annual distribution from the North Carolina Department of Transportation of prior year gas tax receipts. Municipal Powell Bill distributions are based upon population and number of municipal street miles maintained. Although gas purchases are volatile during this period of increased prices, this budget estimates revenues to remain stable.
- ✓ **Fire Grants:** The Fire Department has applied for a potential grant with NCDOT (totaling \$38,000) for equipment replacement and similar needs.

CAPITAL RESERVE FUNDS

Capital Reserve Funds are monies earmarked for the purchase or acquisition of vehicles and/or equipment needs for the Town as well as the potential studies related to the capital program. The money is set aside on an annual basis and allocated by the Board as part of the budget process. Capital items generally a value of \$5,000 or more with an expendable life of more than one year.

EXPENDITURES

The General Fund is the daily operating account for the Town. The large majority of services available to the residents and visitors of Topsail Beach falls under the General Fund. For the purpose of this budget, the General Fund consists of the following departments and the service they provide:

- ❖ Administration (includes Town Board, Administration, and Inspections/Planning)
- ❖ Police
- ❖ Fire
- ❖ Public Works (includes Powell Bill Funds)
- ❖ Solid Waste
- ❖ Bush Marina
- ❖ Beach Management and Tourism

This budget does address staffing needs moving forward for the Town, including two new positions in Administration (Deputy Clerk and Account Technician) and a new full-time Firefighter. The budget also includes an increase to the salary line item for potential merit increases. Capital items within the budget (those large item purchases that are not re-occurring) are included in each department's budget. For the most part, the budget tries to hold the line on most of the operational costs, such as departmental supplies, maintenance and repair needs, staff development, and vehicle operations. Funds are appropriated at adequate levels in order to maintain or improve the quality and the level of service that has been provided historically.

For FY 2020, Public Safety accounts for approximately 42.3% of the operating and capital budget within the General Fund. Much of the larger expense is in capital as the Town provides for vehicles and equipment necessary for the provision of services. Personnel costs are also a significant portion of the operational costs as both police and fire provide for protection to our citizens and businesses. Administration accounts for the next largest percentage of annual cost at 24.9%.

BIS FUND

Topsail Beach recognizes the vital role that our beach, inlet and sound have as a recreational, environmental, and economical engine for our community. As such, this and previous Board of Commissioners have been prudent stewards of these assets, aided by the Beach, Inlet and Sound (BIS) Committee. The BIS Committee evaluates beach project options and makes recommendations to the Board for future activities. It is also responsible for communication with the public on these matters including hosting several Community Forums.

The Town has been proactive in its efforts to maintain both the beach and the waterways, largely through the development and implementation of its 30-year Storm Damage Reduction Plan. To ensure that adequate funding would be available to supplement federal and state funds, the Town established a separate BIS Fund, utilizing a portion of the tax revenues generated as well as accommodation taxes collected. This allows the Town to be in position to continue its scheduled maintenance projects as well as being prepared for unanticipated disasters such as hurricanes and nor'easters.

This year's budget includes more than \$24 million for the construction of the next phase of the 30-year plan. This project, designed to provide protection to properties from the impacts of storms and erosions, includes among other efforts the development of a new dune and the widening of the public trust beach. Permitting project is underway and schedule to begin in November 2019.

The Beach Inlet and Sound (BIS) Fund generates revenue from the following sources:

- 1) Ad Valorem Tax Revenue - \$0.1025 per \$100 assessed value of real and personal property
- 2) Pender County Accommodations Tax – Pender County provides 100% of the revenue generated from its accommodations tax to Topsail Beach which is allocated to the BIS Fund. The tax is collected in a similar manner as the Topsail Beach Accommodations Tax

Management's Discussion and Analysis (Continued)

- 3) Topsail Beach Accommodations Tax – A proposed amount of 50% of the revenue collected (as stated above) is allocated to the BIS Fund as discussed earlier in this document.
- 4) Pender County Funds – Pender County allocates additional funding to the Town towards the maintenance and repair of the beach. FY 2020 projects this figure to be \$200,000.
- 5) FEMA Reimbursement – As a result of damage to the beach as a result of Hurricanes Matthew and Florence, the Town is eligible for reimbursement of funds spent on repair up to \$23.1 million.
- 6) The projected BIS Fund budget includes grant revenues of approximately \$900,000 from the NC Shallow Draft Navigation Channel Maintenance and Aquatic Weed Fund.

UTILITY ENTERPRISE FUND

The FY2020 Utility Enterprise Fund budget focuses largely on the provision of water to our homes and businesses. This budget allows the Town to address not only current needs and demands, but also begins to prepare for the future needs as well. Efforts are in place to explore future options for both water and a wastewater service as the Town continues to deal with growth and environmental concerns. It is critical that the Town is proactive when it comes to planning for an essential service like water and wastewater management. The Town has made significant capital investment in water projects over the past several years, most notably the construction of the existing water tower. Those necessary improvements were funded through no-interest or low interest loans that created debt service for the fund.

This budget maintains the current rate structure for water usage. It includes a water facility charge designed to maintain funds to offset the debt service, and therefore position the Town to make necessary improvements in the future.

SUMMARY

The FY 2020 budget reflects the priorities of the Town Board of Commissioners and staff as we move forward. The Board and staff are committed to providing a high level of service to our residents, property owners, and visitors while maintaining a strong sense of fiscal responsibility. We cannot always control the environment surrounding us, but we can plan to address our needs with the best interests of our community in mind at all times. As a resort community we face unique challenges, particularly during the tourist season. We are committed to provide excellent core services like police and fire, public works and sanitation services, clean water, and safe access while maintaining strong amenities such as Town Center Park and Bush Marina. We are committed to preserving and protecting our beaches through our Storm Damage Reduction Plan and Beach Nourishment so that our homes and property are protected while providing the best recreational beaches possible. We must continue to be vigilant in our efforts and dedicated to the overall goal of providing a safe, affordable, and attractive place for our citizens and our businesses while managing the growth in Topsail Beach. The budget is a tool to help us achieve our goals.

Requests for Information

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

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

Basic Financial Statements

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Net Position

June 30, 2019

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 7,445,420	\$ 1,921,021	\$ 9,366,441
Receivables (net):			
Ad Valorem Taxes	10,066	-	10,066
Accommodations Taxes	162,977	-	162,977
Interest	1,228	-	1,228
Accounts	29,148	246,288	275,436
Due from Other Governments	1,649,199	-	1,649,199
Restricted Cash and Cash Equivalents	47,095	-	47,095
Total Current Assets	9,345,133	2,167,309	11,512,442
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	3,981,242	1,303,353	5,284,595
Other Capital Assets, Net of Depreciation	1,249,692	4,208,513	5,458,205
Total Noncurrent Assets	5,230,934	5,511,866	10,742,800
Total Assets	14,576,067	7,679,175	22,255,242
DEFERRED OUTFLOWS OF RESOURCES			
Pension Deferrals	237,147	45,594	282,741
OPEB Deferrals	13,716	-	13,716
Total Deferred Outflows of Resources	\$ 250,863	\$ 45,594	\$ 296,457

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

June 30, 2019

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable and			
Accrued Liabilities	\$ 164,318	\$ 7,757	\$ 172,075
Interest Payable	5,396	1,555	6,951
Customer Deposits	-	83,935	83,935
Current Portion of Long-Term Liabilities	163,736	276,179	439,915
Total Current Liabilities	333,450	369,426	702,876
Long-Term Liabilities:			
Net Pension Liability	257,056	50,874	307,930
Total Pension Liability	86,340	-	86,340
Total OPEB Liability	191,349	30,154	221,503
Due in More Than One year	298,205	3,001,896	3,300,101
Total Liabilities	1,166,400	3,452,350	4,618,750
DEFERRED INFLOWS OF RESOURCES			
Pension Deferrals	11,514	1,176	12,690
OPEB Deferrals	30,951	4,877	35,828
Total Deferred Inflows of Resources	42,465	6,053	48,518
NET POSITION			
Net Investment in Capital Assets	4,881,872	2,252,437	7,134,309
Restricted for:			
Transportation	47,095	-	47,095
Stabilization by State Statute	248,303	-	248,303
Unrestricted	8,440,795	2,013,929	10,454,724
Total Net Position	\$ 13,618,065	\$ 4,266,366	\$ 17,884,431

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Governing Body	\$ 116,683	\$ -	\$ -	\$ -
Administration	491,199	78,426	-	-
Police	905,044	6,263	-	-
Fire	345,251	-	-	-
Inspections	79,404	81,963	-	-
Public Services	285,198	-	4,342,933	-
Powell Bill	6,697	-	16,384	-
Sanitation	336,581	334,117	287	-
Beach Management and Tourism	160,734	300	-	-
Marina	78,241	52,962	-	-
Beach/Inlet/Sound Maintenance	4,385,134	-	-	-
Interest on long-term debt	9,905	-	-	-
Total Governmental Activities	7,200,071	554,031	4,359,604	-
Business-Type Activities:				
Water	723,724	854,390	4,622	-
Total Business-Type Activities	723,724	854,390	4,622	-
Total Primary Government	7,923,795	1,408,421	4,364,226	-

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Activities (Continued)

For the Year Ended June 30, 2019

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Functions/Programs	Governmental Activities	Business-Type Activities	Totals
Primary Government:			
Governmental Activities:			
Governing Body	\$ (116,683)	\$ -	\$ (116,683)
Administration	(412,773)	-	(412,773)
Police	(898,781)	-	(898,781)
Fire	(345,251)	-	(345,251)
Inspections	2,559	-	2,559
Public Services	4,057,735	-	4,057,735
Powell Bill	9,687	-	9,687
Sanitation	(2,177)	-	(2,177)
Beach Management and Tourism	(160,434)	-	(160,434)
Marina	(25,279)	-	(25,279)
Beach/Inlet/Sound Maintenance	(4,385,134)	-	(4,385,134)
Interest on long-term debt	(9,905)	-	(9,905)
Total Governmental Activities	(2,286,436)	-	(2,286,436)
Business-Type Activities:			
Water	-	135,288	135,288
Total Business-Type Activities	-	135,288	135,288
Total Primary Government	(2,286,436)	135,288	(2,151,148)
General Revenues:			
Property Taxes, Levied for General Purpose	2,003,972	-	2,003,972
Other Taxes and Licenses	1,696,672	-	1,696,672
Investment Earnings	129,895	3,796	133,691
Miscellaneous	97,144	34,435	131,579
Transfers	-	-	-
Total General Revenues and Transfers	3,927,683	38,231	3,965,914
Change in Net Position	1,641,247	173,519	1,814,766
Net Position - Beginning of Year	11,976,818	4,092,847	16,069,665
Net Position - End of Year	\$ 13,618,065	\$ 4,266,366	\$ 17,884,431

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Balance Sheet

Governmental Funds

June 30, 2019

	Major Funds		
	General Fund	Beach, Inlet, and Sound Capital Project Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 2,640,258	\$ 4,805,162	\$ 7,445,420
Restricted Cash	47,095	-	47,095
Receivables (net):			
Ad Valorem Taxes	6,493	3,573	10,066
Accommodations Tax	40,744	122,233	162,977
Accounts	29,148	-	29,148
Due from Other Governments	178,411	1,470,788	1,649,199
Total Assets	\$ 2,942,149	\$ 6,401,756	\$ 9,343,905
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 75,986	\$ 88,332	\$ 164,318
Total Liabilities	75,986	88,332	164,318
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Receivable	6,493	3,573	10,066
Total Deferred Inflows of Resources	6,493	3,573	10,066
FUND BALANCES			
Restricted			
Stabilization by State Statute	248,303	-	248,303
Streets	47,095	-	47,095
Committed			
Beach/Inlet/Sound Maintenance	-	6,309,851	6,309,851
Future Capital Expenditures	740,111	-	740,111
Assigned			
Subsequent Year's Expenditures:	-	-	-
Unassigned	1,824,161	-	1,824,161
Total Fund Balances	2,859,670	6,309,851	9,169,521
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,942,149	\$ 6,401,756	

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Balance Sheet (Continued)

Governmental Funds

June 30, 2019

		Total Governmental Funds
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total Governmental Fund Balance		\$ 9,169,521
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical costs	\$ 7,380,711	
Accumulated depreciation	<u>(2,149,777)</u>	5,230,934
Deferred outflows of resources related to pensions are not reported in the funds		237,147
Deferred outflows of resources related to OPEB are not reported in the funds		13,716
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred		
Accrued interest - taxes	<u>1,228</u>	1,228
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
Ad valorem taxes	10,066	
Other taxes	<u>-</u>	10,066
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(5,396)	
Installment purchases	(349,062)	
Total pension liability	(86,340)	
Net pension liability	(257,056)	
OPEB liability	(191,349)	
Compensated absences	<u>(112,879)</u>	(1,002,082)
Deferred inflows of resources related to pensions are not reported in the funds		(11,514)
Deferred inflows of resources related to OPEB are not reported in the funds		<u>(30,951)</u>
Net position of governmental activities.		<u><u>\$ 13,618,065</u></u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2019

	Major Funds		
	General Fund	Beach, Inlet, and Sound Capital Project Fund	Total Governmental Funds
Revenues			
Ad Valorem Taxes	\$ 1,263,212	\$ 749,475	\$ 2,012,687
Other Taxes and Licenses	215,524	822,707	1,038,231
Unrestricted Intergovernmental	658,441	-	658,441
Restricted Intergovernmental	118,370	4,241,234	4,359,604
Permits and Fees	141,488	-	141,488
Sales and Services	412,543	-	412,543
Investment Earnings	103,164	26,731	129,895
Miscellaneous	77,826	19,318	97,144
Total Revenues	2,990,568	5,859,465	8,850,033
Expenditures			
Current			
Governing Body	116,683	-	116,683
Administration	470,702	-	470,702
Police	839,876	-	839,876
Fire	301,362	-	301,362
Inspections	76,722	-	76,722
Public Services	276,650	-	276,650
Powell Bill	4,660	-	4,660
Marina	71,840	-	71,840
Sanitation	335,725	-	335,725
Beach Management and Tourism	133,870	-	133,870
Beach/Inlet/Sound Maintenance	-	4,383,024	4,383,024
Federal Beach Project	-	-	-
Debt Service			
Principal	163,220	-	163,220
Interest and Other charges	12,454	-	12,454
Capital Outlay			
Police	49,331	-	49,331
Administration	28,726	-	28,726
Public Services	30,870	-	30,870
Beach/Inlet/Sound Maintenance	-	12,886	12,886
Total Expenditures	2,912,691	4,395,910	7,308,601
Excess (Deficiency) of Revenues Over Expenditures	77,877	1,463,555	1,541,432
Other Financing Sources (Uses)			
Transfers from Other Funds	329,100	-	329,100
Transfers to Other Funds	(329,100)	-	(329,100)
Installment Purchase Obligations Issued	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	77,877	1,463,555	1,541,432
Fund Balance - Beginning of Year	2,781,793	4,846,296	7,628,089
Fund Balance - End of Year	\$ 2,859,670	\$ 6,309,851	\$ 9,169,521

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

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

Governmental Funds

For the Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds	\$ 1,541,432
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	121,813	
Contributed Assets	-	
Depreciation expense	<u>(126,046)</u>	(4,233)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	74,160
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Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities	-
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OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities	13,716
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Change in unavailable revenue for tax revenues	(6,138)	
Interest earned on ad valorem taxes	<u>(2,577)</u>	(8,715)

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

Debt issuance	-	
Debt retirement	<u>163,220</u>	163,220

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest payable	2,549	
Compensated absences	(34,406)	
Pension Expense	(69,890)	
OPEB plan expense	<u>(36,586)</u>	(138,333)

Total changes in net position of governmental activities	<u>\$ 1,641,247</u>
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TOWN OF TOPSAIL BEACH, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad Valorem Taxes	\$ 1,222,780	\$ 1,222,780	1,263,212	\$ 40,432
Other Taxes and Licenses	215,000	215,000	215,524	524
Unrestricted Intergovernmental	586,000	600,000	658,441	58,441
Restricted Intergovernmental	41,675	132,729	118,370	(14,359)
Permits and Fees	135,500	135,500	141,488	5,988
Sales and Services	406,000	406,000	412,543	6,543
Investment Earnings	20,000	65,000	103,164	38,164
Miscellaneous	32,100	84,023	77,826	(6,197)
Total Revenues	2,659,055	2,861,032	2,990,568	129,536
Expenditures				
Governing Body	77,100	122,100	116,683	5,417
Administration	525,810	530,320	499,428	30,892
Police	826,055	883,105	889,207	(6,102)
Fire	351,280	372,093	322,979	49,114
Inspections	94,860	95,283	76,722	18,561
Public Services	452,740	458,652	307,520	151,132
Powell Bill Funds	16,500	16,500	4,660	11,840
Marina	181,160	241,617	225,897	15,720
Sanitation	327,000	327,000	335,725	(8,725)
Beach Management and Tourism	135,650	143,462	133,870	9,592
Federal Beach Project	-	-	-	-
Total Expenditures	2,988,155	3,190,132	2,912,691	277,441
Revenues Over (Under) Expenditures	(329,100)	(329,100)	77,877	406,977
Other Financing Sources (Uses)				
Transfers From Other Funds	329,100	329,100	329,100	-
Transfers To Other Funds	-	-	-	-
Installment Purchase Obligations Issued	-	-	-	-
Total Other Financing Sources (Uses)	329,100	329,100	329,100	-
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	406,977	406,977
Appropriated Fund Balance	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	406,977	\$ 406,977
Fund Balance - Beginning of Year			1,712,582	
Fund Balance - End of Year			\$ 2,119,559	

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

Fund Balance - End of Year	<u>\$ 2,119,559</u>
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A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:

Transfer to General Fund	(329,100)
Transfer to Water Fund	-
Transfer from General Fund	-
Transfer from Water Fund	-
Fund Balance - Beginning	<u>1,069,211</u>
	<u>740,111</u>

Fund Balance - End of Year (Consolidated)	<u><u>\$ 2,859,670</u></u>
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TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Fund Net Position

Proprietary Fund

June 30, 2019

	Water Fund
ASSETS	
Current Assets	
Cash and Investments	\$ 1,921,021
Accounts Receivable (net)	<u>246,288</u>
Total Current Assets	<u>2,167,309</u>
Noncurrent Assets	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	1,303,353
Other Capital Assets, Net of Depreciation	<u>4,208,513</u>
Total Capital Assets	<u>5,511,866</u>
Total Noncurrent Assets	<u>5,511,866</u>
Total Assets	<u><u>7,679,175</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferrals	45,594
OPEB Deferrals	<u>-</u>
Total Deferred Outflows of Resources	<u><u>\$ 45,594</u></u>

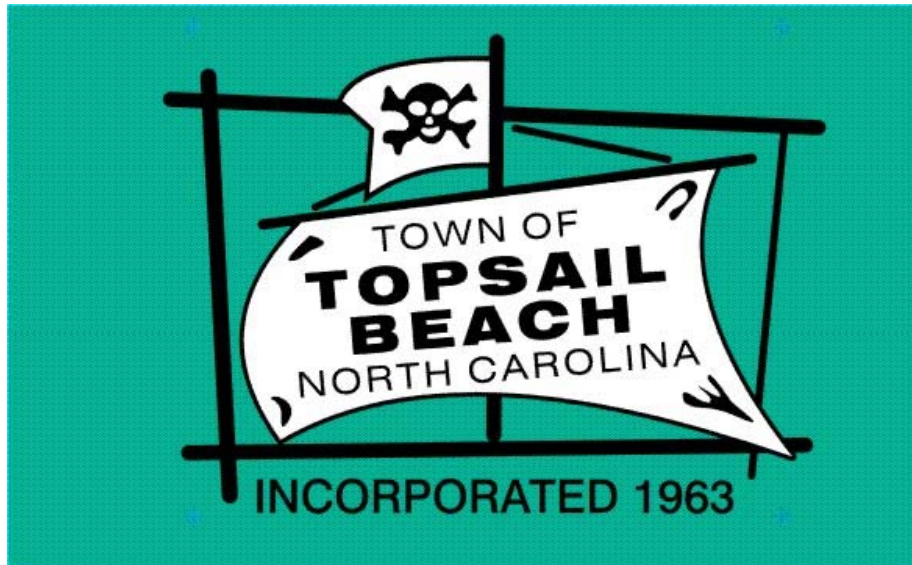
TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Fund Net Position

Proprietary Fund

June 30, 2019

	Water Fund
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ 7,757
Interest Payable	1,555
Customer Deposits	83,935
Installment Notes Payable	276,179
Total Current Liabilities	<u>369,426</u>
Noncurrent Liabilities	
Installment Notes Payable	2,983,250
Net Pension Liability	50,874
Total OPEB Liability	30,154
Compensated Absences Payable	18,646
Total Noncurrent Liabilities	<u>3,082,924</u>
Total Liabilities	<u><u>3,452,350</u></u>
DEFERRED INFLOWS OF RESOURCES	
Pension Deferrals	1,176
OPEB Deferrals	4,877
Total Deferred Inflows of Resources	<u><u>6,053</u></u>
NET POSITION	
Net Investment in Capital Assets	2,252,437
Unrestricted	<u>2,013,929</u>
Total Net Position	<u><u>\$ 4,266,366</u></u>



TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Fund

For the Year Ended June 30, 2019

	Water Fund
Operating Revenues	
Water Charges	\$ 826,955
Water Taps	8,650
Impact Fees	18,785
Miscellaneous	34,435
Federal Grants	4,622
Total Operating Revenues	<u>893,447</u>
Operating Expenses	
Water Operations	557,427
Depreciation	145,501
Total Operating Expenses	<u>702,928</u>
Operating Income (Loss)	<u>190,519</u>
Nonoperating Revenues (Expenses)	
Investment Earnings	3,796
Interest Expense	(20,796)
Total Nonoperating Revenues (Expenses)	<u>(17,000)</u>
Total Income (Loss) Before Transfers	173,519
Transfers from Other Funds	<u>-</u>
Change in Net Position	<u>173,519</u>
Total Net Position - Beginning	<u>4,092,847</u>
Total Net Position - End of Year	<u><u>\$ 4,266,366</u></u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2019

	Water Fund
Cash Flows from Operating Activities	
Cash Received from Customers and Users	\$ 857,978
Cash Paid for Goods and Services	(314,487)
Cash Paid to Employees for Services	(251,668)
Customer Deposits Received	3,205
Customer Deposits Returned	(1,150)
Net Cash Provided(Used) by Operating Activities	<u>293,878</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	-
Net Cash Provided(Used) by Noncapital Financing Activities	<u>-</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	-
Installment Loan Proceeds	-
Interest Paid on Installment Purchases	(20,990)
Principal Paid on Installment Purchases	(276,179)
Net Cash Provided(Used) by Capital and Related Financing Activities	<u>(297,169)</u>
Cash Flows from Investing Activities	
Interest on Investments	3,796
Net Cash Provided(Used) by Investing Activities	<u>3,796</u>
Net Increase(Decrease) in Cash and Cash Equivalents	505
Cash and Cash Equivalents - Beginning of Year	<u>1,920,516</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 1,921,021</u></u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended June 30, 2019

	Water Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 190,519
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	145,501
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(35,469)
(Increase) Decrease in Pension Deferrals - Deferred Outflows of Resources	(14,357)
(Increase) Decrease in OPEB Deferrals - Deferred Outflows of Resources	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(13,742)
Increase (Decrease) in Customer Deposits	2,055
Increase (Decrease) in Net Pension Liability	15,392
Increase (Decrease) in OPEB Liability	(1,535)
Increase (Decrease) in Pension Deferrals - Deferred Inflows of Resources	(1,536)
Increase (Decrease) in OPEB Deferrals - Deferred Inflows of Resources	2,283
Increase (Decrease) in Compensated Absences Payable	4,767
Total Adjustments	103,359
Net Cash Provided(Used) by Operating Activities	\$ 293,878

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Topsail Beach conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State funds, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and general administration.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Beach, Inlet, and Sound Capital Project Fund. This fund is used to account for projects to improve and maintain the Town's beach, inlet and sound.

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Deposits and Investments

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Powell bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S.136-41.1 through 136-41.4.

Town of Topsail Beach Restricted Cash

Governmental Activities	
General Fund	
Streets	\$ 47,095
Total governmental activities	<u>47,095</u>
Total Restricted Cash	<u>\$ 47,095</u>

4. Ad Valorem Taxes Receivable

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Allowances for Doubtful Accounts

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

6. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Donated capital assets received prior to June 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 cost. General infrastructure assets acquired prior to July 1, 2003 are not recorded. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category -property taxes receivable and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

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

The Town's sick leave policy provides for an unlimited number of days of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Stabilization by State statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net Position and Restricted Fund Balance on the face of the balance sheet.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11. Net Position/Fund Balances (Continued)

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Topsail Beach's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

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

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

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

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

12. Defined Benefit Cost-Sharing Plans

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

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in 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 the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$6,243,766 and a bank balance of \$6,305,351. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

2. Investments

At June 30, 2019, the Town of Topsail Beach had \$3,169,770 invested with the 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.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

Fund	06/30/2019
General Fund:	
Taxes receivable	\$ 1,000
Total	\$ 1,000

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,981,242	\$ -	\$ -	\$ 3,981,242
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	3,981,242	-	-	3,981,242
Capital assets being depreciated:				
Buildings and Improvements	953,923	-	-	953,923
Equipment	381,648	52,410	-	434,058
Vehicles	1,430,571	69,403	-	1,499,974
Infrastructure	511,514	-	-	511,514
Total capital assets being depreciated	3,277,656	121,813	-	3,399,469
Less accumulated depreciation for:				
Buildings and Improvements	320,276	18,654	-	338,930
Equipment	298,918	21,053	-	319,971
Vehicles	1,225,557	67,854	-	1,293,411
Infrastructure	178,980	18,485	-	197,465
Total accumulated depreciation	2,023,731	126,046	-	2,149,777
Total capital assets being depreciated, net	1,253,925			1,249,692
Governmental activity capital assets, net	\$ 5,235,167			\$ 5,230,934

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

Administration	\$ 11,469
Police	36,605
Fire	37,478
Public Services	2,161
Sanitation	856
Beach Management and Tourism	26,891
Beach Inlet Sound	2,148
Marina	6,401
Powell Bill	2,037
Total	<u>\$ 126,046</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water Fund</i>				
Capital assets not being depreciated:				
Land	\$ 1,303,353	\$ -	\$ -	\$ 1,303,353
Construction In Progress	-	-	-	-
Total capital assets not being depreciated	1,303,353	-	-	1,303,353
Capital assets being depreciated:				
Buildings	5,000	-	-	5,000
Equipment	223,845	-	-	223,845
Vehicles	89,013	-	-	89,013
Plant and distribution systems	5,826,567	-	-	5,826,567
Total capital assets being depreciated	6,144,425	-	-	6,144,425
Less accumulated depreciation for:				
Buildings	4,433	250	-	4,683
Equipment	207,619	5,749	-	213,368
Vehicles	72,665	5,945	-	78,610
Plant and distribution systems	1,505,694	133,557	-	1,639,251
Total accumulated depreciation	1,790,411	145,501	-	1,935,912
Total capital assets being depreciated, net	4,354,014			4,208,513
Water fund capital assets, net	\$ 5,657,367			\$ 5,511,866

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Topsail Beach is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serves as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Topsail Beach employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Topsail Beach's contractually required contribution rate for the year ended June 30, 2019, was 9.70% of compensation for law enforcement officers and 8.95% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Topsail Beach were \$88,837 for the year ended June 30, 2019.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

At June 30, 2019, the Town reported a liability of \$307,930 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 liability 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 0.01298%, which was a decrease of 0.00066% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$87,061. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 47,506	\$ 1,594
Changes of assumptions	81,713	-
Net difference between projected and actual earnings on pension plan investments	42,270	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	15,643	5,525
Town contributions subsequent to the measurement date	88,837	-
Total	<u>\$ 275,969</u>	<u>\$ 7,119</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

\$88,837 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2020	\$	83,815
2021		55,774
2022		14,528
2023		25,896
2024		-
Thereafter		-
	\$	<u>180,013</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 Increases	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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 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	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.00%. 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.

Sensitivity of the Town's proportionate share of the net pension liability 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 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) 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)	\$ 739,675	\$ 307,930	\$ (52,842)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

The Town of Topsail Beach administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers 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 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

Retirees receiving benefits	0
Active plan members	8
Total	<u>8</u>

2. Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits 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.

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2017 valuation. 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	2.50 percent
Salary Increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount Rate	3.64 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$-0- as benefits came due for the reporting period.

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 \$86,340. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$10,723.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,038	\$ 1,048
Changes of assumptions	4,734	4,523
Town benefit payments and plan administrative expense subsequent to the measurement date	-	-
Total	<u>\$ 6,772</u>	<u>\$ 5,571</u>

\$-0- reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2020	\$ 200
2021	200
2022	200
2023	508
2024	259
Thereafter	(166)
	<u>\$ 1,201</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions (Continued)

\$-0- paid as benefits came due and \$-0- of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

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 percent, 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%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total Pension Liability	\$ 95,064	\$ 86,340	\$ 78,354

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

	2019
Beginning balance	\$ 77,513
Service Cost	8,074
Interest on the total pension liability	2,449
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	2,397
Changes of assumptions or other inputs	(4,093)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	\$ 86,340

The plan currently uses mortality tables that vary by age, 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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions (Continued)

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:

	LGERS	LEOSSA	Total
Pension Expense	\$ 87,061	\$ 10,723	\$ 97,784
Pension Liability	307,930	86,340	394,270
Proportionate share of the net pension liability	0.01298%	n/a	
Deferred Outflows of Resources			
Differences between expected and actual experience	47,506	2,038	49,544
Changes of assumptions	81,713	4,734	86,447
Net difference between projected and actual earnings on plan investments	42,270	-	42,270
Changes in proportion and differences between contributions and proportionate share of contributions	15,643	-	15,643
Benefit payments and administrative costs paid subsequent to the measurement date	88,837	-	88,837
Deferred Inflows of Resources			
Differences between expected and actual experience	1,594	1,048	2,642
Changes of assumptions	-	4,523	4,523
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	5,525	-	5,525

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$40,044, which consisted of \$24,093 from the Town and \$15,951 from the law enforcement officers. No amounts were forfeited.

All Other Employees

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

Funding Policy. The Town matches up to five percent of employees' wages. For the year ended June 30, 2019, total contributions to the plan equaled \$62,201, which consisted of \$28,512 from the Town and \$33,689 from the participating employees.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post Employment Benefits (OPEB)

1. Healthcare Benefits

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

Membership of the HCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

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

Total OPEB Liability

The Town's total OPEB liability of \$221,503 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 percent, average, including inflation
Discount rate	3.89 percent
Healthcare cost trend rates	7.50 percent, Pre-Medicare

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post-Employment Benefits (OPEB)

1. Healthcare Benefits (Continued)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2018	\$ 230,734
Changes for the year	
Service Cost	19,096
Interest	7,974
Changes of benefit terms	-
Differences between expected and actual experience	(14,046)
Changes of assumptions or other inputs	(8,623)
Benefit payments	(13,632)
Net Changes	(9,231)
Balance at June 30, 2019	\$ 221,503

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	1% Decrease (2.89%)	Discount Rate (3.89%)	1% Increase (4.89%)
Total OPEB Liability	\$ 248,792	\$ 221,503	\$ 197,530

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post-Employment Benefits (OPEB)

1. Healthcare Benefits (Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.
The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare costs trend rates:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 184,951	\$ 221,503	\$ 267,003

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized OPEB expense of \$21,338. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 18,088
Changes of assumptions	-	17,740
Benefit payments and administrative costs made subsequent to the measurement date	13,716	-
Total	<u>\$ 13,716</u>	<u>\$ 35,828</u>

\$13,716 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post-Employment Benefits (OPEB)

1. Healthcare Benefits (Continued)

Year Ended June 30:		
2020	\$	(5,732)
2021		(5,732)
2022		(5,732)
2023		(5,732)
2024		(5,732)
Thereafter		(7,168)
	\$	<u>(35,828)</u>

2. Other Employment Benefits

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Contributions to Pension Plan in Current Fiscal Year	\$	88,837
Benefit payments and administrative expenses for LEOSSA made subsequent to measurement date		-
Benefit payments and administrative expenses for OPEB made subsequent to measurement date		13,716
Differences between expected and actual experience		49,544
Changes of assumptions		86,447
Net difference between projected and actual		42,270
Changes in proportion and differences between employer contributions and proportionate share of contributions		15,643
Charge on refunding		-
Total	\$	<u>296,457</u>

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

	Statement of Net Position	General Fund Balance Sheet	Beach, Inlet, and Sound Capital Project Fund Balance Sheet
Prepaid taxes (General Fund)	\$ -	\$ -	-
Taxes receivable	-	6,493	3,573
Changes in assumptions	22,263	-	-
Differences between expected and actual experience	20,730	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,525	-	-
Total	<u>\$ 48,518</u>	<u>\$ 6,493</u>	<u>3,573</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

4. Risk Management

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

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

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

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2019, the Town did not have any litigation pending.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations

a. Installment Purchases

In October 2005, the business type activity fund has chosen to finance purchases with installment payments from the State Clean Water Grant Fund. The Town has completed its water project as of June 30, 2013. \$1,416,500 Installment agreement with interest at an annual rate of 2.305%. The outstanding principal balance at June 30, 2019 was \$809,429.

In October 2012, the Town entered into a \$1,150,000 installment agreement for the refinance of the capital lease that was executed in May 2007 for the acquisition of the Bush Marina property. The financing contract requires principal payments beginning in October 2013 with an interest rate of 2.39 percent. The outstanding principal balance at June 30, 2019 was \$287,500.

In December 2012, the business type activity fund has chosen to finance purchases with installment payments from the North Carolina Department of Environmental and Natural Resources. The Town has completed its water project as of June 30, 2014. \$3,500,000 installment agreement with interest at an annual rate of 0.00%. The outstanding principal balance at June 30, 2019 was \$2,450,000.

In January 2017, the Town entered into a \$100,000 installment agreement for the purchase of a Pumper Truck. The financing contract requires principal payments annually beginning in January 2018 with an interest rate of 2.65 percent. The outstanding principal balance at June 30, 2019 was \$61,562.

Annual debt service payments of the installment purchases as of June 30, 2019, including \$97,556 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 163,736	\$ 8,503	\$ 276,179	\$ 18,657
2021	164,266	4,537	276,179	16,325
2022	21,060	558	276,179	13,993
2023	-	-	276,179	11,661
2024	-	-	276,179	9,329
2025-2029	-	-	1,178,534	13,993
2030-2034	-	-	700,000	-
2035-2039	-	-	-	-
Total	\$ 349,062	\$ 13,598	\$ 3,259,429	\$ 83,958

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations

b. Changes in Long-Term Liabilities

	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment notes	\$ 512,282	\$ -	\$ (163,220)	\$ 349,062	\$ 163,736
Compensated absences	78,473	34,406	-	112,879	-
Total OPEB liability	199,045	-	(7,696)	191,349	-
Net pension liability (LGERS)	172,899	84,157	-	257,056	-
Total pension liability (LEO)	77,513	8,827	-	86,340	-
Governmental activity long-term liabilities	<u>\$ 1,040,212</u>	<u>\$ 127,390</u>	<u>\$ (170,916)</u>	<u>\$ 996,686</u>	<u>\$ 163,736</u>
Business-type activities:					
Installment purchase	\$ 3,535,608	\$ -	\$ (276,179)	\$ 3,259,429	\$ 276,179
Compensated absences	13,879	4,767	-	18,646	-
Total OPEB liability	31,689	-	(1,535)	30,154	-
Net pension liability (LGERS)	35,482	15,392	-	50,874	-
Business-type activity long-term liabilities	<u>\$ 3,616,658</u>	<u>\$ 20,159</u>	<u>\$ (277,714)</u>	<u>\$ 3,359,103</u>	<u>\$ 276,179</u>

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2019, consist of the following:

From the General Fund to the Capital Reserve Fund	\$ -
From the Capital Reserve Fund to the General Fund	329,100
From the Capital Reserve Fund to the Water Fund	-
Total	<u>\$ 329,100</u>

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

D. Net Investment in Capital Assets

	Governmental	Business-Type
Capital Assets	\$ 5,230,934	\$ 5,511,866
less: long-term debt	349,062	3,259,429
add: unexpended debt proceeds		
Net investment in capital asset	<u>\$ 4,881,872</u>	<u>\$ 2,252,437</u>

E. Fund Balance

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

<i>Total fund balance – General Fund</i>	\$ 2,859,670
Less:	
Prepays	-
Stabilization by State Statute	248,303
Streets	47,095
Beach/Inlet/Sound Maintenance	-
Future Capital Expenditures	740,111
Appropriated Fund Balance in 2019-2020 budget	-
Remaining Fund Balance	<u>\$ 1,824,161</u>

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

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

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

III. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

IV. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 26, 2019, the date on which the financial statements were available to be issued. The Town believes there have been no significant subsequent events.

V. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2019, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for Police by \$6,102 and for Sanitation by \$8,725. This over-expenditure occurred because of unbudgeted expenditures in these areas. Management and the Town Council will more closely review the budget reports to ensure compliance in future years.

***Required Supplementary
Financial Data***

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

Local Government Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Topsail Beach's proportion of the net pension liability (asset) (%)	0.01298%	0.01364%	0.01207%	0.01495%	0.01473%	0.01560%
Topsail Beach's proportion of the net pension liability (asset) (\$)	\$ 307,930	\$ 208,381	\$ 256,167	\$ 67,095	\$ (86,870)	\$ 188,040
Topsail Beach's covered-employee payroll	\$ 982,142	\$ 887,888	\$ 823,179	\$ 848,594	\$ 822,768	\$ 802,375
Topsail Beach's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.35%	23.47%	31.12%	7.91%	(10.56%)	23.44%
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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Town of Topsail Beach's Contributions

Required Supplementary Information

Last Six Fiscal Years

Local Government Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 88,837	\$ 77,439	\$ 67,645	\$ 57,033	\$ 58,634	\$ 33,960
Contributions in relation to the contractually required contribution	88,837	77,439	67,645	57,033	58,634	33,960
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Topsail Beach's covered employee payroll	\$ 1,094,469	\$ 982,142	\$ 887,888	\$ 823,179	\$ 848,594	\$ 822,768
Contributions as a percentage of covered-employee payroll	8.12%	7.88%	7.62%	6.93%	6.91%	4.13%

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	2019	2018	2017
Beginning balance	\$ 77,513	\$ 64,306	\$ 71,211
Service Cost	8,074	7,877	8,342
Interest on the total pension liability	2,449	2,436	2,266
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	2,397	(1,498)	-
Changes of assumptions or other inputs	(4,093)	6,770	(2,058)
Benefit payments	-	(2,378)	(15,455)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 86,340</u>	<u>\$ 77,513</u>	<u>\$ 64,306</u>

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Law Enforcement Officers' Special Separation Allowance

June 30, 2019

	2019	2018	2017
Total pension liability	\$ 86,340	\$ 77,513	\$ 64,306
Covered payroll	401,602	392,725	373,557
Total pension liability as a percentage of covered payroll	21.50%	19.74%	17.21%

Notes to the schedules:

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



TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2019

<u>Total OPEB Liability</u>	<u>2019</u>	<u>2018</u>
Service Cost	\$ 19,096	\$ 20,565
Interest	7,974	7,036
Changes of benefit terms	-	-
Differences between expect and actual experience	(14,046)	(7,897)
Changes of assumptions	(8,623)	(13,797)
Benefit payments	<u>(13,632)</u>	<u>(17,739)</u>
Net changes in Total OPEB Liability	(9,231)	(11,832)
Total OPEB Liability - Beginning	230,734	242,566
Total OPEB Liability - Ending	<u>\$ 221,503</u>	<u>\$ 230,734</u>
 Covered Payroll	 \$ 870,090	 \$ 870,090
Total OPEB Liability as a percentage of covered payroll	 25.46%	 26.52%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2019	3.89%
2018	3.56%



Major Governmental Funds

General Fund

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 1,244,386	
Penalties and Interest		18,826	
Total Ad Valorem Taxes	\$ 1,222,780	1,263,212	\$ 40,432
Other Taxes and Licenses			
Accommodations Tax		215,524	
Total Other Taxes and Licenses	215,000	215,524	524
Unrestricted Intergovernmental			
Local Option Sales Tax		492,086	
Utility Sales Tax		123,041	
Telecommunications Sales Tax		-	
Video Franchise Fee		24,591	
Beer and Wine Tax		18,723	
Total Unrestricted Intergovernmental	600,000	658,441	58,441
Restricted Intergovernmental			
Powell Bill Allocation		16,384	
Federal Grants		101,699	
Solid Waste Disposal Tax		287	
Total Restricted Intergovernmental	132,729	118,370	(14,359)
Permits and Fees			
Building Permits		82,063	
Police Fines		5,646	
Court Fees		617	
Beach Access Permits		200	
Boat Ramp/Slip Fees		52,962	
Total Permits and Fees	135,500	141,488	5,988
Sales and Services			
Solid Waste		334,117	
Rental Fees		78,426	
Total Sales and Services	406,000	412,543	6,543
Investment Earnings			
General		103,164	
Total Investment Earnings	65,000	103,164	38,164

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

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

Budget and Actual

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Miscellaneous			
Insurance Proceeds		51,924	
Sale of Assets		50	
Other		25,852	
Total Miscellaneous	84,023	77,826	(6,197)
Total Revenues	2,861,032	2,990,568	129,536
Expenditures			
Governing Body			
Salaries, Wages and Employee Benefits		20,097	
Other Expenditures		96,586	
Total Governing Body	122,100	116,683	5,417
Administration			
Salaries, Wages and Employee Benefits		239,019	
Other Expenditures		231,683	
Capital Outlay		28,726	
Total Administration	530,320	499,428	30,892
Police			
Salaries, Wages and Employee Benefits		754,870	
Other Expenditures		85,006	
Capital Outlay		49,331	
Total Police	883,105	889,207	(6,102)
Fire			
Salaries, Wages and Employee Benefits		232,903	
Other Expenditures		68,459	
Debt - Interest		2,147	
Debt - Principal		19,470	
Total Fire	372,093	322,979	49,114
Inspections			
Salaries, Wages and Employee Benefits		63,974	
Other Expenditures		12,748	
Total Planning and Zoning	95,283	76,722	18,561
Public Services			
Salaries, Wages and Employee Benefits		206,205	
Other Expenditures		70,445	
Capital Outlay		30,870	
Total Public Services	458,652	307,520	151,132
Powell Bill			
Other Expenditures		4,660	
Total Powell Bill	16,500	4,660	11,840

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

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

Budget and Actual

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Marina			
Salaries, Wages and Employee Benefits		8,956	
Other Operating		62,884	
Debt - Interest		10,307	
Debt - Principal		143,750	
Total Marina	241,617	225,897	15,720
Sanitation			
Other Expenditures		335,725	
Total Sanitation	327,000	335,725	(8,725)
Beach Management and Tourism			
Salaries, Wages and Employee Benefits		7,974	
Other Expenditures		125,896	
Capital Outlay		-	
Total Beach Management and Tourism	143,462	133,870	9,592
Federal Beach Project			
Other Expenditures		-	
Total Federal Beach Project	-	-	-
Total Expenditures	3,190,132	2,912,691	277,441
Excess (Deficiency) of Revenues Over (Under) Expenditures	(329,100)	77,877	406,977
Other Financing Sources (Uses)			
Transfers In:			
Capital Reserve Fund	329,100	329,100	-
Beach, Inlet, and Sound Capital Project Fund	-	-	-
Transfers Out:			
Capital Reserve Fund	-	-	-
Installment Purchase Obligations Issued	-	-	-
Total Other Financing Sources (Uses)	329,100	329,100	-
Fund Balance Appropriated	-	-	-
Net Change in Fund Balance	\$ -	406,977	\$ 406,977
Fund Balance - Beginning of Year		1,712,582	
Fund Balance - End of Year		\$ 2,119,559	

Special Revenue Funds
Consolidated With General Fund



TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

Nonmajor Special Revenue Fund - Capital Reserve Fund

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Miscellaneous			
Other	\$ -	\$ -	\$ -
Other Financing Sources			
Transfers in:			
General Fund	-	-	
Water Fund	-	-	
Transfers out:			
General Fund	(329,100)	(329,100)	
Water Fund	-	-	
Total Other Financing Sources	<u>(329,100)</u>	<u>(329,100)</u>	<u>-</u>
Appropriated Fund Balance	<u>329,100</u>	<u>-</u>	<u>(329,100)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(329,100)</u>	<u>\$ (329,100)</u>
Fund Balance - Beginning of Year		<u>1,069,211</u>	
Fund Balance - End of Year		<u>\$ 740,111</u>	



Major Governmental Funds

Capital Project Funds



TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

Major Capital Project Fund - Beach, Inlet, and Sound Capital Project Fund

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 749,475	
Penalties and Interest		-	
Total Ad Valorem Taxes	\$ 746,895	749,475	\$ 2,580
Other Taxes and Licenses			
Accommodations Tax		822,707	
Total Other Taxes and Licenses	825,000	822,707	(2,293)
Restricted Intergovernmental			
Federal Grants		4,241,234	
State Grants		-	
Total Restricted Intergovernmental	23,000,000	4,241,234	(18,758,766)
Investment Earnings			
General		26,731	
Total Investment Earnings	7,000	26,731	19,731
Miscellaneous Income			
Insurance Reimbursement		19,318	
Total Miscellaneous Revenue	-	19,318	19,318
Total Revenues	24,578,895	5,859,465	(18,719,430)
Expenditures			
Beach/Inlet/Sound Maintenance			
Salaries and Wages		35,031	
Other Operating Expenditures		4,347,993	
Capital Outlay		12,886	
Total Administration	24,578,895	4,395,910	20,182,985
Total Expenditures	24,578,895	4,395,910	20,182,985
Excess (Deficiency) of Revenues Over Expenditures	-	1,463,555	1,463,555
Other Financing Sources			
Transfers in:			
General Fund	-	-	-
Transfers out:			
General Fund	-	-	-
Total Other Financing Sources	-	-	-
Appropriated Fund Balance	-	-	-
Net Change in Fund Balance	\$ -	1,463,555	\$ 1,463,555
Fund Balance - Beginning of Year		4,846,296	
Fund Balance - End of Year		\$ 6,309,851	



Enterprise Funds

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Water Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Revenues			
Water Charges		\$ 826,955	
Water Taps		8,650	
Impact Fees		18,785	
Investment Earnings		3,796	
Miscellaneous		39,057	
Total Revenues	\$ 892,978	897,243	\$ 4,265
Expenditures			
Water and Sewer Operations			
Salaries and Employee Benefits		251,668	
Repairs and Maintenance		117,250	
Other Expenditures		183,495	
Capital Outlay		-	
Debt Service			
Principal Retirement		276,179	
Interest Expense		20,990	
Total Water Operations	1,008,978	849,582	159,396
Total Expenditures	1,008,978	849,582	159,396
Revenues Over (Under) Expenditures	(116,000)	47,661	163,661
Other Financing Sources (Uses)			
Transfers in:			
Capital Reserve Fund	116,000	-	(116,000)
Total Other Financing Sources (Uses)	116,000	-	(116,000)
Appropriated Fund Balance	-	-	-
Revenues and Other Sources Over Expenditures and Other Uses	\$ -	\$ 47,661	\$ 47,661

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Water Fund

Schedule of Revenues and Expenditures (Continued)

Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and Other Sources Over Expenditures and Other Uses		<u>\$ 47,661</u>	
Reconciling Items:			
Depreciation Expense		(145,501)	
Deferred Outflows of Resources - Pensions		14,357	
Net Pension Liability		(15,392)	
Deferred Inflows of Resources - Pensions		1,536	
Deferred Outflows of Resources - OPEB		-	
OPEB Liability		1,535	
Deferred Inflows of Resources - OPEB		(2,283)	
Accrued Interest Payable		194	
Compensated Absences Payable		(4,767)	
Principal Retirement		<u>276,179</u>	
Total Reconciling Items		<u>125,858</u>	
Change in Net Position		<u><u>\$ 173,519</u></u>	



Other Schedules

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

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

Schedule of Ad Valorem Taxes Receivable

June 30, 2019

Fiscal Year	Uncollected Balance 7-1-18	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-19
2018-19	\$ -	\$ 1,986,860	\$ 1,977,218	\$ 9,642
2017-18	5,353	-	5,217	136
2016-17	3,428	-	3,381	47
2015-16	3,274	-	3,081	193
2014-15	3,079	-	3,057	22
2013-14	1,514	-	1,424	90
2012-13	184	-	17	167
2011-12	852	-	313	539
2010-11	259	-	153	106
2009-10	124	-	-	124
2008-09	137	-	137	-
	<u>\$ 18,204</u>	<u>\$ 1,986,860</u>	<u>\$ 1,993,998</u>	11,066

Less: Allowance for Uncollectible Accounts:

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

1,000

Ad Valorem Taxes Receivable - Net

\$ 10,066Reconciliation with Revenues

Ad Valorem Taxes - General Fund

\$ 1,263,212

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

749,475

Interest and Penalties Collected

(18,826)

Taxes Released

-

Taxes Written Off

137

Total Collections and Credits

\$ 1,993,998

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2019

	Town-Wide		Total Levy	
	Property Valuation	Rate Per \$100	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:				
Property Taxed at				
Current Year's Rate	\$ 635,495,561	0.3125	\$ 1,986,753	\$ 1,963,420
Penalties	-		107	-
	<u>635,495,561</u>		<u>1,986,860</u>	<u>1,963,420</u>
				23,440
Discoveries:				
Current Year Taxes	-	0.3125	-	-
Penalties	-		-	-
	<u>-</u>		<u>-</u>	<u>-</u>
				-
Abatelements:				
Property Taxes -				
Current Year's Rate	-	0.3125	\$ -	-
	<u>-</u>		<u>-</u>	<u>-</u>
				-
Total Property Valuations	<u>\$ 635,495,561</u>			
Net Levy			1,986,860	1,963,420
				23,440
Uncollected Taxes at June 30, 2019			9,642	9,491
				151
Current Year's Taxes Collected			<u>\$ 1,977,218</u>	<u>\$ 1,953,929</u>
				\$ 23,289
Current Levy Collection Percentage			<u>99.51%</u>	<u>99.52%</u>
				99.36%



Compliance Section

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the Town of Topsail Beach's basic financial statements, and have issued our report thereon dated August 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Topsail Beach's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Topsail Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Topsail Beach's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item [2019-1].

Town of Topsail Beach's Response to Findings

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

Purpose of this Report

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

W Greene PLLC

Whiteville, North Carolina
August 26, 2019

**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
Members of the Board of Commissioners
Topsail Beach, North Carolina

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. 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.

W Greene PLLC

Whiteville, North Carolina
August 26, 2019

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2019

SECTION I. SUMMARY OF AUDITOR'S RESULTS**Financial Statements**

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(s)	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> X </u> Yes	<u> </u> No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(s)	<u> </u> Yes	<u> X </u> 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)?	<u> </u> Yes	<u> X </u> No
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Identification of major federal programs:

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

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

The only major State program for the Town of Topsail Beach is the Public Assistance - Disaster Grants, which is a State match on a federal program. Therefore, this program has been included in the list of major federal programs above.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2019

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding: 2019-1

MATERIAL NONCOMPLIANCE

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

Condition: Town of Topsail Beach expended \$6,102 more for Police and \$8,725 more for Sanitation than was appropriated in the annual budget ordinance.

Effect: Monies were spent that had not been appropriated.

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

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

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts. Please refer to the corrective action plan on page104.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2019

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

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



Corrective Action Plan
For the Fiscal Year Ended June 30, 2019

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding:
2019-1

Name of contact person: Connie Forand, Finance Officer

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

Proposed Completion Date: Immediately

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2019

SECTION II. FINANCIAL STATEMENT FINDINGS

None Reported.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

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 Grantors Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Federal Awards:					
<u>U.S. Department of Homeland Security</u>					
<i>Passed thru N.C. Department of Public Safety</i>					
<i>Division of Emergency Management</i>					
Public Assistance - Disaster Grants					
Hurricane Florence	97.036		\$ 107,153	\$ 35,718	\$ -
Hurricane Matthew	97.036		3,153,513	1,051,171	
Total Assistance - Federal Programs			3,260,666	1,086,889	-
State Awards:					
<u>N.C. Department of Transportation</u>					
Non-State System Street-Aid Allocation					
(Powell Bill)	-	DOT-4	-	4,660	-
Total Assistance - State Programs			-	4,660	-
Total Federal and State Assistance			\$ 3,260,666	\$ 1,091,549	\$ -

TOWN OF TOPSAIL BEACH, NORTH CAROLINA**Notes to Schedule of Expenditures of Federal and State Awards****For the Year Ended June 30, 2019**

I. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (SEFSA) includes the federal and state grant activity of the Town of Topsail Beach, North Carolina 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 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Town of Topsail Beach, North Carolina, it is not intended to and does not present the financial position, changes in net position, or cash flows of Town of Topsail Beach, North Carolina.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND INDIRECT COST RATE

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town of Topsail Beach, North Carolina has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

