

TOWN OF CAROLINA BEACH, NORTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020



Town Council Members

LeAnn Pierce, Mayor
Jay Healy, Mayor Pro Tem
Lynn Barbee
JoDan Garza
Steve Shuttleworth

Administrative and Financial Staff

Debbie Hall, Finance Director

TOWN OF CAROLINA BEACH, NORTH CAROLINA
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Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Town of Carolina 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 Carolina Beach, North Carolina (the "Town"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the basic 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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

Opinion

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Carolina Beach, North Carolina as of June 30, 2020, 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 Management's Discussion and Analysis on pages 4 through 11; the Local Government Employees' Retirement System - Schedules of the Proportionate Share of the Net Pension Liability, and Contributions on page 51, the Law Enforcement Officers' Special Separation Allowance - Schedules of Changes in Total Pension Liability, and Total Pension Liability as a Percentage of Covered Payroll on page 52; and the Other Post-Employment Benefits - Schedule of Changes in the Total OPEB Liability and Related Ratios on page 53, 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 an opinion on the financial statements that collectively comprise the basic financial statements of Town of Carolina Beach, North Carolina. The budgetary schedules and other schedules, as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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. In our opinion, based on our audit and the procedures performed as described above, the budgetary schedules and other schedules, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2020 on our consideration of the Town of Carolina Beach, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and on the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 13, 2020

Management's Discussion and Analysis

As management of the Town of Carolina Beach, North Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020. 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

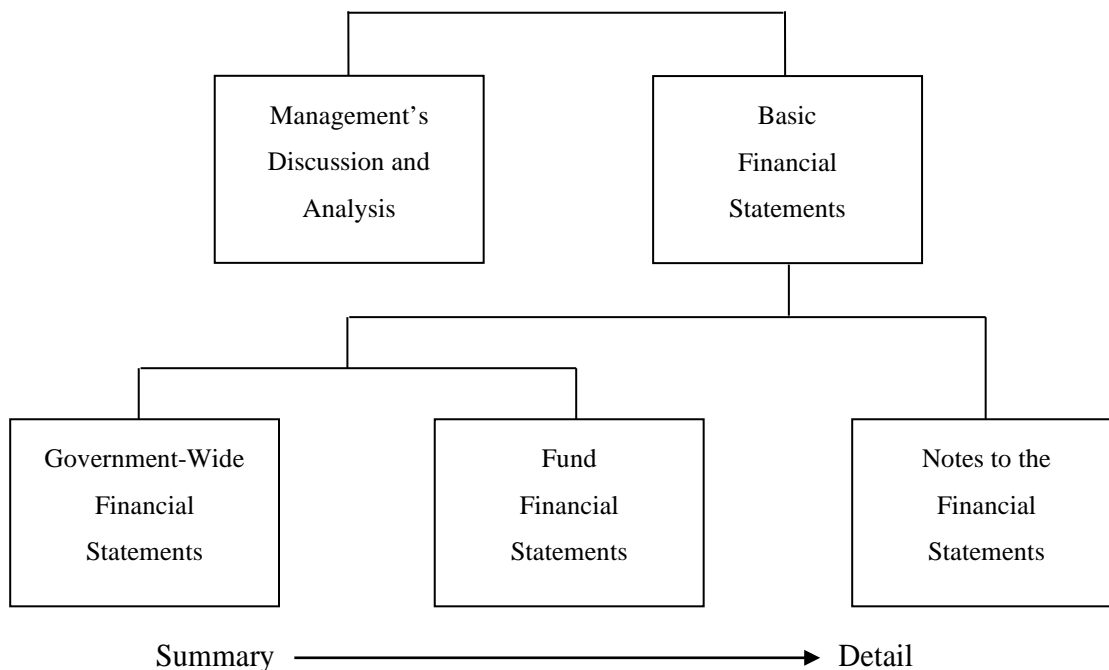
- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$39,000,000 (net position).
- The government's total net position increased by approximately \$270,000.
- As of the close of the current fiscal year, the Town's total governmental funds reported combined ending fund balances of approximately \$8,351,000 with a net change of approximately \$1,175,000 in fund balance. Approximately 29% of this total amount or approximately \$2,435,000 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$2,917,000, or 21% 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 the Town of Carolina Beach, North Carolina's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Carolina Beach, North Carolina.

Required Components of Annual Financial Report

Figure 1



Management's Discussion and Analysis

Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-Wide Financial Statements. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 10) 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; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes to the financial statements. The notes 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 they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; and 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, community planning and development, and general administration. Property taxes, other taxes, grants, and contributions finance most of these activities. The business-type activities consist of water and sewer services which are provided by the Town at a charge to the customer. The final category is the component unit. The Town does not have a component unit.

The government-wide financial statements are on Exhibits 1 and 2 of the basic financial statements.

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 Carolina 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 can be divided into two categories: governmental funds and proprietary funds.

Management's Discussion and Analysis

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 Carolina 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 Fund - Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Carolina Beach, North Carolina uses enterprise funds to account for its water and sewer operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements - The information reported in the notes to the financial statements provides additional disclosure necessary to have a complete understanding of the data provided in the government-wide and fund financial statements.

Other Financial Information - In addition to the basic financial statements and accompanying notes, the report presents certain required supplementary information for the Law Enforcement Officers' Special Separation Allowance and Other Post-Employment Benefits. Required supplementary information follows the notes to the financial statements.

Management's Discussion and Analysis

Government-Wide Financial Analysis Town of Carolina Beach, North Carolina's Net Position Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$ 9,516,576	\$ 8,720,143	\$ 4,341,551	\$ 4,611,051	\$ 13,858,127	\$ 13,331,194
Capital assets	25,213,519	25,333,215	48,146,039	48,791,187	73,359,558	74,124,402
Deferred outflows of resources	1,327,618	1,781,142	352,961	207,963	1,680,579	1,989,105
Total assets	<u>36,057,713</u>	<u>35,834,500</u>	<u>52,840,551</u>	<u>53,610,201</u>	<u>88,898,264</u>	<u>89,444,701</u>
Liabilities:						
Long-term liabilities	13,841,051	13,712,555	31,834,132	33,343,535	45,675,183	47,056,090
Other liabilities	833,403	1,182,889	704,756	712,786	1,538,159	1,895,675
Deferred inflows of resources	1,879,154	1,141,518	507,290	320,469	2,386,444	1,461,987
Total liabilities	<u>16,553,608</u>	<u>16,036,962</u>	<u>33,046,178</u>	<u>34,376,790</u>	<u>49,599,786</u>	<u>50,413,752</u>
Net Position:						
Net invested in capital assets	21,499,399	21,200,405	20,050,756	19,171,366	41,550,155	40,371,771
Restricted	2,434,978	2,509,662	-	-	2,434,978	2,509,662
Unrestricted	(4,430,272)	(3,912,529)	(256,383)	62,045	(4,686,655)	(3,850,484)
Total net position	<u>\$ 19,504,105</u>	<u>\$ 19,797,538</u>	<u>\$ 19,794,373</u>	<u>\$ 19,233,411</u>	<u>\$ 39,298,478</u>	<u>\$ 39,030,949</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Carolina Beach exceeded liabilities by \$39,298,478 as of June 30, 2020. The Town's net position increased by \$267,529 for the fiscal year ended June 30, 2020. A large portion, \$41,550,155, 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 Carolina Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the Town of Carolina Beach, North Carolina's 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 Carolina Beach's net position, \$2,434,978, represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$4,686,655) 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 98.97%.
- Continued growth in tax base.

Management's Discussion and Analysis

Town of Carolina Beach, North Carolina's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 5,027,086	\$ 6,947,879	\$ 8,086,367	\$ 8,144,425	\$ 13,113,453	\$ 15,092,304
Operating grants	183,667	183,867	-	-	183,667	183,867
Capital grants	18,354	1,287,473	157,000	11,010	175,354	1,298,483
General revenues:						
Property taxes	4,842,786	4,404,523	-	-	4,842,786	4,404,523
Other taxes	3,396,156	3,361,252	-	-	3,396,156	3,361,252
Other revenues	168,619	186,637	389,550	430,198	558,169	616,835
Total revenues	13,636,668	16,371,631	8,632,917	8,585,633	22,269,585	24,957,264
Expenses:						
General government	5,257,935	5,941,035	-	-	5,257,935	5,941,035
Public safety	4,515,230	4,624,928	-	-	4,515,230	4,624,928
Transportation	71,399	212,989	-	-	71,399	212,989
Environmental protection	3,172,691	3,168,617	-	-	3,172,691	3,168,617
Fleet	230,798	225,199	-	-	230,798	225,199
Cultural and recreation	885,553	690,233	-	-	885,553	690,233
Non departmental	407,744	395,364	-	-	407,744	395,364
Interest on long-term debt	113,751	115,959	-	-	113,751	115,959
Utility operations	-	-	7,346,955	6,764,704	7,346,955	6,764,704
Total expenses	14,655,101	15,374,324	7,346,955	6,764,704	22,002,056	22,139,028
Increase (decrease) in net position before transfers	(1,018,433)	997,307	1,285,962	1,820,929	267,529	2,818,236
Transfers/Special items	725,000	725,000	(725,000)	(725,000)	-	-
Increase (decrease) in net position	(293,433)	1,722,307	560,962	1,095,929	267,529	2,818,236
Net position, July 1,	19,797,538	18,075,231	19,233,411	18,137,482	39,030,949	36,212,713
Net position, June 30,	\$ 19,504,105	\$ 19,797,538	\$ 19,794,373	\$ 19,233,411	\$ 39,298,478	\$ 39,030,949

Governmental Activities - Governmental activities decreased the Town's net position by \$293,433. The key element of this decrease was a decrease in charges for services and capital grant revenues.

Business-Type Activities - Business-type activities increased the Town of Carolina Beach's net position by \$560,962. The key element of this increase was maintaining expenditures as compared with prior year's amount.

Management's Discussion and Analysis

Financial Analysis of the Town's Funds

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

Governmental Funds - The Town's annual balance budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of the North Carolina General Statutes. The General Fund is the most significant fund budgeted. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Carolina Beach, North Carolina. At the end of the current fiscal year, fund balance available in the General Fund was \$2,916,781, while the total fund balance reached \$7,301,759. The Town currently has an available fund balance of 21% of General Fund expenditures, while total fund balance represents 52% of the same amount.

At June 30, 2020, the governmental funds of the Town of Carolina Beach reported a combined fund balance of \$8,350,628 with a net increase of \$1,175,083.

General Fund Budgetary Highlights - The Town's annual budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of the North Carolina General Statutes. The General Fund is the most significant fund budgeted. 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.

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year amounted to \$(256,383). The total change in net position for the utility fund was an increase of \$560,962 in the enterprise funds. During 2017, the Town issued \$26.85 million in revenue bonds that will be used to finance several utility fund capital projects and refinance debt or reimburse the Town for several past capital project expenditures. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$75,071,555 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Purchased property for future public space
- Purchased property for public parking
- LED lights for Mike Chappell Park
- Start of the Hamlet Bathroom/Ocean Rescue Project
- Playground upgrade a McDonald Park
- Purchased new Vactor Truck for Stormwater

Management's Discussion and Analysis

Town of Carolina Beach, North Carolina's Capital Assets (net of Depreciation) Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 7,137,864	\$ 6,631,912	\$ 475,957	\$ 475,957	\$ 7,613,821	\$ 7,107,869
Construction in progress	237,746	1,848,196	2,753,731	2,992,070	2,991,477	4,840,266
Buildings/Plant	7,199,834	7,335,156	42,257,596	43,308,955	49,457,430	50,644,111
Infrastructure	9,178,164	7,903,004	-	-	9,178,164	7,903,004
Equipment	174,396	129,385	1,558,505	1,093,252	1,732,901	1,222,637
Vehicles and motorized equipment	1,285,515	1,485,562	1,100,250	920,953	2,385,765	2,406,515
Total	<u>\$ 25,213,519</u>	<u>\$ 25,333,215</u>	<u>\$ 48,146,039</u>	<u>\$ 48,791,187</u>	<u>\$ 73,359,558</u>	<u>\$ 74,124,402</u>

Additional information of the Town's capital assets can be found in the Notes of the basic financial statements.

Town of Carolina Beach, North Carolina's Outstanding Debt Long-Term Debt Figure 5

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ -	\$ -	\$ 23,265,000	\$ 25,235,000	\$ 23,265,000	\$ 25,235,000
Revolving loans	-	-	893,161	1,201,616	893,161	1,201,616
Installment debt	4,551,109	4,989,869	1,909,844	1,859,540	6,460,953	6,849,409
Total	<u>\$ 4,551,109</u>	<u>\$ 4,989,869</u>	<u>\$ 26,068,005</u>	<u>\$ 28,296,156</u>	<u>\$ 30,619,114</u>	<u>\$ 33,286,025</u>

Long-Term Debt - As of June 30, 2020, the Town had total debt outstanding of \$29,725,953.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. At June 30, 2020, the Town of Carolina Beach had a legal debt margin of approximately \$161,552,000.

Additional information regarding the Town's long-term debt can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

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

- Planned construction of a major fast food restaurant.
- Continued growth Room Occupancy Tax.
- Continued increase in building and planning permits.

Management's Discussion and Analysis

Other Post-Employment Benefits

The Town has reported the annual cost and future obligations and commitments for other post-employment benefits (OPEB) in accordance with the requirements of Governmental Accounting Standards Board Statement No. 75. Information is provided in Note 2.B. and Schedule A-2.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities - The Town Council approved \$15.4 million annual budget for fiscal year 2021 and established a tax rate at 24.5 cents per \$100 of assessed valuation. The Town Council has provided for the following projects for this fiscal year through the Capital Improvement Program and appropriations in the annual budget as follows:

- Dedicated \$350,000 to Storm Damage Reduction.
- \$60,000 bathroom at Mike Chappell Park.
- \$15,000 storage building at Mike Chappell Park.
- \$74,651 debt service for new Knuckle Boom and Can Machine.

Business-Type Activities - There are several water/sewer/stormwater projects anticipated for the 2021 budget year.

- Completion of Lake Dredging, which was funded by \$26.8 million in revenue bonds sold on June 30, 2016. The Lake Dredging Project consists of the dredging of approximately 9.8 acres of jurisdictional lake for the purpose of increasing the stormwater capacity of the lake.
- \$150,000 for Wastewater Treatment Plant renovation.
- \$125,000 for a new generator for the Greenville Stormwater Pump Station.
- \$65,000 for Snapper Lane Auxiliary Stormwater Pump.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Carolina Beach, 1121 North Lake Park Boulevard, Carolina Beach, NC 28428. You can also call (910) 458-5495, visit our website www.townofcarolinabeach.org or send an email to debbie.hall@carolinabeach.org for more information.

BASIC FINANCIAL STATEMENTS

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Net Position
June 30, 2020

Exhibit 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 5,831,666	\$ 1,824,561	\$ 7,656,227
Taxes receivables, net	202,159	-	202,159
Accounts receivable, net	805,965	881,014	1,686,979
Due from other governments	1,236,684	91,613	1,328,297
Due from other funds	81,168	-	81,168
Cash and cash equivalents - restricted	1,358,934	1,544,363	2,903,297
Total current assets	<u>9,516,576</u>	<u>4,341,551</u>	<u>13,858,127</u>
Non Current Assets:			
Capital assets:			
Land and construction in progress	7,375,610	3,229,688	10,605,298
Other capital assets, net of depreciation	17,837,909	44,916,351	62,754,260
Total capital assets	<u>25,213,519</u>	<u>48,146,039</u>	<u>73,359,558</u>
Total assets	<u>34,730,095</u>	<u>52,487,590</u>	<u>87,217,685</u>
Deferred Outflows of Resources			
Total deferred outflows of resources	<u>1,327,618</u>	<u>352,961</u>	<u>1,680,579</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	833,403	519,609	1,353,012
Due to other funds	-	81,168	81,168
Utility deposit	-	103,979	103,979
Long-term liabilities due within one year	677,058	1,842,766	2,519,824
Total current liabilities	<u>1,510,461</u>	<u>2,547,522</u>	<u>4,057,983</u>
Long-term liabilities:			
Pension liability	1,991,235	-	1,991,235
Other post employment benefit liability	6,157,866	1,736,834	7,894,700
Due in more than one year	5,014,892	28,254,532	33,269,424
Total liabilities	<u>14,674,454</u>	<u>32,538,888</u>	<u>47,213,342</u>
Deferred Inflows of Resources			
Total deferred inflows of resources	<u>1,879,154</u>	<u>507,290</u>	<u>2,386,444</u>
Net Position			
Net investment in capital assets	21,499,399	20,050,756	41,550,155
Restricted for:			
Stabilization by State Statute	1,913,033	-	1,913,033
Streets - Powell Bill	504,274	-	504,274
Grant funds	17,671	-	17,671
Unrestricted	(4,430,272)	(256,383)	(4,686,655)
Total net position	<u>\$ 19,504,105</u>	<u>\$ 19,794,373</u>	<u>\$ 39,298,478</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Statement of Activities****Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,257,935	\$ 885,004	\$ -	\$ 18,354
Transportation	71,399	-	183,667	-
Public safety	4,515,230	16,066	-	-
Environmental protection	3,172,691	1,651,592	-	-
Fleet	230,798	-	-	-
Cultural and recreation	885,553	2,474,424	-	-
Non-departmental	407,744	-	-	-
Interest on long-term debt	113,751	-	-	-
Total governmental activities	<u>14,655,101</u>	<u>5,027,086</u>	<u>183,667</u>	<u>18,354</u>
Business-type activities:				
Utility fund	<u>7,346,955</u>	<u>8,086,367</u>	<u>-</u>	<u>157,000</u>
Total business-type activities	<u>7,346,955</u>	<u>8,086,367</u>	<u>-</u>	<u>157,000</u>
Total primary government	<u>\$ 22,002,056</u>	<u>\$ 13,113,453</u>	<u>\$ 183,667</u>	<u>\$ 175,354</u>

General Revenues:

Taxes:

Ad valorem taxes

Local option sales tax

Other taxes, licenses and fees

Investment earnings, unrestricted

Miscellaneous

Transfers

Total general revenues, excluding transfers and special items

Change in net position

Net position - beginning

Net position - ending

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ (4,354,577)	\$ -	\$ (4,354,577)
Transportation	112,268	-	112,268
Public safety	(4,499,164)	-	(4,499,164)
Environmental protection	(1,521,099)	-	(1,521,099)
Fleet	(230,798)	-	(230,798)
Cultural and recreation	1,588,871	-	1,588,871
Non-departmental	(407,744)	-	(407,744)
Interest on long-term debt	(113,751)	-	(113,751)
Total governmental activities	<u>(9,425,994)</u>	<u>-</u>	<u>(9,425,994)</u>
Business-type activities:			
Utility fund	-	896,412	896,412
Total business-type activities	<u>-</u>	<u>896,412</u>	<u>896,412</u>
Total primary government	<u>(9,425,994)</u>	<u>896,412</u>	<u>(8,529,582)</u>
General Revenues:			
Taxes:			
Ad valorem taxes	4,842,786	-	4,842,786
Local option sales tax	918,790	-	918,790
Other taxes, licenses and fees	2,477,366	-	2,477,366
Investment earnings, unrestricted	95,142	389,550	484,692
Miscellaneous	73,477	-	73,477
Transfers	725,000	(725,000)	-
Total general revenues, excluding transfers and special items	<u>9,132,561</u>	<u>(335,450)</u>	<u>8,797,111</u>
Change in net position	(293,433)	560,962	267,529
Net position - beginning	19,797,538	19,233,411	39,030,949
Net position - ending	<u>\$ 19,504,105</u>	<u>\$ 19,794,373</u>	<u>\$ 39,298,478</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2020

Exhibit 3

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 5,672,584	\$ 159,082	\$ 5,831,666
Taxes receivables, net	202,159	-	202,159
Accounts receivable, net	805,965	-	805,965
Due from other governments	1,043,121	193,563	1,236,684
Due from other funds	221,933	-	221,933
Restricted cash and cash equivalents	521,945	836,989	1,358,934
Total assets	<u>\$ 8,467,707</u>	<u>\$ 1,189,634</u>	<u>\$ 9,657,341</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 805,803	\$ -	\$ 805,803
Due to other funds	-	140,765	140,765
Total liabilities	<u>805,803</u>	<u>140,765</u>	<u>946,568</u>
Deferred Inflow of Resources	<u>360,145</u>	<u>-</u>	<u>360,145</u>
Fund Balances			
Restricted for:			
Stabilization by State Statute	1,913,033	-	1,913,033
Streets - Powell Bill	504,274	-	504,274
Grant funds	17,671	-	17,671
Assigned:			
Capital projects	-	1,048,869	1,048,869
Storm damage prevention	1,950,000	-	1,950,000
Unassigned	2,916,781	-	2,916,781
Total fund balances	<u>7,301,759</u>	<u>1,048,869</u>	<u>\$ 8,350,628</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,467,707</u>	<u>\$ 1,189,634</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
Governmental Funds
June 30, 2020

Exhibit 4

Amounts reported for governmental activities in the statement of net position
(Exhibit 1) are different because:

Total fund balance		\$ 8,350,628
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Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds:

Gross capital assets	36,916,522	
Less: accumulated depreciation	<u>11,703,003</u>	25,213,519

Other assets utilized in the following period and therefore
not reported in the fund:

Deferred outflows of resources related to pensions are not reported in the funds		1,327,618
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Deferred inflows of resources related to OPEB are not reported in the funds		(1,720,016)
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Earned revenues considered deferred inflows of resources for fund statements		360,145
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Long-term liabilities used in governmental activities are not
financial uses and therefore are not reported in the funds:

Installment purchases	(4,551,109)	
Other post-employment benefits	(6,157,866)	
LGERS pension	(1,991,235)	
Law enforcement officers' pension	(597,119)	
Compensated absences	<u>(543,722)</u>	(13,841,051)

Other liabilities payable until the following period and
therefore are not reported in the funds:

Accrued interest		(27,600)
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Deferred inflows of resources related to pensions are not reported in the funds		<u>(159,138)</u>
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Net position of governmental activities		<u>\$ 19,504,105</u>
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TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2020

Exhibit 5

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 4,805,035	\$ -	\$ 4,805,035
Other taxes and licenses	31,157	-	31,157
Unrestricted intergovernmental	3,364,999	-	3,364,999
Restricted intergovernmental	551,564	18,354	569,918
Permits and fees	589,406	-	589,406
Sales and services	4,126,016	-	4,126,016
Investment earnings	95,092	50	95,142
Miscellaneous	84,210	-	84,210
Total revenues	<u>13,647,479</u>	<u>18,404</u>	<u>13,665,883</u>
Expenditures:			
Current:			
General government	4,464,594	-	4,464,594
Transportation	64,908	-	64,908
Public safety	4,100,771	431,769	4,532,540
Environmental protection	2,904,611	-	2,904,611
Fleet	209,815	-	209,815
Cultural and recreation	946,817	-	946,817
Non-departmental	407,744	-	407,744
Debt service:			
Principal	781,701	-	781,701
Interest	103,070	-	103,070
Total expenditures	<u>13,984,031</u>	<u>431,769</u>	<u>14,415,800</u>
Revenues over (under) expenditures	<u>(336,552)</u>	<u>(413,365)</u>	<u>(749,917)</u>
Other Financing Sources (Uses):			
Transfers from other funds	779,460	203,639	983,099
Transfers to other funds	(136,250)	(121,849)	(258,099)
Long-term debt issued	-	1,200,000	1,200,000
Total other financing sources	<u>643,210</u>	<u>1,281,790</u>	<u>1,925,000</u>
Net change in fund balances	<u>306,658</u>	<u>868,425</u>	<u>1,175,083</u>
Fund balances, beginning	<u>6,995,101</u>	<u>180,444</u>	<u>7,175,545</u>
Fund balances, ending	<u>\$ 7,301,759</u>	<u>\$ 1,048,869</u>	<u>\$ 8,350,628</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Exhibit 6

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of the Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2020**

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

Net change in fund balances - total governmental funds \$ 1,175,083

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation was less than capital outlays and loss on disposal in the current period. (119,696)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 532,260

Benefit payments paid and administrative expense for the law enforcement officers' special separation allowance are not included on the Statement of Activities 14,614

Other post employment benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities 156,654

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

New long-term debt issued (1,200,000)

Principal payments on long-term debt 781,701

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:

Compensated absences (60,223)

Pension expense (1,234,014)

Other post employment benefit plan expense (267,059)

Law enforcement officers expense (43,590)

Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual) (10,681)

Revenues in the Statement of Activities that do not provide current financial resources and are not reported as revenues in the funds. (18,482)

Total changes in net position of governmental activities \$ (293,433)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Annual Budget and Actual - General Fund
Year Ended June 30, 2020

Exhibit 7

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Ad valorem taxes	\$ 4,836,865	\$ 4,836,865	\$ 4,805,035	\$ (31,830)
Other taxes and licenses	27,635	27,635	31,157	3,522
Unrestricted intergovernmental	3,487,417	3,487,417	3,364,999	(122,418)
Restricted intergovernmental	183,867	379,367	551,564	172,197
Permits and fees	570,908	570,908	589,406	18,498
Sales and services	5,577,019	5,577,019	4,126,016	(1,451,003)
Investment earnings	95,000	95,000	95,092	92
Miscellaneous	29,500	29,500	84,210	54,710
Total revenues	14,808,211	15,003,711	13,647,479	(1,356,232)
Expenditures				
Current:				
General government	4,868,397	5,581,608	4,464,594	1,117,014
Transportation	183,867	183,867	64,908	118,959
Public safety	4,557,081	4,662,826	4,100,771	562,055
Fleet maintenance	285,400	286,100	209,815	76,285
Environmental protection	3,317,153	3,283,304	2,904,611	378,693
Cultural and recreation	879,836	997,420	946,817	50,603
Non-departmental	419,969	421,769	407,744	14,025
Debt service:				
Principal	781,701	781,701	781,701	-
Interest	103,194	103,194	103,070	124
Total expenditures	15,396,598	16,301,789	13,984,031	2,317,758
Revenues over (under) expenditures	(588,387)	(1,298,078)	(336,552)	961,526
Other Financing Sources (Uses)				
Transfers from other funds	588,387	725,000	779,460	54,460
Transfers to other funds	-	(136,613)	(136,250)	363
Total other financing sources (uses)	588,387	588,387	643,210	54,823
Fund balance appropriated	-	709,691	-	(709,691)
Net changes in fund balances	\$ -	\$ -	306,658	\$ 306,658
Fund balances, beginning after restatement			6,995,101	
Fund balances, ending			<u>\$ 7,301,759</u>	

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Net Position
Proprietary Fund
June 30, 2020

Exhibit 8

	Business-Type Activities Enterprise Funds Utility Fund
Assets	
Current assets:	
Cash and equivalents	\$ 1,824,561
Accounts receivable	881,014
Due from other governments	91,613
Restricted cash	1,544,363
Total current assets	<u>4,341,551</u>
Non-current assets:	
Capital assets:	
Land and other non-depreciable assets	3,229,688
Other capital assets, net of depreciation	44,916,351
Total capital assets	<u>48,146,039</u>
Total non-current assets	<u>48,146,039</u>
Total assets	<u>52,487,590</u>
Deferred Outflows of Resources	
Total deferred outflows of resources	<u>352,961</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	519,609
Utility deposits	103,979
Due to other funds	81,168
Current portion of long-term liabilities	1,842,766
Total current liabilities	<u>2,547,522</u>
Noncurrent liabilities:	
Non-current portion of long-term liabilities	29,991,366
Total liabilities	<u>32,538,888</u>
Deferred Inflows of Resources	
Total deferred inflows of resources	<u>507,290</u>
Net Position	
Net investment in capital assets	20,050,756
Unrestricted	(256,383)
Total net position	<u>\$ 19,794,373</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Revenues, Expenses, and Changes in Net Fund Position
Proprietary Fund
Year Ended June 30, 2020

Exhibit 9

	Business-Type Activities <u>Enterprise Funds</u> Utility Fund
Operating revenues:	
Charges for services	\$ 7,870,416
Water and sewer taps	195,531
Other operating revenues	20,420
Total operating revenues	<u>8,086,367</u>
Operating expenses:	
Administration	615,269
Facilities and equipment	73,405
Stormwater	637,694
Water treatment and distribution	1,470,619
Waste collection and treatment	992,973
Repairs and maintenance	65,203
Depreciation	2,051,688
Total operating expenses	<u>5,906,851</u>
Operating income	<u>2,179,516</u>
Non-operating revenues (expenses):	
Intergovernmental grants	157,000
Investment earnings	389,550
Miscellaneous	(276,044)
Interest and other charges	(1,164,060)
Total non-operating revenues (expenses)	<u>(893,554)</u>
Net income before transfers	1,285,962
Transfers to other funds	<u>(725,000)</u>
Change in net fund position	560,962
Total net position - beginning	<u>19,233,411</u>
Total net position, ending	<u>\$ 19,794,373</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2020

Exhibit 10

	Business-Type Activities Enterprise Funds Utility Fund
Cash flows from operating activities:	
Cash received from customers	\$ 8,118,293
Cash paid for goods and services	(1,821,425)
Cash paid to employees for services	(2,010,061)
Net cash provided by operating activities	<u>4,286,807</u>
Cash flows from noncapital financing activities:	
Transfers in (out)	(725,000)
Intergovernmental grant	157,000
Total cash flows used in noncapital financing activities	<u>(568,000)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,406,540)
Proceeds from issuance of long-term debt	409,827
Principal payment on long-term debt	(1,576,904)
Interest payment on long-term debt	(1,164,060)
Net cash capital and related used in financing activities	<u>(3,737,677)</u>
Cash flows from investing activities:	
Interest on investments	57,340
Net cash provided by investing activities	<u>57,340</u>
Net increase in cash and cash equivalents	38,470
Balances, beginning	3,606,498
Balances, ending	<u>\$ 3,644,968</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Cash Flows (Continued)
Proprietary Fund
Year Ended June 30, 2020

Exhibit 10

	Business-Type Activities
	Enterprise Funds
	Utility Fund
Operating income	\$ 2,179,516
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,051,688
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	17,210
Due from other governments	14,716
Deferred outflows of resources for pensions	(144,998)
Increase (decrease) in:	
Accounts payable and accrued liabilities	41,758
Utilities deposit	(1,206)
Due to other funds	(48,582)
Deferred inflows of resources for OPEB	186,821
Other postemployment benefits payable	(10,116)
Total adjustments	2,107,291
Net cash provided by operating activities	\$ 4,286,807

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Carolina Beach, North Carolina (the "Town") conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

The Town is a municipal corporation, which is governed by an elected mayor and a four-member council.

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 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 or ancillary units.

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental funds:

Various Capital Project Funds – These funds (six in total) are used to account for various capital projects of the Town.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reports the following major enterprise fund:

Utility Fund – This fund is used to account for the Town’s water and sewer and storm water drainage operations. Utility capital project funds have been consolidated into the Utility fund for financial reporting purposes. The budgetary comparison for the Utility fund and related capital project funds have been included in the supplemental information.

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

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

The Town considers all revenues available if they are collected within 60 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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town because the tax is levied by New Hanover 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 by general revenues.

Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Fund and the Enterprise Fund Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. 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. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by the State law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. State law (G.S. 159-30(c)) authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain 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. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, 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, 2020, The Term portfolio has a duration of .15 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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Cash

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, followed by unrestricted resources as they are needed. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Money in the Powell Bill funds is classified as restricted cash because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. Unspent debt proceeds in the Utility Fund are restricted for the purpose of the loan.

Restricted cash at June 30, 2020, consists of the following:

Governmental Activities

General Fund:

Streets - Powell Bill	\$ 504,274
Unspent grant proceeds	17,671
Unspent debt proceeds	836,989
Total governmental activities	<u>\$ 1,358,934</u>

Business-Type Activities

Utility Fund:

Customer deposits	\$ 103,979
Unspent debt proceeds	1,440,384
Total business-type activities	<u>\$ 1,544,363</u>

Total restricted cash	<u>\$ 2,903,297</u>
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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, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance 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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30-40 years
Buildings	50 years
Improvements	25 years
Vehicles	6 years
Furniture and equipment	10 years
Computer equipment	3 years

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element called deferred outflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an expense until then. The Town has one item that meets the criterion for this category – pension deferrals for the 2020 fiscal year. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. On the statement of net position, the Town has several items that meets the criterion for this category – deferrals of pension expense, property taxes receivable, and assessments receivable.

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 effective interest method.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amortized and expensed over the term of the related 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.

Compensated Absences

The vacation policies of the Town provide for the accumulation of up to 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 time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. The Town's sick leave policies provide for unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Investment in Capital Assets

	Governmental Activities	Business-Type Activities
Capital assets	\$ 25,213,519	\$ 48,146,039
Long-term debt	(4,551,109)	(29,535,667)
Unexpended debt proceeds	836,989	1,440,384
Net investment in capital assets	<u>\$ 21,499,399</u>	<u>\$ 20,050,756</u>

Net Position

Net Position - Net position in the 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 a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through State statutes.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restricted for Stabilization by State Statute - 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 - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Grant Funds - Portion of the fund balance that is restricted by grant agreements and unspent at year end.

Committed Fund Balance - This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Carolina Beach, North Carolina's governing body (highest level of decision making authority, the Town Council). 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. Any changes or removal of specific purpose restrictions require majority action by the governing body.

Assigned Fund Balance - Assigned fund balance is the portion of fund balance that the Town of Carolina Beach, North Carolina intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager and Finance Director, as granted in the officially adopted budget ordinance, have been granted limited authority to assign fund balance.

Assigned for Capital Projects - portion of fund balance that has been budgeted by the Board for various construction projects of the Town.

Assigned for Storm Damage Prevention - portion of the fund balance that has been appropriated by the Board to fund future storm damage reduction and inlet dredging projects.

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town of Carolina Beach, North Carolina has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, Federal funds, State funds, local non-Town funds; and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

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

Total fund balance - General Fund	\$ 7,301,759
Less:	
Stabilization by State Statute	1,913,033
Streets- Powell Bill	504,274
Grant Funds	17,671
Storm Damage Prevention	1,950,000
Remaining Fund Balance	<u>\$ 2,916,781</u>

The Town of Carolina Beach, North Carolina has not adopted a formal fund balance policy.

Pensions

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

NOTE 2 – DETAIL NOTES ON ALL FUNDS

A. Assets

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 units' name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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 complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2020, the Town's deposits had a carrying amount of \$2,067,161 and a bank balance of \$2,161,440. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral under the Pooling Method. As of June 30, 2020, the Town's petty cash fund totaled \$600.

Investments

At June 30, 2020, the Town's investment balances were as follows:

Valuation			
Investment Type	Measurement Method	Book Value	Maturity
NC Capital Management Trust:			
Cash Portfolio	Fair Value: Level 1	\$ 581,336	N/A
Term Portfolio	Fair Value: Level 1	7,910,427	0.15 years
		<u>\$ 8,491,763</u>	

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy – Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest rate risk: The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's internal investment policy limits their investment portfolio to the NC Capital Management Trust Cash Portfolio, which can be liquidated at the share price or NC Capital Management Trust Term Portfolio, which usually has a maturity of less than 12 months.

Credit risk: The Town has no formal policy regarding credit risk, but has an internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to either the NC Capital Management Trust Cash Portfolio, which carries a credit rating of AAAM by Standard & Poor's as of June 30, 2020, or the NC Capital Management Trust Term Portfolio, which is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under G.S. 159-30 as amended.

Custodial credit risk: For any investment, the custodial risk is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town has no formal policy on custodial risk, but management procedures are that the Town shall utilize a third-party custodial agent for book entry transactions, all of which shall be held in the Town's name.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Concentration of credit risk: The Town's Board places no limit on the amount that the Town may invest in any one issuer. At year end, all of the Town's investments are held in either NC Capital Management Trust Cash Portfolio or the NC Capital Management Trust Term Portfolio, which represents 6.8% and 93.2% of the Town's total investment, respectively.

Receivables

Governmental activities receivables for the General Fund consist of \$202,159 for outstanding taxes; \$647,965 for customer accounts; \$158,000 for outstanding assessments; and \$1,236,684 due from other governments.

Business-Type activities receivables for the Utility Fund consist of \$869,413 for customer accounts, \$11,601 for outstanding assessments and \$91,613 due from other governments.

The amounts presented in the Balance Sheet and the Statement of Net Position are net of allowances for doubtful accounts, if any.

Due from other governments consisted of the following:

	Governmental Activities	Business-Type Activities
Local option sales tax	\$ 27,696	\$ 29,411
Grant reimbursements	1,150,725	-
Sales tax reimbursement	58,263	62,202
Total	<u>\$ 1,236,684</u>	<u>\$ 91,613</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2020, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 6,631,912	\$ 505,952	\$ -	\$ -	\$ 7,137,864
Construction in progress	1,848,196	101,547	-	(1,711,997)	237,746
Total capital assets not being depreciated	8,480,108	607,499	-	(1,711,997)	7,375,610
Capital assets being depreciated:					
Buildings	11,204,295	153,410	-	-	11,357,705
Infrastructure	10,680,959	49,799	-	1,711,997	12,442,755
Equipment	1,336,197	79,845	14,133	-	1,401,909
Vehicles and motorized equipment	4,308,585	255,967	226,009	-	4,338,543
Total capital assets being depreciated	27,530,036	539,021	240,142	1,711,997	29,540,912
Less accumulated depreciation for:					
Buildings	3,869,139	288,732	-	-	4,157,871
Infrastructure	2,777,955	486,636	-	-	3,264,591
Equipment	1,206,812	26,342	5,641	-	1,227,513
Vehicles and motorized equipment	2,823,023	453,773	223,768	-	3,053,028
Total accumulated depreciation	10,676,929	1,255,483	229,409	-	11,703,003
Total capital assets being depreciated, net	16,853,107				17,837,909
Government activity capital assets, net	\$ 25,333,215				\$ 25,213,519

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

Governmental Activities:	
General government	\$ 427,120
Transportation	6,210
Public safety	433,621
Environmental protection	277,879
Fleet	20,073
Cultural and recreation	90,580
Total depreciation expense	<u>\$ 1,255,483</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Capital asset activity for the Business-Type Activities was as follows:

	Beginning Balances	Increases	Decreases	Transfer	Ending Balances
Utility Fund:					
Capital assets not being depreciated:					
Land	\$ 475,957	\$ -	\$ -	\$ -	\$ 475,957
Construction in progress	2,992,070	324,255	-	(562,594)	2,753,731
Total capital assets not being depreciated	3,468,027	324,255	-	(562,594)	3,229,688
Capital assets being depreciated:					
Plant and distribution systems	58,461,316	465,531	-	10,775	58,937,622
Furniture and maintenance equipment	2,547,558	182,221	57,772	536,057	3,208,064
Vehicles	1,945,057	434,533	244,912	15,762	2,150,440
Total capital assets being depreciated	62,953,931	1,082,285	302,684	562,594	64,296,126
Less accumulated depreciation for:					
Plant and distribution systems	15,152,361	1,527,665	-	-	16,680,026
Furniture and maintenance equipment	1,454,306	253,025	57,772	-	1,649,559
Vehicles	1,024,104	270,998	244,912	-	1,050,190
Total accumulated depreciation	17,630,771	2,051,688	302,684	-	19,379,775
Total capital assets being depreciated, net	45,323,160				44,916,351
Utility fund capital assets, net	\$ 48,791,187				\$ 48,146,039

B. Liabilities

Accounts Payable and Accrued Expenses

Payables at the government-wide level at June 30, 2020, were as follows:

	Vendors	Other	Total
Governmental Activities:			
General Fund	\$ 522,485	\$ 310,919	\$ 833,404
Total governmental activities	\$ 522,485	\$ 310,919	\$ 833,404
Business-Type Activities:			
Utility Fund	\$ 377,168	\$ 142,441	\$ 519,609

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Long Term Obligations

Installment Purchases

Installment purchase contracts at June 30, 2020 are comprised of the following:

Governmental Activities:

The Town of Carolina Beach, North Carolina currently has nine direct placement installment purchase contracts ranging from 1.71% to 2.53% interest-bearing notes. The land or assets purchased with the notes are collateral for the notes. The notes maturities range from 2021 to 2035. Various property or equipment associated with the direct placement installment purchase contracts are pledged as collateral against the debt.

\$ 4,551,109

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 677,058	\$ 113,868
2022	575,607	97,281
2023	575,607	82,445
2024	575,607	67,610
2025	408,785	52,774
2026-2030	1,269,104	147,046
2031-2035	469,341	32,969
Total	<u>\$ 4,551,109</u>	<u>\$ 593,993</u>

Business-Type Activities:

The Utility Fund currently has four direct placement installment purchase contracts ranging from 0% to 3.28% interest-bearing notes. The notes maturities range from 2028 to 2034. Various property or equipment associated with the direct placement installment purchase contracts are pledged as collateral against the debt.

\$ 1,909,844

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 256,932	\$ 22,419
2022	258,672	17,731
2023	260,466	12,991
2024	199,867	8,195
2025	117,902	5,248
2026-2030	509,508	7,872
2031-2034	306,497	-
Total	<u>\$ 1,909,844</u>	<u>\$ 74,456</u>

Revenue Bond

Revenue Bond at June 30, 2020 is comprised of the following:

The Utility Fund has an outstanding direct placement Water and Sewer Revenue Bonds, Series 2016 issued for water and sewer system improvements. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at an annual interest rate ranging from 2% to 5%. The bond matures in 2041.

\$ 23,265,000

Annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,105,000	\$ 1,034,500
2022	1,100,000	990,300
2023	1,150,000	935,300
2024	1,200,000	889,300
2025	1,260,000	829,300
2026-2030	5,985,000	3,199,750
2031-2035	4,600,000	1,948,250
2036-2040	5,605,000	942,200
2041	1,260,000	50,400
Total	<u>\$ 23,265,000</u>	<u>\$ 10,819,300</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The Town has covenants related to the revenue bond for rates, fees, rentals and charges in Section 704 of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2016. Section 704(a) of the Bond Order requires a debt service coverage ratio of no less than 120% at the end of any year. The debt services coverage ratio calculation for the year ended June 30, 2020, is as follows:

Operating revenues and investment earnings	\$ 8,475,917
Operating expenses, excluding OPEB (net of depreciation)	<u>3,794,069</u>
Net revenue available for debt service	4,681,848
Add 20% surplus account (expendable net position)	<u>(51,277)</u>
Adjusted net revenues	<u>4,630,571</u>
Senior debt service	2,136,900
Subordinate debt service	<u>552,165</u>
Total Debt Service	<u>2,689,065</u>
Add 20% senior debt service	<u>427,380</u>
Adjusted debt service	<u>\$ 3,116,445</u>
Coverage Test 1	
Adjusted net revenues/adjusted debt service	149%
Coverage Test 2	
Net revenues/total debt service	174%
Coverage Test 3	
Stormwater revenues	\$ 1,583,019
Stormwater expenses, plus 200% of required principal and interest on related debt	<u>2,390,545</u>
Deficit	<u>\$ (807,526)</u>

The Town has pledged future water and sewer customer revenues, net of specific operating expenses, to repay the water and sewer direct placement revenue bonds issued in June 2016. Proceeds from the bonds provided financing for several Utility Fund capital projects and refinanced outstanding debt on several current and past capital projects of the Utility Fund. The bonds are payable solely from water and sewer customer net revenues in which annual principal and interest payments on the bonds are expected to require less than 6% of net revenues. In the event of a default, the Town agrees to pay to the purchaser, on demand, all outstanding principal and interest due related to this agreement.

Revolving Loan Payables

On May 1, 2001, the Town received \$1,854,260 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund Program. The loan is repayable at 2.57% interest for 20 years. The loan repayment schedule based on the loan amount of \$1,854,260 calls for annual principal repayments and semi-annual interest repayments for 20 years. The total amount outstanding at June 30, 2020 was \$278,193.

On May 1, 2010, the Town was approved for a maximum loan amount of \$1,686,234 for a Federal revolving 50% forgiveness loan for treatment of a beach storm water pond. The loan is repayable at 0%

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

interest for 20 years. The loan repayment schedule is based on the outstanding amount of the loan at year-end. The total amount outstanding at June 30, 2020 was \$409,339.

On May 1, 2010, the Town was approved for a maximum loan amount of \$1,000,000 for a Federal revolving 50% forgiveness loan for Lake Park Boulevard sewer rehabilitation. The loan is repayable at 0% interest for 20 years. The loan repayment schedule is based on the outstanding amount of the loan at year-end. The total amount outstanding at June 30, 2020 was \$205,629.

Annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 154,228	\$ 3,575
2022	154,228	2,383
2023	154,228	1,192
2024	61,497	-
2025	61,497	-
2026-2030	307,483	-
Total	<u>\$ 893,161</u>	<u>\$ 7,150</u>

Changes in Long-Term Liabilities

A summary of long-term debt as of June 30, 2020, is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental Activities:					
Direct placement installment purchases	\$ 4,132,810	\$ 1,200,000	\$ 781,701	\$ 4,551,109	\$ 677,058
Compensated absences	483,499	60,223	-	543,722	-
Net pension liability (LGERS)	1,770,488	220,747	-	1,991,235	-
Total OPEB liability	6,713,268	-	555,402	6,157,866	-
Net pension obligation (LEO)	612,490	-	15,371	597,119	-
Total governmental activity long-term liabilities	<u>\$ 13,712,555</u>	<u>\$ 1,480,970</u>	<u>\$ 1,352,474</u>	<u>\$ 13,841,051</u>	<u>\$ 677,058</u>
Business-Type Activities:					
Direct placement installment purchases	\$ 1,862,694	\$ 409,827	\$ 362,677	\$ 1,909,844	\$ 256,932
Direct placement revenue bonds	24,325,000	-	1,060,000	23,265,000	1,105,000
Deferred amounts:					
Issuance premiums	3,799,872	-	332,210	3,467,662	326,606
Revolving loans	1,047,388	-	154,227	893,161	154,228
Net pension liability (LGERS)	524,041	37,590	-	561,631	-
Total OPEB liability	1,784,540	-	47,706	1,736,834	-
Total business-type long-term liabilities	<u>\$ 33,343,535</u>	<u>\$ 447,417</u>	<u>\$ 1,956,820</u>	<u>\$ 31,834,132</u>	<u>\$ 1,842,766</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The LGERS pension plan had a net pension plan asset as of June 30, 2020; however, the plan had a net pension liability at the beginning of the fiscal year. Compensated absences, net pension obligation, and other post-employment benefits are typically liquidated in the General Fund. Compensated absences are accounted for on a first-in, first-out basis.

At June 30, 2020, the Town had a legal debt margin of \$161,552,000.

Interfund Activity

Balances due to/from other funds at June 30, 2020, consisted of \$221,933 due to the General Fund from the Grant Project and Hamlet Bathroom and Ocean Rescue Funds (nonmajor funds) and the Utility Fund, in the amount of \$139,515, \$1,250 and \$81,168, respectively, resulting from the time lag for reimbursable expenditures that occur and repayment between funds are made.

Transfers to/from other funds at June 30, 2020, consist of the following:

Transfers to	Transfers from	Amount
General Fund	Cape Fear Multi-Use Path Project	\$ 10,499
General Fund	Clarendon Ave MUP (Non Major)	43,961
General Fund	Utility Fund	725,000
Island Greenway (Non Major)	Clarendon Ave MUP (Non Major)	67,389
Clarendon Ave MUP (Non Major)	General Fund	136,250
		<u>\$ 983,099</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, to close out completed capital project funds or to cover cost allocation attributed to the Utility Fund.

Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description: The Town of Carolina Beach, North Carolina 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. LGERS provides retirement and disability benefits to plan members and beneficiaries. 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 thirteen 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 the State Superintendent, who serve as ex-officio members. The LGERS 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, or by calling (919) 981-5454 or at www.osc.nc.gov.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 – DETAIL NOTES ON ALL FUNDS (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. The Town of Carolina Beach, North Carolina 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 Carolina Beach, North Carolina's contractually required contribution rate for the year ended June 30, 2020, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Carolina Beach, North Carolina were \$532,260 for the year ended June 30, 2020.

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, 2020, the Town reported a liability of \$2,552,866 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31,

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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, 2019, the Town's proportion was 0.093%, which was a decrease of 0.004% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$1,119,632. At June 30, 2020, 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	\$ 437,115	\$ -
Net difference between projected and actual earnings on pension plan investments	62,268	-
Changes of assumptions	416,075	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	100,716
Town contributions subsequent to the measurement date	532,260	-
	<u>\$ 1,447,718</u>	<u>\$ 100,716</u>

\$532,260 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension 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: 2021 - \$423,212; 2022 - \$113,250; 2023 - \$221,106; and 2024 - \$57,174.

Actuarial Assumptions - The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00%, 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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. 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, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
	<u>100%</u>	

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

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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 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%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 5,838,871	\$ 2,552,866	\$ (178,470)

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

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	31
	<u>33</u>

Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 73:

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

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

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$29,228 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, 2020, the Town reported a pension liability of \$597,119. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$58,204. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to Separation Allowance from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,983	\$ 55,302
Changes of assumptions	41,610	25,278
Town benefit payments and plan administrative expenses made subsequent to the measurement date	14,614	-
	<u>\$ 76,207</u>	<u>\$ 80,580</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$14,614 paid as benefits came due subsequent to the measurement date, are 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 net 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: 2021 - \$1,361; 2022 - \$1,361; 2023 - \$802; 2024 - \$6,913; 2025 - \$8,327 and thereafter – \$223.

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 asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 655,340	\$ 597,119	\$ 544,674

Schedule of Changes in Total Pension Liability: The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contributions	\$ 37,802
Interest on net pension obligation	21,764
Changes in assumptions and other inputs	20,588
Difference between expected and actual experience	(66,297)
Benefit payments	<u>(29,228)</u>
Annual pension cost	(15,371)
Contributions made	<u>-</u>
Increase in net pension obligation	(15,371)
Net pension obligation, beginning of year	<u>612,490</u>
Net pension obligation, end of year	<u><u>\$ 597,119</u></u>

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

The actuarial assumptions used in the December 31, 2018 valuation was based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2020 were \$201,502 which consisted of \$121,296 from the Town and \$80,206 from the law enforcement officers.

d. Other Post-Employment Benefits

Plan Description: The Town (by local ordinance) administers a single employer defined benefit plan and provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and meet the following criteria. The retiree must have at least five years of creditable service with the Town, and the retirement must be due to a medical condition, which is subject to review by the North Carolina Medical Review Board. In addition, the Town pays the full cost of coverage for these benefits for retirees with a minimum of 20 years of continuous service with the Town and meet the eligibility of the plan. The Town pays half the cost of coverage for the benefits of retirees with 15-19 years of continuous service. Any less than 15 years of continuous service and the Town does not cover the cost of coverage. Employees hired before July 1, 2015 will receive coverage paid for by the Town based on criteria met. Employees hired after July 1, 2015 are not eligible for coverage. Retirees who do not meet the aforementioned criteria have the option to purchase basic medical insurance for themselves and their dependents through the Town. The entire cost of this insurance is borne by the retirees. The Town maintains healthcare coverage through private insurers and has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. A separate report is not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	26
Active plan members	67
	<hr/>
	93
	<hr/>

Total OPEB Liability

The Town's total OPEB liability of \$7,894,700 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2019 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%
Salary increases, including wage inflation of 3.5%	
General Employees	3.50% to 7.75%
Firefighters	3.50% to 7.75%
Law Enforcement Officers	3.50% to 7.35%
Discount rate	3.50%
Healthcare cost trend rates	
Pre-Medicare	7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026
Medicare	5.00% for 2019 decreasing to an ultimate rate of 4.50% by 2021

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Changes in the Total OPEB liability

Service cost	\$ 419,595
Interest	328,110
Differences between expected and actual experience	(1,218,488)
Changes in assumptions or other inputs	(4,922)
Benefit payments	<u>(127,403)</u>
Net changes	(603,108)
OPEB balance, beginning of year	<u>8,497,808</u>
OPEB balance, end of year	<u><u>\$ 7,894,700</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%, which is based on the Municipal Bond Index Rate of a 20-year tax exempt municipal bond (rating AA/Aa or higher) rate.

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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 (2.50%) or 1 percentage point higher (4.50%) than the current discount rate:

	1% Decrease	Discount Rate (3.50)	1% Increase
Total OPEB liability	\$ 9,614,760	\$ 7,894,700	\$ 6,575,292

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 cost trend rates:

	1% Decrease	Discount Rate (Pre-Medicare 7.0% Medicare 5.00%)	1% Increase
Total OPEB liability	\$ 6,444,123	\$ 7,894,700	\$ 9,833,327

For the year ended June 30, 2020, the Town Recognized OPEB expense of \$377,993. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,072,655
Changes of assumptions or other inputs	-	1,132,493
Town benefit payments and plan administrative expenses made subsequent to the measurement date	156,654	-
Total	\$ 156,654	\$ 2,205,148

\$156,654 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. Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows: 2021 through 2024 and thereafter – \$356,558.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Other Employment Benefits

The Town has elected to provide death benefits to law enforcement employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (the "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 on rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Deferred Outflows and Inflows of Resources

Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of All Plans

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

	LGERS	LEOSSA	OPEB	Total
Plan Expense	\$ 1,119,632	\$ 58,204	\$ 377,993	\$ 1,555,829
Plan Liability	2,552,866	597,119	7,894,700	11,044,685
Proportionate share of the net plan liability	0.093%	N/A	N/A	
Deferred of Outflows of Resources				
Differences between expected and actual experience	437,115	19,983	-	457,098
Changes of assumptions	416,075	41,610	-	457,685
Net difference between projected and actual earnings on plan investments	62,268	-	-	62,268
Benefit payments and administrative costs paid subsequent to the measurement date	532,260	14,614	156,654	703,528
Deferred of Inflows of Resources				
Differences between expected and actual experience	-	55,302	1,072,655	1,127,957
Changes of assumptions	-	25,277	1,132,493	1,157,770
Changes in proportion and differences between contributions and proportionate share of contributions	100,716	-	-	100,716

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The Town has several deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are comprised of the following:

	Statement of Net Position	General Fund Balance Sheet
Benefit payments and administrative expenses for plans made subsequent to measurement date	\$ 703,528	\$ -
Changes in assumptions	457,685	-
Differences between expected and actual experience	457,098	-
Net difference between projected and actual	62,268	-
	<u>\$ 1,680,579</u>	<u>\$ -</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes receivables	\$ -	\$ 202,158
Assessment receivables	-	157,987
Changes in assumptions	1,157,770	-
Differences between expected and actual experience	1,127,957	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	100,716	-
	<u>\$ 2,386,443</u>	<u>\$ 360,145</u>

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 insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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. Each structure is insured at an appropriate level. In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket for \$100,000.

NOTE 3 – SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

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

NOTE 4 – CONDUIT DEBT OBLIGATIONS

The Town assisted a local not-for-profit organization to obtain a loan from a financial institution to provide financial assistance to develop local properties for the benefit of the residents of Carolina Beach. This debt is secured by properties owned by the not-for-profit and are payable solely from the payments received from the not-for-profit. The Town is not obligated in any manner for the repayment of this debt and accordingly, it is not reported as a liability in the accompanying financial statements. The Town contributes to the not-for-profit an annual amount to help in making the debt service payments of this debt. At year end, the amount outstanding is approximately \$1,331,147.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Local Government Employees' Retirement System
Required Supplementary Information
Last Seven Fiscal Years*

Proportionate Share of Net Pension Liability:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportionate of the net pension liability (asset)	0.093%	0.097%	0.099%
Proportionate of the net pension liability (asset)	\$ 2,552,866	\$ 2,294,529	\$ 1,509,543
Covered-employee payroll	6,333,880	5,818,062	4,892,879
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	40.30%	39.44%	30.85%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%

Contributions:

Contractually required contribution	\$ 532,260	\$ 463,303	\$ 408,178
Contributions in relation to the contractually required contribution	<u>532,260</u>	<u>463,303</u>	<u>408,178</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 6,333,880	\$ 5,818,062	\$ 4,892,879
Contribution as a percentage of covered-employee payroll	8.40%	7.96%	8.34%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportionate of the net pension liability (asset)	0.099%	0.094%	0.090%	0.077%
Proportionate of the net pension liability (asset)	\$ 2,000,089	\$ 406,069	\$ (454,753)	\$ 932,967
Covered-employee payroll	5,508,904	4,919,007	4,520,727	3,777,410
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	36.31%	8.26%	-10.06%	24.70%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	98.09%	102.64%	94.35%
Contributions:				
Contractually required contribution	\$ 332,667	\$ 295,139	\$ 269,615	\$ 211,078
Contributions in relation to the contractually required contribution	<u>332,667</u>	<u>295,139</u>	<u>269,615</u>	<u>211,078</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 5,508,904	\$ 4,919,007	\$ 4,520,727	\$ 3,777,410
Contribution as a percentage of covered-employee payroll	6.04%	6.00%	5.96%	5.59%

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Year Ended June 30, 2020

Exhibit 12

Schedule of Changes in Total Pension Liability:

	2020	2019	2018	2017
Beginning balance	\$ 612,490	\$ 597,760	\$ 503,725	\$ 496,594
Service cost	37,802	41,722	36,109	32,649
Interest on the total pension liability	21,764	18,427	18,884	17,207
Differences between expected and actual experience in the measurement of the total pension liability	(66,297)	12,860	21,406	-
Changes of assumptions or other inputs	20,588	(29,051)	46,648	(13,497)
Benefit payments	(29,228)	(29,228)	(29,012)	(29,228)
Ending balance of the total pension liability	<u>\$ 597,119</u>	<u>\$ 612,490</u>	<u>\$ 597,760</u>	<u>\$ 503,725</u>

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

Schedule of Total Pension Liability as a Percentage of Covered Payroll:

Total pension liability	\$ 597,119	\$ 612,490	\$ 597,760	\$ 503,725
Covered payroll	1,739,444	1,617,865	1,539,776	1,402,866
Total pension liability as a percentage of covered payroll	34.33%	37.86%	38.82%	35.91%

Notes to the Schedules:

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

Other Post-Employment Benefits

Required Supplementary Information

Schedule of Changes in the Total OPEB Liability and Related Ratios

Year Ended June 30, 2020

	2020	2019	2018
Total OPEB Liability			
Service Cost	\$ 419,595	\$ 448,632	\$ 514,672
Interest	328,110	299,775	264,641
Differences between expected and actual experience	(1,218,488)	(34,305)	(2,628)
Changes of assumptions	(4,922)	(589,512)	(1,042,422)
Benefit payments	(127,403)	(94,031)	(117,256)
Net change in total OPEB liability	(603,108)	30,559	(382,993)
Total OPEB liability - beginning	8,497,808	8,467,249	8,850,242
Total OPEB liability - ending	<u>\$ 7,894,700</u>	<u>\$ 8,497,808</u>	<u>\$ 8,467,249</u>
Covered payroll	\$ 3,919,499	\$ 4,892,879	\$ 4,892,879
Total OPEB liability as a percentage of covered payroll	201.42%	173.68%	173.05%

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 the discount rates used in each period:

Fiscal Year	Rate
2020	3.50%
2019	3.89%
2018	3.01%

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Schedule 1****Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****Page 1 of 5****General Fund****For the Fiscal Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes		\$ 4,790,057	
Penalties and interest		14,978	
Total ad valorem taxes	<u>\$ 4,836,865</u>	<u>4,805,035</u>	<u>\$ (31,830)</u>
Other taxes and licenses:			
Privilege licenses		31,157	
Total other taxes and licenses	<u>27,635</u>	<u>31,157</u>	<u>3,522</u>
Unrestricted intergovernmental:			
Local option sales taxes		1,731,235	
Utility sales tax		501,545	
ABC distribution		456,609	
Beer and wine tax		26,417	
Other taxes		555,715	
Cable franchise tax		93,478	
Total unrestricted intergovernmental	<u>3,487,417</u>	<u>3,364,999</u>	<u>(122,418)</u>
Restricted intergovernmental:			
Powell Bill allocation		183,667	
Other grants		367,897	
Total restricted intergovernmental	<u>379,367</u>	<u>551,564</u>	<u>172,197</u>
Permits and fees:			
Building permits		68,438	
Parking permits		191,760	
Assessments		63,886	
Inspection fees		265,322	
Total permits and fees	<u>570,908</u>	<u>589,406</u>	<u>18,498</u>
Sales and services:			
Rents		193,271	
Recreation fees		973,426	
Court fees		45,787	
Parking		1,261,940	
Refuse fees		1,651,592	
Total sales and services	<u>5,577,019</u>	<u>4,126,016</u>	<u>(1,451,003)</u>
Investment earnings	<u>95,000</u>	<u>95,092</u>	<u>92</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****Schedule 1****Page 2 of 5****General Fund (Continued)****For the Fiscal Year Ended June 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Revenues (Continued):			
Miscellaneous	\$ 29,500	\$ 84,210	\$ 54,710
Total Revenues	15,003,711	13,647,479	(1,356,232)
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		79,583	
Other operating expenses		339,475	
Total	846,455	419,058	427,397
Administration:			
Salaries and employee benefits		423,054	
Other operating expense		575,366	
Total	1,136,531	998,420	138,111
Clerk:			
Salaries and employee benefits		103,537	
Other operating expenses		43,656	
Total	171,808	147,193	24,615
Finance:			
Salaries and employee benefits		243,777	
Other operating expenses		115,292	
Total	381,329	359,069	22,260
Human Resources:			
Salaries and employee benefits		310,531	
Other operating expenses		81,847	
Total	442,921	392,378	50,543
Public Works Administration:			
Salaries and employee benefits		54,778	
Other operating expense		55,852	
Total	116,375	110,630	5,745

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Schedule 1****Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****Page 3 of 5****General Fund (Continued)****For the Fiscal Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (Continued):			
Planning:			
Salaries and employee benefits		\$ 580,258	
Other operating expense		23,770	
Capital outlay		27,268	
Total	<u>\$ 656,100</u>	<u>631,296</u>	<u>\$ 24,804</u>
Parking:			
Other operating expense		550,922	
Capital outlay		231,062	
Total	<u>783,117</u>	<u>781,984</u>	<u>1,133</u>
Beach Maintenance:			
Salaries and benefits		230,701	
Other operating expenses		249,641	
Capital outlay		89,112	
Total	<u>991,452</u>	<u>569,454</u>	<u>421,998</u>
Marina:			
Other operating expenses		46,541	
Capital outlay		8,571	
Total	<u>55,520</u>	<u>55,112</u>	<u>408</u>
Total general government	<u>5,581,608</u>	<u>4,464,594</u>	<u>1,117,014</u>
Public Safety:			
Police:			
Salaries and employee benefits		2,137,530	
Other operating expenses		181,995	
Capital outlay		72,609	
Total	<u>2,809,993</u>	<u>2,392,134</u>	<u>417,859</u>
Fire:			
Salaries and employee benefits		1,046,558	
Other operating expenses		181,300	
Capital outlay		18,331	
Total	<u>1,338,899</u>	<u>1,246,189</u>	<u>92,710</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Schedule 1****Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****Page 4 of 5****General Fund (Continued)****For the Fiscal Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (Continued):			
Lifeguard:			
Salaries and employee benefits		\$ 381,135	
Other operating expenses		33,598	
Capital outlay		47,715	
Total	\$ 513,934	462,448	\$ 51,486
Total public safety	4,662,826	4,100,771	562,055
Transportation:			
Street and Highways:			
Street maintenance		64,908	
Total transportation	183,867	64,908	118,959
Fleet Maintenance:			
Other operating expenses		209,815	
Total fleet maintenance	286,100	209,815	76,285
Environmental Protection:			
Solid Waste:			
Salaries and employee benefits		620,824	
Other operating expenses		2,231,854	
Capital outlay		51,933	
Total environmental protection	3,283,304	2,904,611	378,693
Cultural and Recreation:			
Parks and Recreation:			
Salaries and employee benefits		435,978	
Other operating expenses		334,144	
Capital outlay		176,695	
Total cultural and recreation	997,420	946,817	50,603
Non-Departmental:			
Other operating expenses		407,744	
Total non-departmental	421,769	407,744	14,025

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Schedule 1****Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****Page 5 of 5****General Fund (Continued)****For the Fiscal Year Ended June 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	\$ 857,060	\$ 781,701	\$ 75,359
Interest and other charges	27,835	103,070	(75,235)
Total debt service	884,895	884,771	124
Total expenditures	16,301,789	13,984,031	2,317,758
Revenue over (under) expenditures	(1,298,078)	(336,552)	961,526
Other financing sources (uses):			
Transfers in	725,000	779,460	54,460
Transfers out	(136,613)	(136,250)	363
Total other financing sources (uses)	588,387	643,210	54,823
Fund balance appropriated	709,691	-	(709,691)
Net change in fund balance	\$ -	306,658	\$ 306,658
Fund balances, beginning		6,995,101	
Fund balances, ending		\$ 7,301,759	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2020

	Grant Project Fund	Island Greenway Improvement Fund	Marina Project Fund
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 159,082
Accounts receivable	-	-	-
Due from other governments	139,604	-	53,427
Due from other funds	-	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	<u>\$ 139,604</u>	<u>\$ -</u>	<u>\$ 212,509</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable and other current liabilities	\$ -	\$ -	\$ -
Due to other funds	139,515	-	-
Total liabilities	<u>139,515</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Assigned:			
Capital projects	89	-	212,509
Total fund balances	<u>89</u>	<u>-</u>	<u>212,509</u>
 Total liabilities and fund balances	<u>\$ 139,604</u>	<u>\$ -</u>	<u>\$ 212,509</u>

	Cape Fear Multi-Use Path Project Fund	Hamlet Bathroom/ Ocean Rescue Fund	Clarendon Ave MUP Fund	Total Nonmajor Governmental Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 159,082
Accounts receivable	-	-	-	-
Due from other governments	-	532	-	193,563
Due from other funds	-	-	-	-
Restricted cash and cash equivalents	-	836,989	-	836,989
Total assets	<u>\$ -</u>	<u>\$ 837,521</u>	<u>\$ -</u>	<u>\$ 1,189,634</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and other current liabilities	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	1,250	-	140,765
Total liabilities	<u>-</u>	<u>1,250</u>	<u>-</u>	<u>140,765</u>
Fund Balances:				
Assigned:				
Capital projects	-	836,271	-	1,048,869
Total fund balances	<u>-</u>	<u>836,271</u>	<u>-</u>	<u>1,048,869</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 837,521</u>	<u>\$ -</u>	<u>\$ 1,189,634</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2020

	Grant Project Fund	Island Greenway Improvement Fund	Marina Project Fund
Revenues:			
Restricted intergovernmental	\$ 20,979	\$ -	\$ -
Investment earnings	-	-	-
Total revenues	<u>20,979</u>	<u>-</u>	<u>-</u>
Expenditures:			
Current:			
Public safety	<u>20,730</u>	<u>-</u>	<u>22,360</u>
Total expenditures	<u>20,730</u>	<u>-</u>	<u>22,360</u>
Revenues over (under) expenditures	<u>249</u>	<u>-</u>	<u>(22,360)</u>
Other Financing Sources (Uses):			
Transfers from other funds	-	67,389	-
Transfers to other funds	-	-	-
Long-term debt issued	-	-	-
Total other financing sources	<u>-</u>	<u>67,389</u>	<u>-</u>
Net change in fund balances	<u>249</u>	<u>67,389</u>	<u>(22,360)</u>
Fund balances, beginning	<u>(160)</u>	<u>(67,389)</u>	<u>234,869</u>
Fund balances, ending	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ 212,509</u>

Schedule 3

	Cape Fear Multi-Use Path Project Fund	Hamlet Bathroom/ Ocean Rescue Fund	Clarendon Ave MUP Fund	Total Nonmajor Governmental Funds
Revenues:				
Restricted intergovernmental	\$ (2,625)	\$ -	\$ -	\$ 18,354
Investment earnings	-	50	-	50
Total revenues	<u>(2,625)</u>	<u>50</u>	<u>-</u>	<u>18,404</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	363,779	24,900	431,769
Total expenditures	<u>-</u>	<u>363,779</u>	<u>24,900</u>	<u>431,769</u>
Revenues over (under) expenditures	<u>(2,625)</u>	<u>(363,729)</u>	<u>(24,900)</u>	<u>(413,365)</u>
Other Financing Sources (Uses):				
Transfers from other funds	-	-	136,250	203,639
Transfers to other funds	(10,499)	-	(111,350)	(121,849)
Long-term debt issued	-	1,200,000	-	1,200,000
Total other financing sources	<u>(10,499)</u>	<u>1,200,000</u>	<u>24,900</u>	<u>1,281,790</u>
Net change in fund balances	<u>(13,124)</u>	<u>836,271</u>	<u>-</u>	<u>868,425</u>
Fund balances, beginning	<u>13,124</u>	<u>-</u>	<u>-</u>	<u>180,444</u>
Fund balances, ending	<u>\$ -</u>	<u>\$ 836,271</u>	<u>\$ -</u>	<u>\$ 1,048,869</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Schedule 4****Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****Grant Fund Project****From Inception and for the Fiscal Year Ended June 30, 2020**

	Project		Actual	
	Authorization	Prior	Current	Total to
		Years	Year	Date
Revenues:				
Restricted intergovernmental:				
FEMA	\$ 3,097,664	\$ 1,627,311	\$ 20,979	\$ 1,648,290
Total revenues	<u>3,097,664</u>	<u>1,627,311</u>	<u>20,979</u>	<u>1,648,290</u>
Expenditures:				
Renovations	<u>3,097,664</u>	<u>1,627,471</u>	<u>20,730</u>	<u>1,648,201</u>
Total expenditures	<u>3,097,664</u>	<u>1,627,471</u>	<u>20,730</u>	<u>1,648,201</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (160)</u>	249	<u>\$ 89</u>
Fund balances, beginning			<u>(160)</u>	
Fund balances, ending			<u>\$ 89</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 5

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Island Greenway Improvement Fund

From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental	\$ 973,671	\$ 906,281	\$ -	\$ 906,281
Total revenues	<u>973,671</u>	<u>906,281</u>	<u>-</u>	<u>906,281</u>
Expenditures:				
Construction	1,402,837	1,402,836	-	1,402,836
Total expenditures	<u>1,402,837</u>	<u>1,402,836</u>	<u>-</u>	<u>1,402,836</u>
Revenues over (under) expenditures	<u>(429,166)</u>	<u>(496,555)</u>	<u>-</u>	<u>(496,555)</u>
Other financing sources (uses):				
Transfers from other funds	429,166	429,166	67,389	496,555
Total other financing sources	<u>429,166</u>	<u>429,166</u>	<u>67,389</u>	<u>496,555</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (67,389)</u>	67,389	<u>\$ -</u>
Fund balances, beginning			<u>(67,389)</u>	
Fund balances, ending			<u>\$ -</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 6

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Marina Project Fund

From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Investment income	\$ -	\$ 52	\$ -	\$ 52
Restricted intergovernmental	1,026,609	944,859	-	944,859
Total revenues	1,026,609	944,911	-	944,911
Expenditures:				
Construction	2,211,833	1,895,266	22,360	1,917,626
Total expenditures	2,211,833	1,895,266	22,360	1,917,626
Revenues under expenditures	(1,185,224)	(950,355)	(22,360)	(972,715)
Other financing sources:				
Long-term borrowing issued	520,000	520,000	-	520,000
Transfers in	665,224	665,224	-	665,224
Total other financing sources	1,185,224	1,185,224	-	1,185,224
Net change in fund balance	\$ -	\$ 234,869	(22,360)	\$ 212,509
Fund balances, beginning			234,869	
Fund balances, ending			\$ 212,509	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 7

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Cape Fear Multi-Use Path Project Fund

From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental	\$ 425,639	\$ 215,876	\$ (2,625)	\$ 213,251
Total revenues	<u>425,639</u>	<u>215,876</u>	<u>(2,625)</u>	<u>213,251</u>
Expenditures:				
Construction	532,049	309,162	-	309,162
Total expenditures	<u>532,049</u>	<u>309,162</u>	<u>-</u>	<u>309,162</u>
 Revenues under expenditures	<u>(106,410)</u>	<u>(93,286)</u>	<u>(2,625)</u>	<u>(95,911)</u>
Other financing sources:				
Transfers to general fund	-	-	(10,499)	(10,499)
Transfers from general fund	106,410	106,410	-	106,410
Total other financing sources	<u>106,410</u>	<u>106,410</u>	<u>(10,499)</u>	<u>95,911</u>
 Net change in fund balance	<u>\$ -</u>	<u>\$ 13,124</u>	<u>(13,124)</u>	<u>\$ -</u>
 Fund balances, beginning			<u>13,124</u>	
 Fund balances, ending			<u>\$ -</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 8

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Hamlet Bathroom/Ocean Rescue Fund

From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 50	\$ 50
Total revenues	-	-	50	50
Expenditures:				
Construction	1,200,000	-	363,779	363,779
Total expenditures	1,200,000	-	363,779	363,779
Revenues under expenditures	(1,200,000)	-	(363,729)	(363,729)
Other financing sources:				
Long-term debt issued	1,200,000	-	1,200,000	1,200,000
Total other financing sources	1,200,000	-	1,200,000	1,200,000
Net change in fund balance	\$ -	\$ -	836,271	\$ 836,271
Fund balances, beginning			-	
Fund balances, ending			\$ 836,271	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 9

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Clarendon Ave MUP Fund

From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental	\$ 545,000	\$ -	\$ -	\$ -
Total revenues	<u>545,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Construction	681,250	-	24,900	24,900
Total expenditures	<u>681,250</u>	<u>-</u>	<u>24,900</u>	<u>24,900</u>
 Revenues under expenditures	<u>(136,250)</u>	<u>-</u>	<u>(24,900)</u>	<u>(24,900)</u>
Other financing sources:				
Transfers to other funds	-	-	(111,350)	(111,350)
Transfers from general fund	136,250	-	136,250	136,250
Total other financing sources	<u>136,250</u>	<u>-</u>	<u>24,900</u>	<u>24,900</u>
 Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
 Fund balances, beginning			<u>-</u>	
 Fund balances, ending			<u>\$ -</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Utility Fund
Year Ended June 30, 2020

Schedule 10
Page 1 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Customer charges:			
Water and sewer		\$ 5,524,105	
User fees		481,740	
Other municipals		281,552	
Stormwater fees		1,583,019	
Total customer charges	\$ 8,477,076	7,870,416	\$ (606,660)
Other Operating Revenues:			
Water and sewer taps	219,276	195,531	(23,745)
Other operating revenues	61,715	20,420	(41,295)
Total other operating revenues	280,991	215,951	(65,040)
Non-Operating Revenues:			
Interest	60,495	389,550	329,055
Total non-operating revenues	60,495	389,550	329,055
Total revenues	8,818,562	8,475,917	(342,645)
Expenditures:			
Water and Sewer Administration:			
Salaries and employee benefits		375,223	
Other operating expenditures		250,162	
Total water and sewer administration	601,866	625,385	(23,519)
Facilities and Equipment:			
Other operating expenditures		73,405	
Total facilities and equipment	116,000	73,405	42,595
Water Treatment:			
Salaries and employee benefits		321,798	
Chemicals		55,623	
Utilities		129,253	
Other operating expenditures		261,784	
Total water treatment	854,064	768,458	85,606

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Utility Fund
Year Ended June 30, 2020

Schedule 10
Page 2 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (Continued):			
Water Distribution:			
Salaries and employee benefits		\$ 123,876	
Utilities		76,765	
Other operating expenditures		501,520	
Total water distribution	<u>\$ 819,330</u>	<u>702,161</u>	<u>\$ 117,169</u>
Waste Collection and Treatment:			
Sewer Collection System:			
Salaries and employee benefits		663,351	
Other operating expenditures		329,622	
Total water collection and treatment	<u>1,200,046</u>	<u>992,973</u>	<u>207,073</u>
Stormwater Drainage:			
Salaries and employee benefits		450,887	
Other operating expenditures		186,807	
Total stormwater drainage	<u>867,224</u>	<u>637,694</u>	<u>229,530</u>
Repairs and Maintenance	<u>1,804,089</u>	<u>866,646</u>	<u>937,443</u>
Total operating expenditures	<u>6,262,619</u>	<u>4,666,722</u>	<u>1,595,897</u>
Non-Operating Expenses:			
Debt service:			
Interest		1,164,060	
Principal retirement		1,576,904	
Total debt service	<u>2,742,396</u>	<u>2,740,964</u>	<u>1,432</u>
Capital Outlay:			
System improvements	<u>788,564</u>	<u>582,720</u>	<u>205,844</u>
Total expenditures	<u>9,793,579</u>	<u>7,990,406</u>	<u>1,803,173</u>
Revenues over (under) expenditures	<u>(975,017)</u>	<u>485,511</u>	<u>1,460,528</u>
Other financing sources (uses):			
Appropriated fund balance	1,290,190	-	(1,290,190)
Loan proceeds	409,827	409,827	-
Transfer to other funds	<u>(725,000)</u>	<u>(564,718)</u>	<u>160,282</u>
Total other financing sources (uses)	<u>975,017</u>	<u>(154,891)</u>	<u>(1,129,908)</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Utility Fund
Year Ended June 30, 2020

Schedule 10
Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 330,620</u>	<u>\$ 330,620</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Capital project fund - capital outlay		(22,377)	
Capital project fund - intergovernmental grant		157,000	
Capital project fund - transfer from other funds		(160,282)	
Principal retirement		1,909,114	
Capital outlay		1,406,540	
Loss on disposal of capital assets		(276,044)	
Loan proceeds		(409,827)	
Amortization of issuance premiums		(332,210)	
Changes in related pension liability		10,116	
Depreciation		(2,051,688)	
Total reconciling items		<u>230,342</u>	
Change in net position		<u>\$ 560,962</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 11

Schedule of Revenues, Expenditures, and Changes in Fund Balances -

Budget and Actual (Non-GAAP) - Water Project

From Inception and Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total
Expenditures:				
Water and Sewer Infrastructure Projects:				
Phases B, C, D, and E	\$ 13,761,222	\$ 13,681,409	\$ -	\$ 13,681,409
Wastewater Treatment Plant	731,963	731,963	-	731,963
Water Lines, Lakes and Wells	5,405,181	3,726,502	22,377	3,748,879
Total expenditures	19,898,366	18,139,874	22,377	18,162,251
Other financing sources:				
Transfers in	19,898,366	19,898,366	-	19,898,366
Total other financing sources	19,898,366	19,898,366	-	19,898,366
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 1,758,492	\$ (22,377)	\$ 1,736,115

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 12

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
 Budget and Actual (Non-GAAP) - Stormwater Improvement
 From Inception and Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total
Revenues:				
Intergovernmental grants:				
CWMTF Grant	\$ 285,000	\$ 107,203	\$ -	\$ 107,203
Total Revenues	<u>285,000</u>	<u>107,203</u>	<u>-</u>	<u>107,203</u>
Expenditures:				
Stormwater improvements	<u>570,190</u>	<u>232,110</u>	<u>-</u>	<u>232,110</u>
Total expenditures	<u>570,190</u>	<u>232,110</u>	<u>-</u>	<u>232,110</u>
Other financing sources:				
Transfers in	285,190	285,189	-	285,189
Transfers out	<u>-</u>	<u>-</u>	<u>(160,282)</u>	<u>(160,282)</u>
Total other financing sources	<u>285,190</u>	<u>285,189</u>	<u>(160,282)</u>	<u>124,907</u>
Other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 160,282</u>	<u>\$ (160,282)</u>	<u>\$ -</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - AIA Wastewater Project
From Inception and Year Ended June 30, 2020

Schedule 13

	Project Authorization	Prior Years	Actual Current Year	Total
Revenues:				
Intergovernmental grants:				
AIA Grant	\$ 300,000	\$ 143,000	\$ 157,000	\$ 300,000
Total Revenues	<u>300,000</u>	<u>143,000</u>	<u>157,000</u>	<u>300,000</u>
Expenditures:				
Professional Services	364,500	364,500	-	364,500
Total expenditures	<u>364,500</u>	<u>364,500</u>	<u>-</u>	<u>364,500</u>
Other financing sources (uses):				
Transfers in	64,500	214,500	-	214,500
Transfers out	-	(150,000)	-	(150,000)
Total other financing sources	<u>64,500</u>	<u>64,500</u>	<u>-</u>	<u>64,500</u>
Revenues and Other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ (157,000)</u>	<u>\$ 157,000</u>	<u>\$ -</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA**Schedule 14****Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Northend Project
From Inception and Year Ended June 30, 2020**

	Project		Actual	
	Authorization	Prior	Current	Total
		Years	Year	
Expenditures:				
Stormwater improvements	\$ 909,549	\$ 696,562	\$ -	\$ 696,562
Total expenditures	909,549	696,562	-	696,562
Other financing sources:				
Transfers in	909,549	909,549	-	909,549
Total other financing sources	909,549	909,549	-	909,549
Other financing sources over (under)				
expenditures	\$ -	\$ 212,987	\$ -	\$ 212,987

OTHER SCHEDULES

TOWN OF CAROLINA BEACH, NORTH CAROLINA
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

Schedule 1

Fiscal Year	Uncollected Balance July 1, 2019	Additions	Collections, and Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 4,828,488	\$ 4,778,543	\$ 49,945
2018-2019	28,786	-	7,370	21,416
2017-2018	21,264	-	3,838	17,426
2016-2017	23,705	-	3,299	20,406
2015-2016	19,571	-	1,212	18,359
2014-2015	19,223	-	1,015	18,208
2013-2014	16,248	-	148	16,100
2012-2013	12,807	-	123	12,684
2011-2012	9,001	-	69	8,932
2010-2011	6,728	-	-	6,728
2009-2010	6,220	-	(5,384)	11,604
Prior to 2009	855	-	855	-
Total	<u>\$ 164,408</u>	<u>\$ 4,828,488</u>	<u>\$ 4,791,088</u>	201,808
Less: allowance for uncollectible ad valorem taxes receivable				(351)
Ad valorem taxes receivable - net				<u>\$ 202,159</u>
<u>Reconciliation of collections and credits with revenues:</u>				
Ad valorem taxes - general fund				\$ 4,790,057
Reconciling items:				
Releases and refunds and other adjustments				(13,092)
Amounts written off for tax years per statute of limitations				(855)
Interest and penalties collected				14,978
Total collections and credits				<u>\$ 4,791,088</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Analysis of Current Year Tax Levy
For the Fiscal Year Ended June 30, 2020

Schedule 2

	Property Valuation (in Thousand)	Rate	Amount of Levy	Total Levy	
				Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxes at current year rate	\$ 1,893,243,988	0.2450	\$ 4,638,448	\$ 4,638,448	\$ -
Registered motor vehicles at current year rates	61,389,939	0.2450	150,405	-	150,405
Registered motor vehicles at prior year rates	18,943,945	0.2250	42,625	-	42,625
Penalties	-		1,421	1,421	-
Total	<u>1,973,577,872</u>		<u>4,832,899</u>	<u>4,639,869</u>	<u>193,030</u>
Discoveries:					
Current year taxes	<u>-</u>	-	<u>5,420</u>	<u>5,420</u>	<u>-</u>
Abatements:					
Current year taxes	<u>(4,012,645)</u>	-	<u>(9,831)</u>	<u>(9,831)</u>	<u>-</u>
Total property value	<u>\$ 1,969,565,227</u>				
Net levy			<u>4,828,488</u>	<u>4,635,458</u>	<u>193,030</u>
Uncollected taxes at June 30, 2020			<u>49,945</u>	<u>49,945</u>	<u>-</u>
Current year's taxes collected			<u>\$ 4,778,543</u>	<u>\$ 4,585,513</u>	<u>\$ 193,030</u>
Current levy collection percentage			<u>98.97%</u>	<u>98.92%</u>	<u>100.00%</u>

COMPLIANCE SECTION



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

To the Honorable Mayor and
Members of the Town Council
Town of Carolina 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 statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the aggregated remaining fund information of the Town of Carolina Beach, North Carolina (the "Town") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Town'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town'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 to be 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's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 13, 2020