

**Town of Surf City
Surf City, North Carolina**

Audited Financial Statements

Year Ended June 30, 2020



Town of Surf City, North Carolina
Audited Financial Statements
For the Year Ended June 30, 2020

TOWN COUNCIL

Donald R. Helms

Teresa B. Batts

Jeremy Shugarts

Dwight Torres

OFFICIALS

Mayor

Douglas C. Medlin

Mayor Pro-Tem

William J. Fowler

Town Manager

Kyle Breuer

Finance Director

David McCole

Town Clerk

Stephanie Hobbs

Town of Surf City, North Carolina
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June 30, 2020

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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

Independent Auditor's Report

To the Honorable Mayor and
Members of Town Council
Surf City, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Surf City, North Carolina, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, the aggregate remaining fund information of the Town of Surf City, North Carolina as of June 30, 2020, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund and the Accommodations Tax Fund for the year 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 3 through 10, respectively, the Local Government Employee’s Retirement System’s Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 52 and 53 respectively, and 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 pages 54 and 55 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021 on our consideration of the Town of Surf City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Surf City’ internal control over financial reporting and compliance.



Lumberton, North Carolina
January 29, 2021

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Management's Discussion and Analysis

**Town of Surf City, North Carolina
Management's Discussion and Analysis
June 30, 2020**

Management's Discussion and Analysis

As management of the Town of Surf City, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Surf City for the fiscal year ending 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

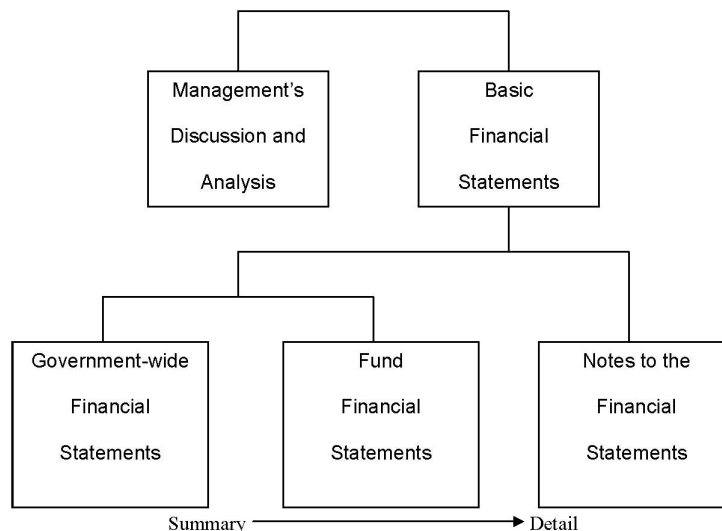
- The assets and deferred outflows of the Town of Surf City exceeded its liabilities and deferred inflows at the close of the fiscal year by \$63,787,190 (net position).
- The government's total net position decreased by \$529,804. This is due to major expenditures in the Beach Renourishment Fund of \$7,395,914 for beach and strand activities.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,532,838 or approximately 51.35% of total General Fund expenditures for the year.
- As of the close of the current fiscal year, the Town of Surf City's governmental funds reported combined ending fund balances of \$16,976,990, a decrease of \$3,459,417. This decrease was driven by the Beach Renourishment Fund's large expenditures as mentioned above.
- The Town's Water and Wastewater Fund net position increased by \$2,627,826. This is due to continued high amounts of operating revenues contrasted by low operating expenses and has been consistent with prior year operations. Cash flows from operations for the Water and Wastewater Fund was \$3,809,036.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Surf City's basic financial statements. The Town's basic financial statements comprise 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 also contains other supplementary information that will enhance the reader's understanding of the financial condition of the Town of Surf City.

Required Components of Annual Financial Report

Figure 1



Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Basic Financial Statements

The first two statements 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 are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements.

There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 additional details about the Town's individual funds. Budgetary information required by the North Carolina General Statutes can also be found in this part of the statements.

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

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

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

The government-wide financial statements are found on pages 11 and 12 of this report.

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. 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 monies that are unexpended 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 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 Surf City 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.

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Governmental Funds (continued). 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.

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-51 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Surf City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 52 of this report.

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

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis

The Town of Surf City's Net Position
Figure 2

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Current and other assets | \$ 17,379,221 | \$ 21,871,929 | \$ 6,335,292 | \$ 5,659,284 | \$ 23,714,513 | \$ 27,531,213 |
| Capital assets | 14,980,499 | 14,924,730 | 41,768,932 | 41,900,048 | 56,749,431 | 56,824,778 |
| Deferred outflows of resources | 973,208 | 1,001,044 | 167,321 | 180,308 | 1,140,529 | 1,181,352 |
| Total assets and deferred outflows of resources | 33,332,928 | 37,797,703 | 48,271,545 | 47,739,640 | 81,604,473 | 85,537,343 |
| Long-term liabilities outstanding | 2,673,559 | 2,874,736 | 11,737,539 | 13,727,183 | 14,411,098 | 16,601,919 |
| Other liabilities | 787,825 | 1,842,034 | 2,449,334 | 2,550,228 | 3,237,159 | 4,392,262 |
| Deferred inflows of resources | 155,014 | 206,773 | 14,012 | 19,395 | 169,026 | 226,168 |
| Total liabilities and deferred inflows of resources | 3,616,398 | 4,923,543 | 14,200,885 | 16,296,806 | 17,817,283 | 21,220,349 |
| Net position | | | | | | |
| Net investment in capital assets | 13,915,626 | 13,247,645 | 28,578,611 | 26,681,518 | 42,494,237 | 39,929,163 |
| Restricted | 4,189,015 | 3,837,653 | - | - | 4,189,015 | 3,837,653 |
| Unrestricted | 11,611,889 | 15,788,862 | 5,492,049 | 4,761,316 | 17,103,938 | 20,550,178 |
| Total net position | \$ 29,716,530 | \$ 32,874,160 | \$ 34,070,660 | \$ 31,442,834 | \$ 63,787,190 | \$ 64,316,994 |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$63,787,190 at the close of the current fiscal year. The Town's net position decreased by \$529,804 for the fiscal year ended June 30, 2020. By far the largest portion of the Town's net position, 66.62%, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the Town's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of net position, 6.57%, represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$17,103,938 or 26.81% of the total. One aspect of the Town's financial operations influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.18%

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis (continued)

The Town of Surf City's Changes in Net Position
Figure 3

| | Governmental | | Business-type | | Totals | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Activities | | Activities | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,634,080 | \$ 1,357,808 | \$ 6,173,281 | \$ 6,154,058 | \$ 7,807,361 | \$ 7,511,866 |
| Operating grants and contributions | 2,420,424 | 262,762 | - | - | 2,420,424 | 262,762 |
| Capital grants and contributions | - | - | - | - | - | - |
| General revenues: | | | | | | |
| Property taxes | 6,536,409 | 5,794,127 | - | - | 6,536,409 | 5,794,127 |
| Other taxes | 4,261,352 | 4,180,579 | - | - | 4,261,352 | 4,180,579 |
| Other | 575,316 | 1,239,885 | 382,845 | 400,943 | 958,161 | 1,640,828 |
| Total revenues | 15,427,581 | 12,835,161 | 6,556,126 | 6,555,001 | 21,983,707 | 19,390,162 |
| Expenses: | | | | | | |
| Governing body | 80,999 | 83,561 | - | - | 80,999 | 83,561 |
| Administration | 544,324 | 339,525 | - | - | 544,324 | 339,525 |
| Elections | 8,254 | - | - | - | 8,254 | - |
| Finance | 379,388 | 481,292 | - | - | 379,388 | 481,292 |
| Insurance | 406,367 | 371,728 | - | - | 406,367 | 371,728 |
| Legal | 46,174 | 18,500 | - | - | 46,174 | 18,500 |
| Public buildings | 634,538 | 548,922 | - | - | 634,538 | 548,922 |
| Public works | 22,993 | 33,768 | - | - | 22,993 | 33,768 |
| Police | 2,416,670 | 2,192,000 | - | - | 2,416,670 | 2,192,000 |
| Fire | 1,743,433 | 1,618,758 | - | - | 1,743,433 | 1,618,758 |
| Community development | 385,137 | 365,564 | - | - | 385,137 | 365,564 |
| Street department | 1,490,902 | 140,944 | - | - | 1,490,902 | 140,944 |
| Sanitation | 1,124,152 | 952,271 | - | - | 1,124,152 | 952,271 |
| Parks and recreation | 742,311 | 896,821 | - | - | 742,311 | 896,821 |
| Emergency management | 103,739 | - | - | - | 103,739 | - |
| Beach and strand | 8,118,210 | 5,313,307 | - | - | 8,118,210 | 5,313,307 |
| Tourism | 240,371 | 218,216 | - | - | 240,371 | 218,216 |
| Interest on long-term debt | 97,249 | 59,725 | - | - | 97,249 | 59,725 |
| Water and wastewater | - | - | 3,928,300 | 3,814,501 | 3,928,300 | 3,814,501 |
| Total expenses | 18,585,211 | 13,634,902 | 3,928,300 | 3,814,501 | 22,513,511 | 17,449,403 |
| Increase (decrease) in net position before transfers | (3,157,630) | (799,741) | 2,627,826 | 2,740,500 | (529,804) | 1,940,759 |
| Transfers | - | - | - | - | - | - |
| Change in net position | (3,157,630) | (799,741) | 2,627,826 | 2,740,500 | (529,804) | 1,940,759 |
| Net position, beginning | 32,874,160 | 33,673,901 | 31,442,834 | 28,702,334 | 64,316,994 | 52,325,875 |
| Net position - ending | \$ 29,716,530 | \$ 32,874,160 | \$ 34,070,660 | \$ 31,442,834 | \$ 63,787,190 | \$ 64,316,994 |

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis (continued)

Governmental activities. Governmental activities decreased the Town's net position by \$3,157,630, primarily due to a loss of \$5,692,608 in the Beach Renourishment Fund.

Business-type activities. Business-type activities increased the Town's net position by \$2,627,826. Business-type operating revenues increased by \$19,223 from prior year.

Financial Analysis of the Town's Funds

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

Governmental Funds. 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. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the principal operating fund of the Town of Surf City. At the end of the fiscal year, unassigned fund balance for the General Fund was \$5,532,838 with a total fund balance of \$6,840,882. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 51.35% of total General Fund expenditures.

General Fund Budgetary Highlights

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories:

1. Amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available;
2. Amendments made to recognize new funding from external sources, such as federal and State grants.
3. Increases in appropriations that become necessary to maintain services and obligations from prior years not completed.

At June 30, 2020, the governmental funds of Town of Surf City reported a combined fund balance of \$16,976,990; an 16.93% decrease over last year. Included in this change in fund balance are increases in fund balance in the General, Accommodation Tax Fund and the Beach Renourishment Fund.

Proprietary Funds. The Town of Surf City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Wastewater Fund at the end of the fiscal year amounted to \$5,492,049. The total change in net position for the Water and Wastewater Fund was an increase of \$2,627,826.

Capital Assets and Debt Administration

The Town of Surf City's investments in capital assets as of June 30, 2020, totals \$56,749,461 (net of accumulated depreciation). The investments in capital assets includes land, vehicles, infrastructure, and equipment.

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

The Town of Surf City's Capital Assets
(net of depreciation)
Figure 4

| | Governmental | | Business-type | | Totals | |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Activities | | Activities | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Land | \$ 9,460,532 | \$ 9,460,532 | \$ 5,245,933 | \$ 5,245,933 | \$ 14,706,465 | \$ 14,706,465 |
| Construction in progress | 119,504 | 119,504 | 4,324,623 | 3,503,153 | 4,444,127 | 3,622,657 |
| Buildings | 3,501,942 | 3,610,834 | - | - | 3,501,942 | 3,610,834 |
| Infrastructure | 860,147 | 909,447 | - | - | 860,147 | 909,447 |
| Vehicles | 155,440 | 129,263 | 83,911 | 77,550 | 239,351 | 206,813 |
| Plant and distribution | - | - | 31,878,876 | 32,795,618 | 31,878,876 | 32,795,618 |
| Equipment | 882,934 | 695,150 | 235,589 | 277,794 | 1,118,523 | 972,944 |
| Total capital assets, net | \$ 14,980,499 | \$ 14,924,730 | \$ 41,768,932 | \$ 41,900,048 | \$ 56,749,431 | \$ 56,824,778 |

Additional information on the Town's capital assets can be found in the notes on page 33 of this report.

Long-term debt. As of June 30, 2020, the Town of Surf City had total installment purchase debt outstanding of \$10,520,283. The installment debt is backed by security interest in the property for which it was issued.

The Town of Surf City's Outstanding Liabilities
Figure 5

| | Governmental | | Business-type | | Totals | |
|-------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|
| | Activities | | Activities | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Direct placement installment | \$ 818,962 | \$ 1,308,000 | \$ 9,701,321 | \$ 11,638,530 | \$ 10,520,283 | \$ 12,946,530 |
| Revenue bond | - | - | 3,489,000 | 3,580,000 | 3,489,000 | 3,580,000 |
| Capital leases | 245,911 | 369,085 | - | - | 245,911 | 369,085 |
| Compensated absences | 314,100 | 296,750 | 35,403 | 52,500 | 349,503 | 349,250 |
| Net pension liability (LGERS) | 399,197 | 1,214,747 | 274,650 | 226,451 | 673,847 | 1,441,198 |
| Total pension liability (LEO) | 1,510,827 | 301,592 | - | - | 1,510,827 | 301,592 |
| Total outstanding debt | \$ 3,288,997 | \$ 3,490,174 | \$ 13,500,374 | \$ 15,497,481 | \$ 16,789,371 | \$ 18,987,655 |

Town of Surf City Outstanding Debt

The Town of Surf City total debt increased by \$2,198,284 during the past fiscal year, primarily due to paying off installment debt.

North Carolina's general statutes limit the amount of general obligation debt that a governmental unit can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Surf City is presently at \$125,488,820 (the amount of additional debt the town could obligate itself to under NC General Statute).

Additional information pertaining to the Town of Surf City's long-term debt can be found in the notes on page 45 of this report.

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Economic Factors and Next Year's Budgets and Rates

- Tourism. The Town's economy depends heavily on beach tourism. The Town has collected slightly less year after year. The amount of income in the Accommodations Tax Fund for FY 2019-20 was \$1,366,147. This is a solid number when considering the Town shutdown in March due to COVID-19. The Town still collected \$166,147 more than budgeted for FY 2019-20.
- In September 2018, we experienced Hurricane Florence which caused much devastation to the Town. The Town continues to rebound economically from the storm and now from COVID-19. Several categories of General Fund revenues have increased over the last fiscal year. Property tax revenue collected is up \$567,162 over FY 2018-19; sales taxes are up over FY 2018-19 by \$202,000; motor vehicle taxes are \$216,757 higher than FY 2018-19; community development fees are higher than FY 2018-19 in the amount of \$226,166.
- Despite the shutdown due to COVID-19, the Town was still able to slightly increase General Fund balance.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: Revenues are expected to remain at levels similar to last fiscal year.

Business-Type Activities: Prior to the rate change that occurred in July 2020, the utility rates did not increase since 2015. This resulted in capital reserve funds being used to supplement operating cost for four out of that five-year window. This prompted the utility department to begin a rate study. The initial proposed rate was designed to allow water and sewer to profit individually of each other. The second proposed rate took the national inflation rate over that period from the Consumer Price Index and added an escalating conservatory signal. The intent is to use this conservatory signal to rebuild the capital reserves and pay for reinvestments of the system from those who use more water dramatically more than the national average. The second proposal ultimately was chosen.

Request for Information

This financial report is designed to provide a general overview of the Town of Surf City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Town of Surf City, 214 N. New River Drive, Surf City, NC 28445.

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Basic Financial Statements

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Town of Surf City, North Carolina
Statement of Net Position
June 30, 2020

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| <u>ASSETS</u> | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 13,015,865 | \$ 5,144,412 | \$ 18,160,277 |
| Restricted cash and cash equivalents | 3,160,593 | 440,420 | 3,601,013 |
| Receivables, net: | | | |
| Ad valorem taxes | 242,394 | - | 242,394 |
| Accommodations tax | 56,947 | - | 56,947 |
| Accounts | 215,285 | 814,936 | 1,030,221 |
| Internal balances | 64,476 | (64,476) | - |
| Due from other governments | 623,661 | - | 623,661 |
| Total current assets | 17,379,221 | 6,335,292 | 23,714,513 |
| Noncurrent assets: | | | |
| Capital assets (Note 3): | | | |
| Land, non-depreciable improvements, and construction in progress | 9,580,036 | 9,570,556 | 19,150,592 |
| Other capital assets, net of depreciation | 5,400,463 | 32,198,376 | 37,598,839 |
| Total capital assets | 14,980,499 | 41,768,932 | 56,749,431 |
| Total assets | 32,359,720 | 48,104,224 | 80,463,944 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Pension deferrals | 973,208 | 167,321 | 1,140,529 |
| Total deferred outflows of resources | 973,208 | 167,321 | 1,140,529 |
| <u>LIABILITIES</u> | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 172,387 | 230,064 | 402,451 |
| Customer deposits | - | 440,420 | 440,420 |
| Prepaid utilities | - | 16,015 | 16,015 |
| Current portion of long-term liabilities | 615,438 | 1,762,835 | 2,378,273 |
| Total current liabilities | 787,825 | 2,449,334 | 3,237,159 |
| Long-term liabilities: | | | |
| Net pension liability | 1,510,827 | 274,650 | 1,785,477 |
| Total pension liability | 399,197 | - | 399,197 |
| Due in more than one year | 763,535 | 11,462,889 | 12,226,424 |
| Total liabilities | 3,461,384 | 14,186,873 | 17,648,257 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Pension deferrals | 155,014 | 14,012 | 169,026 |
| Total deferred inflows of resources | 155,014 | 14,012 | 169,026 |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 13,915,626 | 28,578,611 | 42,494,237 |
| Restricted for: | | | |
| Streets | 279,622 | - | 279,622 |
| Stabilization by State Statute | 1,028,422 | - | 1,028,422 |
| Tourism | 2,880,971 | - | 2,880,971 |
| Unrestricted | 11,611,889 | 5,492,049 | 17,103,938 |
| Total net position | \$ 29,716,530 | \$ 34,070,660 | \$ 63,787,190 |

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

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Town of Surf City, North Carolina
Statement of Activities
Year Ended June 30, 2020

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---|----------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| Governing body | \$ 80,999 | \$ - | \$ - | \$ - | \$ (80,999) | \$ - | \$ (80,999) |
| Administration | 544,324 | - | - | - | (544,324) | - | (544,324) |
| Elections | 8,254 | - | - | - | (8,254) | - | (8,254) |
| Finance | 379,388 | - | - | - | (379,388) | - | (379,388) |
| Insurance | 406,367 | - | - | - | (406,367) | - | (406,367) |
| Legal | 46,174 | - | - | - | (46,174) | - | (46,174) |
| Public buildings | 634,538 | - | - | - | (634,538) | - | (634,538) |
| Public works | 22,993 | - | - | - | (22,993) | - | (22,993) |
| Police | 2,416,670 | - | 936 | - | (2,415,734) | - | (2,415,734) |
| Fire | 1,743,433 | - | - | - | (1,743,433) | - | (1,743,433) |
| Community development | 385,137 | 371,440 | - | - | (13,697) | - | (13,697) |
| Street department | 1,490,902 | - | 80,267 | - | (1,410,635) | - | (1,410,635) |
| Sanitation | 1,124,152 | 1,262,640 | 1,648 | - | 140,136 | - | 140,136 |
| Parks and recreation | 742,311 | - | - | - | (742,311) | - | (742,311) |
| Emergency management | 103,739 | - | - | - | (103,739) | - | (103,739) |
| Beach and strand | 8,118,210 | - | 2,337,573 | - | (5,780,637) | - | (5,780,637) |
| Tourism | 240,371 | - | - | - | (240,371) | - | (240,371) |
| Interest on long-term debt | 97,249 | - | - | - | (97,249) | - | (97,249) |
| Total governmental activities | <u>18,585,211</u> | <u>1,634,080</u> | <u>2,420,424</u> | <u>-</u> | <u>(14,530,707)</u> | <u>-</u> | <u>(14,530,707)</u> |
| Business-type activities: | | | | | | | |
| Water and Wastewater | 3,928,300 | 6,173,281 | - | - | - | 2,244,981 | 2,244,981 |
| Total business-type activities | <u>3,928,300</u> | <u>6,173,281</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,244,981</u> | <u>2,244,981</u> |
| Total primary government | <u>\$ 22,513,511</u> | <u>\$ 7,807,361</u> | <u>\$ 2,420,424</u> | <u>\$ -</u> | <u>(14,530,707)</u> | <u>2,244,981</u> | <u>(12,285,726)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purpose | | | | | 6,536,409 | - | 6,536,409 |
| Other taxes and licenses | | | | | 4,261,352 | - | 4,261,352 |
| Investment earnings, unrestricted | | | | | 208,247 | 263 | 208,510 |
| Miscellaneous, unrestricted | | | | | 367,069 | 382,582 | 749,651 |
| Total general revenues not including transfers | | | | | <u>11,373,077</u> | <u>2,627,826</u> | <u>14,000,903</u> |
| Transfers | | | | | - | - | - |
| Total general revenues | | | | | <u>11,373,077</u> | <u>2,627,826</u> | <u>14,000,903</u> |
| Change in net position | | | | | <u>(3,157,630)</u> | <u>2,627,826</u> | <u>(529,804)</u> |
| Net position, beginning | | | | | <u>32,874,160</u> | <u>31,442,834</u> | <u>64,316,994</u> |
| Net position, ending | | | | | <u>\$ 29,716,530</u> | <u>\$ 34,070,660</u> | <u>\$ 63,787,190</u> |

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

Town of Surf City, North Carolina
Balance Sheet
Governmental Funds
June 30, 2020

| | <u>Major Funds</u> | | | <u>Total Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------------|---|---------------------------------------|-------------------------------------|---|
| | <u>General Fund</u> | <u>Beach Renourishment Fund</u> | <u>Accommodation Tax Fund</u> | | |
| <u>ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ 6,586,598 | \$ 5,364,793 | \$ - | \$ 1,064,474 | \$ 13,015,865 |
| Restricted cash | 279,622 | - | 2,880,971 | - | 3,160,593 |
| Receivables, net: | | | | | |
| Ad valorem taxes | 242,394 | - | - | - | 242,394 |
| Accommodations tax | - | - | 56,947 | - | 56,947 |
| Accounts | 215,285 | - | - | - | 215,285 |
| Due from other funds | 189,476 | 1,044,130 | - | 224,239 | 1,457,845 |
| Due from other governments | 623,661 | - | - | - | 623,661 |
| Total assets | <u>\$ 8,137,036</u> | <u>\$ 6,408,923</u> | <u>\$ 2,937,918</u> | <u>\$ 1,288,713</u> | <u>\$ 18,772,590</u> |
| <u>LIABILITIES</u> | | | | | |
| Accounts payable | \$ 144,612 | \$ 2,416 | \$ 12,030 | \$ - | \$ 159,058 |
| Prepaid revenue | 779 | - | - | - | 779 |
| Due to other funds | 908,369 | - | 485,000 | - | 1,393,369 |
| Total liabilities | <u>1,053,760</u> | <u>2,416</u> | <u>497,030</u> | <u>-</u> | <u>1,553,206</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | | |
| Property taxes receivable | 242,394 | - | - | - | 242,394 |
| Total deferred inflows of resources | <u>242,394</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>242,394</u> |
| <u>FUND BALANCES</u> | | | | | |
| Restricted: | | | | | |
| Stabilization by State Statute | 1,028,422 | - | - | - | 1,028,422 |
| Streets - Powell Bill | 279,622 | - | - | - | 279,622 |
| Tourism | - | - | 2,440,888 | - | 2,440,888 |
| Assigned: | | | | | |
| Beach and strand | - | 6,406,507 | - | 1,246,116 | 7,652,623 |
| Public buildings | - | - | - | 22,597 | 22,597 |
| Street department | - | - | - | 20,000 | 20,000 |
| Unassigned | 5,532,838 | - | - | - | 5,532,838 |
| Total fund balances | <u>6,840,882</u> | <u>6,406,507</u> | <u>2,440,888</u> | <u>1,288,713</u> | <u>16,976,990</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 8,137,036</u> | <u>\$ 6,408,923</u> | <u>\$ 2,937,918</u> | <u>\$ 1,288,713</u> | <u>\$ 18,772,590</u> |

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

Town of Surf City, North Carolina
Balance Sheet
Governmental Funds (continued)
June 30, 2020

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|---|--------------------|--------------------------|
| Total Fund Balance, Governmental Funds | \$ | 16,976,990 |
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. | | |
| Gross capital assets at historical cost | \$ | 22,567,179 |
| Accumulated depreciation | <u>(7,586,680)</u> | 14,980,499 |
| Deferred outflows of resources related to pensions are not reported in the fund statements. | | |
| | | 973,208 |
| Earned revenues are considered deferred inflows of resources in fund statements. | | |
| | | 242,394 |
| Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds. | | |
| Gross long-term debt beginning | (1,973,835) | |
| Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.) | 594,862 | |
| Total pension liability | (399,197) | |
| Net pension liability | <u>(1,510,827)</u> | (3,288,997) |
| Deferred inflows of resources related to pensions are not reported in the funds. | | |
| | | (155,014) |
| Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds. | | |
| | | <u>(12,550)</u> |
| Net position of governmental activities | \$ | <u>29,716,530</u> |

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

Town of Surf City, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

| | Major Funds | | | Total Non-Major Funds | Total Governmental Funds |
|--|-------------------------|---|---------------------------------------|--------------------------------------|---|
| | General Fund | Beach Renourishment Fund | Accommodation Tax Fund | | |
| Revenues: | | | | | |
| Ad valorem taxes | \$ 6,515,581 | \$ - | \$ - | \$ - | \$ 6,515,581 |
| Other taxes and licenses | 353 | - | 1,366,147 | - | 1,366,500 |
| Unrestricted intergovernmental | 2,894,852 | - | - | - | 2,894,852 |
| Restricted intergovernmental | 573,756 | 1,846,667 | - | - | 2,420,423 |
| Permits and fees | 371,439 | - | - | - | 371,439 |
| Sales and services | 1,262,640 | - | - | - | 1,262,640 |
| Investment earnings | 208,247 | - | - | - | 208,247 |
| Miscellaneous | 365,114 | - | 1,955 | - | 367,069 |
| Total revenues | 12,191,982 | 1,846,667 | 1,368,102 | - | 15,406,751 |
| Expenditures: | | | | | |
| Governing body | 80,999 | - | - | - | 80,999 |
| Administration | 513,944 | - | - | - | 513,944 |
| Finance | 360,966 | - | - | - | 360,966 |
| Elections | 8,254 | - | - | - | 8,254 |
| Insurance | 406,367 | - | - | - | 406,367 |
| Legal | 46,174 | - | - | - | 46,174 |
| Public buildings | 598,632 | - | - | - | 598,632 |
| Public works | 22,993 | - | - | - | 22,993 |
| Police | 1,963,568 | - | - | - | 1,963,568 |
| Fire | 1,610,990 | - | - | - | 1,610,990 |
| Community development | 361,748 | - | - | - | 361,748 |
| Street department | 1,478,178 | - | - | - | 1,478,178 |
| Sanitation | 1,096,250 | - | - | - | 1,096,250 |
| Parks and recreation | 731,977 | - | - | - | 731,977 |
| Emergency management | 98,986 | - | - | - | 98,986 |
| Beach and strand | - | 7,395,914 | 186,616 | - | 7,582,530 |
| Tourism | - | - | 230,891 | - | 230,891 |
| Non-departmental | 533,317 | - | - | - | 533,317 |
| Debt service: | | | | | |
| Principal retirement | 383,173 | 132,820 | 96,217 | - | 612,210 |
| Interest and other charges | 76,214 | 10,541 | 10,494 | - | 97,249 |
| Capital outlay | 401,283 | - | 28,662 | - | 429,945 |
| Total expenditures | 10,774,013 | 7,539,275 | 552,880 | - | 18,866,168 |
| Excess (deficiency) of revenues over expenditures | 1,417,969 | (5,692,608) | 815,222 | - | (3,459,417) |
| Other financing sources (uses): | | | | | |
| Transfers (to) from other funds | (1,386,892) | 1,901,378 | (670,363) | 155,877 | - |
| Total other financing sources (uses) | (1,386,892) | 1,901,378 | (670,363) | 155,877 | - |
| Net change in fund balances | 31,077 | (3,791,230) | 144,859 | 155,877 | (3,459,417) |
| Fund balances, beginning | 6,809,805 | 10,197,737 | 2,296,029 | 1,132,836 | 20,436,407 |
| Fund balances, ending | \$ 6,840,882 | \$ 6,406,507 | \$ 2,440,888 | \$ 1,288,713 | \$ 16,976,990 |

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

Town of Surf City, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds to the Statement of Activities
For the 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 | \$ | (3,459,417) |
| <p>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 capital outlays exceeded depreciation in the current period.</p> | | |
| Capital outlay expenditures which were capitalized | \$ 429,945 | |
| Depreciation expense for governmental assets | <u>(374,176)</u> | 55,769 |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities | | 326,368 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| Change in unavailable revenue for tax revenues | | 20,828 |
| <p>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 an effect on net position. These amounts are the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| Principal payments on long-term debt | <u>612,212</u> | 612,212 |
| <p>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.</p> | | |
| Compensated absences | (17,350) | |
| Pension revenue (expense) | <u>(696,040)</u> | <u>(713,390)</u> |
| Total changes in net position of governmental activities | \$ | <u><u>(3,157,630)</u></u> |

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

Town of Surf City, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2020

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Revenues: | | | | |
| Ad valorem taxes | \$ 6,142,000 | \$ 6,142,000 | \$ 6,515,581 | \$ 373,581 |
| Other taxes and licenses | 700 | 700 | 353 | (347) |
| Unrestricted intergovernmental | 2,456,099 | 2,456,099 | 2,894,852 | 438,753 |
| Restricted intergovernmental | 178,999 | 571,906 | 573,756 | 1,850 |
| Permits and fees | 142,000 | 142,000 | 371,439 | 229,439 |
| Sales and services | 1,185,000 | 1,185,000 | 1,262,640 | 77,640 |
| Investment earnings | 20,000 | 20,000 | 208,247 | 188,247 |
| Miscellaneous | 302,002 | 421,560 | 365,114 | (56,446) |
| Total revenues | <u>10,426,800</u> | <u>10,939,265</u> | <u>12,191,982</u> | <u>1,252,717</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Governing body | 120,900 | 99,900 | 80,999 | 18,901 |
| Administration | 433,020 | 537,880 | 513,944 | 23,936 |
| Finance | 352,506 | 366,890 | 360,966 | 5,924 |
| Elections | 10,000 | 10,000 | 8,254 | 1,746 |
| Insurance | 418,000 | 407,272 | 406,367 | 905 |
| Legal | 20,000 | 20,000 | 46,174 | (26,174) |
| Public buildings | 804,077 | 804,077 | 798,000 | 6,077 |
| Public works | 27,500 | 27,500 | 22,993 | 4,507 |
| Police | 2,241,943 | 2,341,658 | 2,340,854 | 804 |
| Fire | 1,741,749 | 1,822,598 | 1,745,583 | 77,015 |
| Community development | 445,427 | 445,427 | 361,748 | 83,679 |
| Street department | 111,000 | 1,666,067 | 1,478,178 | 187,889 |
| Sanitation | 899,250 | 899,250 | 1,096,250 | (197,000) |
| Parks and recreation | 1,039,469 | 1,069,658 | 866,056 | 203,602 |
| Emergency management | 135,266 | 135,266 | 114,330 | 20,936 |
| Nondepartmental | 152,000 | 577,613 | 533,317 | 44,296 |
| Total expenditures | <u>8,952,107</u> | <u>11,231,056</u> | <u>10,774,013</u> | <u>457,043</u> |
| Revenues over (under) expenditures | <u>1,474,693</u> | <u>(291,791)</u> | <u>1,417,969</u> | <u>1,709,760</u> |
| Other financing sources (uses): | | | | |
| Transfers to other funds | (1,521,892) | (1,521,892) | (1,511,892) | 10,000 |
| Transfers from other funds | 145,000 | 145,000 | 125,000 | 20,000 |
| Total other financing sources (uses) | <u>(1,376,892)</u> | <u>(1,376,892)</u> | <u>(1,386,892)</u> | <u>10,000</u> |
| Fund balance appropriated | <u>97,801</u> | <u>1,668,683</u> | <u>-</u> | <u>1,668,683</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>31,077</u> | <u>\$ 31,077</u> |
| Fund balance, beginning | | | <u>6,809,805</u> | |
| Fund balance, ending | | | <u>\$ 6,840,882</u> | |

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

Town of Surf City, North Carolina
Accommodations Tax Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2020

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| Revenues: | | | | |
| Other taxes and licenses | \$ 1,200,000 | \$ 1,200,000 | \$ 1,366,147 | \$ 166,147 |
| Miscellaneous | - | - | 1,955 | 1,955 |
| Total revenues | <u>1,200,000</u> | <u>1,200,000</u> | <u>1,368,102</u> | <u>168,102</u> |
| Expenditures: | | | | |
| Beach and strand | 247,400 | 252,200 | 195,597 | 56,603 |
| Tourism | 282,237 | 395,048 | 357,283 | 37,765 |
| Total expenditures | <u>529,637</u> | <u>647,248</u> | <u>552,880</u> | <u>94,368</u> |
| Revenues over (under) expenditures | <u>670,363</u> | <u>552,752</u> | <u>815,222</u> | <u>262,470</u> |
| Other financing sources (uses): | | | | |
| Transfers to other funds | <u>(670,363)</u> | <u>(670,363)</u> | <u>(670,363)</u> | - |
| Total other financing sources (uses) | <u>(670,363)</u> | <u>(670,363)</u> | <u>(670,363)</u> | - |
| Fund balance appropriated | <u>-</u> | <u>117,611</u> | <u>-</u> | <u>117,611</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>144,859</u> | <u>\$ 144,859</u> |
| Fund balance, beginning | | | <u>2,296,029</u> | |
| Fund balance, ending | | | <u>\$ 2,440,888</u> | |

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

Town of Surf City, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2020

| | <u>Water and Wastewater Fund</u> |
|---|--|
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 5,144,412 |
| Restricted cash and cash equivalents | 440,420 |
| Accounts receivable, net | 814,936 |
| Total current assets | <u>6,399,768</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Land, nondepreciable improvements, and construction in progress | 9,570,556 |
| Other capital assets, net of depreciation | 32,198,376 |
| Total capital assets | <u>41,768,932</u> |
| Total noncurrent assets | <u>41,768,932</u> |
| Total assets | <u>48,168,700</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | |
| Pension deferrals | 167,321 |
| Total deferred outflows of resources | <u>167,321</u> |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 230,064 |
| Due to other funds | 64,476 |
| Customer deposits | 440,420 |
| Prepaid utilities | 16,015 |
| Installment purchase obligations payable | 1,762,835 |
| Total current liabilities | <u>2,513,810</u> |
| Noncurrent liabilities: | |
| Net pension liability | 274,650 |
| Installment purchase obligations payable | 11,427,486 |
| Compensated absences payable | 35,403 |
| Total noncurrent liabilities | <u>11,737,539</u> |
| Total liabilities | <u>14,251,349</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| Pension deferrals | 14,012 |
| Total deferred inflows of resources | <u>14,012</u> |
| <u>NET POSITION</u> | |
| Net investment in capital assets | 28,578,611 |
| Unrestricted | 5,492,049 |
| Total net position | <u>\$ 34,070,660</u> |

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

Town of Surf City, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2020

| | Water and Wastewater Fund |
|---|--|
| | |
| Operating revenues: | |
| Water charges | \$ 1,948,126 |
| Wastewater charges | 2,406,626 |
| Tap fees | 423,326 |
| Impact fees | 1,395,203 |
| Total operating revenues | 6,173,281 |
| Operating expenses: | |
| Administration | 257,340 |
| Insurance | 3,043 |
| Water operations | 300,314 |
| Wastewater collection | 1,151,175 |
| Wastewater treatment | 899,377 |
| Depreciation | 1,040,689 |
| Total operating expenses | 3,651,938 |
| Operating income (loss) | 2,521,343 |
| Nonoperating revenues (expenses): | |
| Investment earnings | 263 |
| Miscellaneous income | 382,582 |
| Interest expense | (276,362) |
| Total nonoperating revenues (expenses) | 106,483 |
| Change in net position | 2,627,826 |
| Total net position, beginning | 31,442,834 |
| Total net position, ending | \$ 34,070,660 |

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

Town of Surf City, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2020

| | Water and Wastewater Fund |
|---|--|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 6,092,428 |
| Cash paid for goods and services | (1,287,721) |
| Cash paid to employees for services | (1,378,253) |
| Miscellaneous income | 382,582 |
| Net cash provided (used) by operating activities | 3,809,036 |
| Cash flows from noncapital financing activities: | |
| Change in due to other funds | 28,068 |
| Net cash provided (used) by noncapital financing activities | 28,068 |
| Cash flows from capital and related financing activities: | |
| Revenue bond issued | - |
| Acquisition of capital assets | (909,573) |
| Interest paid on debt | (276,362) |
| Principal paid on debt | (2,028,209) |
| Net cash provided (used) by capital and related financing activities | (3,214,144) |
| Cash flows from investing activities: | |
| Interest on investments | 263 |
| Net cash provided (used) by investing activities | 263 |
| Net increase (decrease) in cash and cash equivalents | 623,223 |
| Cash and cash equivalents-beginning of year | 4,961,609 |
| Cash and cash equivalents-end of year | \$ 5,584,832 |

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

Town of Surf City, North Carolina
Statement of Cash Flows (continued)
Proprietary Fund
For the Year Ended June 30, 2020

| | <u>Water and Wastewater Fund</u> |
|--|--|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| Operating income (loss) | <u>\$ 2,521,343</u> |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 1,040,689 |
| Miscellaneous income | 382,582 |
| Change in assets, deferred outflows and inflows of resources, and liabilities: | |
| (Increase) decrease in accounts receivable | (80,853) |
| (Increase) decrease in deferred outflows of resources - pensions | 12,987 |
| Increase (decrease) in net pension liability | 48,199 |
| Increase (decrease) in deferred inflows of resources - pensions | (5,383) |
| Increase (decrease) in accounts payable and accrued liabilities | (140,624) |
| Increase (decrease) in customer deposits | 47,193 |
| Increase (decrease) in compensated absences | (17,097) |
| Total adjustments | <u>1,287,693</u> |
| Net cash provided (used) by operating activities | <u><u>\$ 3,809,036</u></u> |

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

Town of Surf City, North Carolina
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2020

| | Agency Fund |
|---|------------------------|
| <u>Assets:</u> | |
| Cash and cash equivalents | \$ 2,831 |
| Total assets | \$ 2,831 |
| <u>Liabilities:</u> | |
| Accounts payable | \$ 1,450 |
| Total liabilities | 1,450 |
| <u>Net position:</u> | |
| Assets held in trust (Fiduciary net position) | 1,381 |
| Total net position | \$ 1,381 |

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

Notes to the Financial Statements

Town of Surf City, North Carolina
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Surf City, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A - Reporting Entity

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

B - Basis of Presentation

Government-wide Statements: The statement of net position and 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 are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods and 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, including the fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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

The Town reports the following major governmental funds:

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B - Basis of Presentation (continued)

Beach Renourishment Fund - This fund is used to account for the renourishment of the Town's beachfront.

Accommodations Tax Fund - This fund is used to account for tourism related projects.

The Town reports the following non-major governmental funds:

Disaster Recovery Fund - This fund is used to account for costs in relation to a natural disaster.

Capital Reserve Fund - This fund is to accumulate resources to acquire fixed assets.

Community Center Fund - This fund is used to account for construction of a community center.

Sidewalk Capital Project Fund - This fund is used to account for construction of sidewalks.

Town Hall Capital Project Fund - This fund is used to account for costs of a new town hall.

The Town reports the following major enterprise fund:

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

The Town reports the following fiduciary fund types:

Agency Fund - Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town holds on behalf of others. The Town maintains a Benefit Fund – fundraising for the Pretty in Pink Foundation. The Pretty in Pink Foundation is committed to raising funds for breast cancer research.

C - Measurement Focus and Basis of Accounting

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

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

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting (continued)

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town of Surf City because the tax is levied by Pender County and then remitted to and distributed by the State. Most intergovernmental revenue 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-reimbursed grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D - Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Beach Renourishment Fund, Accommodations Tax Fund, Capital Reserve Fund, Sidewalk Capital Fund Project, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Enterprise Capital Projects Fund. The Enterprise Fund projects are consolidated into the Water and Wastewater Enterprise Fund 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. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances and the North Carolina Capital Management Trust (NCCMT).

All deposits of the Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued 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.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Unexpended accommodation taxes are classified as restricted cash because it can be expended only for the purpose of promoting tourism and development. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

| <u>Town of Surf City's Restricted Cash</u> | |
|---|--------------|
| Governmental Activities: | |
| General Fund | |
| Powell Bill | \$ 279,622 |
| Accommodation Tax Fund | |
| Tourism | 2,880,971 |
| Total Governmental Activities | 3,160,593 |
| Business-type Activities: | |
| Water and Wastewater Fund | |
| Customer deposits | 440,420 |
| Total Business-type Activities | 440,420 |
| Total Restricted Cash | \$ 3,601,013 |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is reported net of such discounts.

5. 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.

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain threshold and an estimated life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Minimum capitalization costs are as follows: land, \$100,000; buildings, improvements, \$100,000; infrastructure, \$100,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchases or constructed capital assets are reported at cost or estimated historical 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 are depreciated using the straight-line method over the following estimated useful lives:

| | <u>Estimated Useful Lives</u> |
|------------------------|-------------------------------|
| Infrastructure | 30 |
| Buildings | 50 |
| Improvements | 25 |
| Vehicles | 6 |
| Furniture and Fixtures | 10 |
| Equipment | 10 |
| Computer Equipment | 3 |
| Software | 3 |

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meet this criterion – pension related deferrals for the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criteria for this category – property taxes receivable and pension related deferrals.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

8. Long-Term Obligations

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

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide funds 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's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position / Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

10. Net Position / Fund Balances (continued)

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

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

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

Restricted for Tourism – Portion of fund balance that is restricted for the purpose of promoting tourism and development. Restricted balance represents unexpended accommodation taxes collected and receivable.

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

Assigned fund balance – Portion of fund balance that the Town intends to use for specific purposes.

Assigned for Beach and Strand – Portion of fund balance that has been budgeted by the Board for Beach and Strand improvements and maintenance.

Assigned for Public Buildings – Portion of fund balance that has been budgeted by the Board for acquisition and construction of buildings.

Assigned for Street Department – Portion of fund balance that has been budgeted by the Board for the streets improvement and maintenance.

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

10. Net Position / Fund Balances (continued)

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

11. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Surf City's employer contributions are recognized when due and the Town of Surf City 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 - Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None

2. Contractual Violations

None.

B - Deficit in Fund Balance or Net Position of Individual Funds

None.

C - Excess of Expenditures over Appropriations

| | <u>Budget</u> | <u>Actual</u> | <u>(Negative) Variance</u> |
|------------------------------------|---------------------|---------------------|--------------------------------|
| General Fund: | | | |
| Legal | \$ 20,000 | \$ 46,174 | \$ (26,174) |
| Sanitation | 899,250 | 1,096,250 | (197,000) |
| Total | <u>919,250</u> | <u>1,142,424</u> | <u>(223,174)</u> |
| Sewer Capital Project Fund: | | | |
| Expenditures | 4,288,093 | 4,324,623 | (36,530) |
| Total | <u>\$ 4,288,093</u> | <u>\$ 4,324,623</u> | <u>\$ (36,530)</u> |

These over-expenditures occurred because of unplanned operating expenditures. Management and the Board will more closely review the budget reports to ensure compliance in future years.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A - Assets

1. Deposits

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

At June 30, 2020, the Town's deposits had a carrying amount of \$10,625,921 and a bank balance of \$10,646,091. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020, the Town's petty cash totaled \$350.

2. Investments

At June 30, 2020, the Town had \$11,135,019 invested with North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2020 are net of the following allowance for doubtful accounts:

| | | |
|------------------|----|--------|
| General Fund: | | |
| Taxes receivable | \$ | 30,000 |
| Total | \$ | 30,000 |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets

Primary Government

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

| Governmental activities: | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|----------------|-----------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 9,460,532 | \$ - | \$ - | \$ 9,460,532 |
| Construction in progress | 119,504 | - | - | 119,504 |
| Total capital assets not being depreciated | <u>9,580,036</u> | - | - | <u>9,580,036</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 6,087,900 | 12,535 | - | 6,100,435 |
| Equipment | 2,387,158 | 272,480 | - | 2,659,638 |
| Vehicles | 2,622,771 | 144,930 | - | 2,767,701 |
| Infrastructure | 1,459,369 | - | - | 1,459,369 |
| Total capital assets being depreciated | <u>12,557,198</u> | <u>429,945</u> | - | <u>12,987,143</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,477,066 | 121,427 | - | 2,598,493 |
| Equipment | 1,692,008 | 84,696 | - | 1,776,704 |
| Vehicles | 2,493,508 | 118,753 | - | 2,612,261 |
| Infrastructure | 549,922 | 49,300 | - | 599,222 |
| Total accumulated depreciation | <u>7,212,504</u> | <u>374,176</u> | - | <u>7,586,680</u> |
| Total capital assets being depreciated, net | <u>5,344,694</u> | | | <u>5,400,463</u> |
| Governmental activities capital assets, net | <u>\$ 14,924,730</u> | | | <u>\$ 14,980,499</u> |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

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

| | | |
|----------------------------|----|----------------|
| Beach and strand | \$ | 2,363 |
| Community development | | 981 |
| Emergency management | | 767 |
| Fire | | 46,262 |
| Parks and recreation | | 10,334 |
| Police | | 301,715 |
| Tourism | | 1,508 |
| Streets | | 10,246 |
| Total depreciation expense | \$ | <u>374,176</u> |

Business-type activities:

Water and wastewater fund

Capital assets not being depreciated:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|----------------|-----------|--------------------|
| Land | \$ 5,245,933 | \$ - | \$ - | \$ 5,245,933 |
| Construction in progress | 3,503,153 | 821,470 | - | 4,324,623 |
| Total capital assets not being depreciated | <u>8,749,086</u> | <u>821,470</u> | <u>-</u> | <u>9,570,556</u> |

Capital assets being depreciated:

| | | | | |
|--|-------------------|---------------|----------|-------------------|
| Equipment | 521,223 | - | - | 521,223 |
| Vehicles | 254,156 | 27,558 | - | 281,714 |
| Water system | 48,171,339 | 60,545 | - | 48,231,884 |
| Total capital assets being depreciated | <u>48,946,718</u> | <u>88,103</u> | <u>-</u> | <u>49,034,821</u> |

Less accumulated depreciation for:

| | | | | |
|---|-------------------|------------------|----------|-------------------|
| Equipment | 243,429 | 42,205 | - | 285,634 |
| Vehicles | 176,606 | 21,197 | - | 197,803 |
| Water system | 15,375,721 | 977,287 | - | 16,353,008 |
| Total accumulated depreciation | <u>15,795,756</u> | <u>1,040,689</u> | <u>-</u> | <u>16,836,445</u> |
| Total capital assets being depreciated, net | <u>33,150,962</u> | | | <u>32,198,376</u> |

Water and wastewater fund capital assets, net

| | | | | |
|--|----|-------------------|--|----------------------|
| | \$ | <u>41,900,048</u> | | <u>\$ 41,768,932</u> |
|--|----|-------------------|--|----------------------|

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Surf City 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 Surf City's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees, 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 Surf City were \$379,498 for the year ended June 30, 2020.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

At June 30, 2020, the Town reported a liability of \$1,785,477 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, 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 0.06538%, which was an increase of 0.00463% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$778,967. 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 | \$ 305,719 | \$ - |
| Changes of assumptions | 291,003 | - |
| Net difference between projected and actual earnings on pension plan investment | 43,550 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 19,533 | 88,627 |
| Town contributions subsequent to the measurement date | 379,498 | - |
| Total | \$ 1,039,303 | \$ 88,627 |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

\$379,498 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|----------------------------|------------|
| 2021 | \$ 297,103 |
| 2022 | 77,384 |
| 2023 | 145,498 |
| 2024 | 51,192 |
| | \$ 571,177 |

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 percent |
| Salary increases | 3.50 to 8.10 percent, including inflation and productivity factor |
| Investment rate of return | 7.00 percent, net of pension plan investment expense, including inflation |

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

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

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

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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, 2019 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed Income | 29.0% | 1.4% |
| Global Equity | 42.0% | 5.3% |
| Real Estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation Protection | 6.0% | 4.0% |
| Total | 100.0% | |

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.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

| | <u>1% Decrease (6.00%)</u> | <u>Discount Rate (7.00%)</u> | <u>1% Increase (8.00%)</u> |
|---|------------------------------------|--------------------------------------|------------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 4,083,712 | \$ 1,785,477 | \$ (124,822) |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

The Town of Surf City administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Separation Allowance covers all full-time law enforcement officers of the Town. At December 31, 2018, the Separation Allowance's membership consisted of:

| | |
|---------------------|----|
| Active plan members | 17 |
| Total | 17 |

2. Summary of Significant Accounting Policies

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

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

3. 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 | 2.50 percent |
| Salary increases | 3.50 to 7.35 percent, including inflation and productivity factor |
| Investment rate of return | 3.26 percent, net of pension plan investment expense, including inflation |

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-2014 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$10,251 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 total pension liability of \$399,197. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. 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 \$37,131.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 75,960 | \$ 67,794 |
| Changes of assumptions | 25,266 | 12,605 |
| Total | \$ 101,226 | \$ 80,399 |

No amount was reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|----------------------------|-----------|
| 2021 | \$ 3,367 |
| 2022 | 3,367 |
| 2023 | 3,835 |
| 2024 | (1,118) |
| 2025 | 3,728 |
| Thereafter | 7,738 |
| | \$ 20,917 |

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 3.26 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

| | 1% Decrease (2.26%) | Discount rate (3.26%) | 1% Increase (4.26%) |
|-------------------------|--------------------------------|----------------------------------|--------------------------------|
| Total pension liability | \$ 435,644 | \$ 399,197 | \$ 366,011 |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

| | 2020 |
|---|-------------------|
| Beginning balance | \$ 301,592 |
| Service cost | 22,973 |
| Interest on the total pension liability | 10,791 |
| Differences between expected and actual experience in the measurement of the total pension liability | 61,109 |
| Changes of assumptions or other inputs | 12,983 |
| Benefit payments | (10,251) |
| Ending balance of the total pension liability | \$ 399,197 |

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 were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

| | LGERS | LEOSSA | Total |
|---|--------------|---------------|--------------|
| Pension Expense | \$ 778,967 | \$ 37,131 | \$ 816,098 |
| Pension Liability | 1,785,477 | 399,197 | 2,184,674 |
| Proportionate share of the net pension liability | 0.06538% | n/a | |
| Deferred of Outflows of Resources | | | |
| Differences between expected and actual experience | 305,719 | - | 305,719 |
| Changes of assumptions | 291,003 | - | 291,003 |
| Net difference between projected and actual earnings on plan investments | 43,550 | - | 43,550 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 19,533 | 88,627 | 108,160 |
| Benefit payments and administrative costs paid subsequent to the measurement date | 379,498 | - | 379,498 |
| Deferred of Inflows of Resources | | | |
| Difference between expected and actual experience | 75,960 | 67,794 | 143,754 |
| Changes of assumptions | 25,266 | 12,605 | 37,871 |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

d. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. In addition to the Town's mandatory five percent contribution, Town policy mandates that the Town provide active law enforcement personnel a match of one percent of their gross salary as a contribution to their 401(k) plan. Contributions for the year ended June 30, 2020 were \$84,826, which consisted of \$61,173 from the Town and \$23,650 from the law enforcement officers.

All Other Employees:

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

Funding Policy. The Town pays \$20 per pay period for each participating employee. For the year ended June 30, 2020, total contributions to the plan equaled \$77,821, which consisted of \$32,720 from the Town and \$45,101 from the participating employees.

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multi-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 the contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement offices. The Town considers these contributions to be immaterial.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

3. Deferred Outflows and Inflows of Resources

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

| <u>Source</u> | <u>Amount</u> |
|---|----------------------------|
| Contributions to pension plan in current fiscal year | \$ 379,498 |
| Differences between expected and actual experience | 381,679 |
| Changes of assumptions | 316,269 |
| Net difference between projected and actual | 43,550 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 19,533 |
| Total | <u><u>\$ 1,140,529</u></u> |

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

| | <u>Statement of Net Position</u> | <u>General Fund Balance sheet</u> |
|---|--------------------------------------|---------------------------------------|
| Taxes Receivable, less penalties (General Fund) | \$ - | \$ 242,394 |
| Changes in assumptions | 12,605 | - |
| Differences between expected and actual experience | 67,794 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 88,627 | - |
| Total | <u><u>\$ 169,026</u></u> | <u><u>\$ 242,394</u></u> |

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability, law enforcement liability, and auto liability coverage of \$1 million per occurrence; public officials' liability and employee benefits liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. 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.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

4. Risk Management (continued)

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

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

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

5. Claims, Judgements, and Contingent Liabilities

At June 30, 2020, the Town did not have any litigation pending.

6. Long-Term Obligations

a. Capital Leases

The Town has entered into agreements to lease certain equipment and vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on July 7, 2011 to lease equipment and requires 12 annual payments of \$47,337. The second agreement was executed on October 4, 2012 to lease vehicles and requires 3 annual payments of \$52,042. The third agreement was executed on January 1, 2016 to lease radio equipment and requires 5 annual payments of \$93,677. In all agreements, title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under capital leases at June 30, 2020:

Governmental Activities:

| Classes of Property | Cost | Accumulated Depreciation | Net Book Value |
|---------------------|--------------|-----------------------------|-------------------|
| Vehicles | \$ 619,678 | \$ 605,637 | \$ 14,041 |
| Equipment | 562,014 | 277,010 | 285,004 |
| Total | \$ 1,181,692 | \$ 882,647 | \$ 299,045 |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

a. Capital Leases (continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020, were as follows:

| Years Ending June 30: | | |
|---|----|----------|
| 2021 | \$ | 139,394 |
| 2022 | | 117,905 |
| 2023 | | 6,201 |
| 2024 | | 72,311 |
| 2025 | | 269 |
| Total minimum lease payments | | 336,080 |
| Less: amount representing interest | | (90,169) |
| Present value of the minimum lease payments | \$ | 245,911 |

b. Installment Purchases

Serviced by the General Fund:

In January 2006, the Town entered into \$2,900,000 direct placement contract to finance the construction of parking facilities. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 3.93%. The outstanding principal balance at June 30, 2020 was \$228,962.

In June 2013, the Town refinanced into \$2,100,000 direct placement contract to finance the purchase of land for the Town Hall. The financing contract requires principal payments beginning fiscal year 2014 with an interest rate of 2.47%. The outstanding principal balance at June 30, 2020 was \$350,000.

In September 2013, the Town refinanced into \$1,020,000 direct placement contract to finance the construction of a police station. The financing contract requires principal payment beginning fiscal year 2014 with an interest rate of 2.47%. The outstanding principal balance at June 30, 2020 was \$240,000.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

b. Installment Purchases (continued)

Serviced by the Water and Wastewater Fund:

In August 2005, the Town entered into a \$1,448,840 direct placement contract to finance the construction of a water tower. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.59%. The outstanding principal balance at June 30, 2020 was \$60,969.

In May 2007, the Town entered into a \$6,000,000 direct placement contract to finance the construction of a water treatment plant. The financing contract requires principal payments beginning fiscal year 2008 with an interest rate of 3.91%. The outstanding principal balance at June 30, 2020 was \$800,000.

In June 2009, the Town entered into a \$38,300 direct placement contract to finance the acquisition and installation of solar mixers. The financing contract requires principal payments beginning fiscal year 2011 with an interest rate of 0.00%. The outstanding principal balance at June 30, 2020 was \$19,055.

In January 2014, the Town entered into a \$2,864,685 direct placement contract to finance the purchase of land. The financing contract requires principal payments beginning fiscal year 2015 with an interest rate of 2.99%. The outstanding principal balance at June 30, 2020 was \$1,622,967.

In January 2014, the Town entered into \$7,250,000 direct placement contract to finance the construction of a wastewater treatment facility. The financing contract requires principal payments beginning fiscal year 2015 with an interest rate of 2.81%. The outstanding principal balance at June 30, 2020 was \$3,750,000.

In November 2012, the Town entered into \$5,096,821 direct placement contract to finance the construction of the first phase of the irrigation system at Juniper Swamp. The financing contract requires principal payments beginning fiscal year 2014 with an interest rate of 2.455%. The outstanding principal balance at June 30, 2020 was \$3,448,330.

Annual debt service payments of the installment purchase of the governmental-type activities are as follows:

| Years Ending June 30: | Governmental Activities | | Business Type-Activities | |
|-----------------------|-------------------------|------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2021 | \$ 489,000 | \$ 19,717 | \$ 1,458,704 | \$ 258,765 |
| 2022 | 260,000 | 6,546 | 1,403,853 | 220,292 |
| 2023 | 69,962 | 865 | 1,010,983 | 185,190 |
| 2024 | - | - | 1,010,983 | 185,190 |
| 2025 | - | - | 1,010,983 | 185,190 |
| 2026-2030 | - | - | 3,631,554 | 403,594 |
| 2031-2035 | - | - | 174,261 | 64,351 |
| Total | <u>\$ 818,962</u> | <u>\$ 27,128</u> | <u>\$ 9,701,321</u> | <u>\$ 1,502,572</u> |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

c. Revenue Bond

Serviced by the Water and Wastewater Fund:

\$3,580,000 USDA Water and Sewer Revenue Bond, Series 2020, used for wastewater capital expenditures. Principal and interest installments are due annually on June 1, at an annual interest rate of 3.25%. The outstanding principal balance at June 30, 2020 was \$3,489,000.

The future payments of the revenue bond are as follows:

| Years Ending June 30: | Business Type-Activities | |
|-----------------------|--------------------------|--------------|
| | Principal | Interest |
| 2021 | \$ 48,000 | \$ 113,393 |
| 2022 | 49,000 | 111,833 |
| 2023 | 51,000 | 110,240 |
| 2024 | 53,000 | 110,240 |
| 2025 | 54,000 | 110,240 |
| 2026-2030 | 300,000 | 505,233 |
| 2031-2035 | 351,000 | 456,450 |
| 2036-2040 | 409,000 | 399,348 |
| 2041-2045 | 460,000 | 332,300 |
| 2046-2050 | 510,000 | 263,455 |
| 2051-2055 | 560,000 | 171,188 |
| 2056-2060 | 644,000 | 67,306 |
| Total | \$ 3,489,000 | \$ 2,751,223 |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

d. Changes in Long-Term Liabilities

Compensated absences for governmental activities have typically been liquidated in the General Fund.

| | Beginning Balances | Increases | Decreases | Ending Balance | Current Portion |
|---|-----------------------|-------------------|-----------------------|----------------------|---------------------|
| Governmental activities: | | | | | |
| Direct placement | | | | | |
| Installment purchase | \$ 1,308,000 | \$ - | \$ (489,038) | \$ 818,962 | \$ 489,000 |
| Capital leases | 369,085 | - | (123,174) | 245,911 | 126,438 |
| Compensated absences | 296,750 | 19,350 | (2,000) | 314,100 | - |
| Total Pension Liability (LEO) | 301,592 | 97,605 | - | 399,197 | - |
| Net pension liability (LGERS) | <u>1,214,747</u> | <u>296,080</u> | <u>-</u> | <u>1,510,827</u> | <u>-</u> |
| Governmental activity long-term liabilities | <u>\$ 3,490,174</u> | <u>\$ 413,035</u> | <u>\$ (614,212)</u> | <u>\$ 3,288,997</u> | <u>\$ 615,438</u> |
| Business-type activities: | | | | | |
| Direct Placement | | | | | |
| Installment purchase | \$ 11,638,530 | \$ - | \$ (1,937,209) | \$ 9,701,321 | \$ 1,716,835 |
| Revenue bonds | 3,580,000 | - | (91,000) | 3,489,000 | 46,000 |
| Compensated absences | 52,500 | 1,960 | (19,057) | 35,403 | - |
| Net pension liability (LGERS) | <u>226,451</u> | <u>48,199</u> | <u>-</u> | <u>274,650</u> | <u>-</u> |
| Business-type activity long-term liabilities | <u>\$ 15,497,481</u> | <u>\$ 50,159</u> | <u>\$ (2,047,266)</u> | <u>\$ 13,500,374</u> | <u>\$ 1,762,835</u> |

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

C - Interfund Balances and Activity

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

| | Amount |
|---|---------------|
| From the General Fund to the Beach Renourishment Fund | \$ 1,356,015 |
| From the General Fund to the Capital Reserve Fund | 155,877 |
| From the Accomodation Tax Fund to the General Fund | 125,000 |
| From the Accomodation Tax Fund to the Beach Renourishment Fund | 545,363 |
| From the Water Capital Reserve Fund to the Water and Wastewater Fund | 43,500 |
| From the Wastewater Capital Reserve Fund to the Water and Wastewater Fund | 43,500 |
| Total | \$ 2,269,255 |

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

D - Net Investment in Capital Assets

| | Governmental | Business-type |
|----------------------------------|---------------------|----------------------|
| Capital assets | \$ 14,980,499 | \$ 41,768,932 |
| less: long-term debt | (1,064,873) | (13,190,321) |
| Net investment in capital assets | \$ 13,915,626 | \$ 28,578,611 |

E - Fund Balance

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 | \$ 6,840,882 |
| Less: | |
| Stabilization by State Statute | 1,028,422 |
| Streets - Powell Bill | 279,622 |
| Remaining Fund Balance | \$ 5,532,838 |

There were no encumbrances needed to pay commitments at year end.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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 5 - SUBSEQUENT EVENTS

There are no subsequent events that would have a material effect on the financial statements. Subsequent events were evaluated through January 29, 2021, which is the date the financial statements were available to be issued.

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Required Supplementary Financial Data

This section contains additional information required by generally accepted accounting principles.

- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll

Town of Surf City, North Carolina
Town of Surf City's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Seven Fiscal Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Surf City's proportion of the net pension liability (asset) (%) | 0.06538% | 0.06075% | 0.07358% | 0.06297% | 0.05965% | 0.05577% | 0.05380% |
| Surf City's proportion of the net pension liability (asset) (\$) | \$ 1,785,477 | \$ 1,441,198 | \$ 1,124,099 | \$ 1,336,434 | \$ 267,706 | \$ (328,901) | \$ 648,497 |
| Surf City's covered-employee payroll | \$ 3,856,808 | \$ 3,473,351 | \$ 3,797,442 | \$ 3,445,352 | \$ 3,087,112 | \$ 2,747,515 | \$ 2,682,046 |
| Surf City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 46.29% | 41.49% | 29.60% | 38.79% | 8.67% | -11.97% | 24.18% |
| Plan fiduciary net position as a percentage of the total pension liability | 91.63% | 94.18% | 91.47% | 98.09% | 99.07% | 102.64% | 94.35% |

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

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

Town of Surf City, North Carolina
Town of Surf City's Contributions
Required Supplementary Information
Last Seven Fiscal Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 379,498 | \$ 308,498 | \$ 268,699 | \$ 284,733 | \$ 238,870 | \$ 226,386 | \$ 195,037 |
| Contributions in relation to the contractually required contribution | <u>379,498</u> | <u>308,498</u> | <u>268,699</u> | <u>284,733</u> | <u>238,870</u> | <u>226,386</u> | <u>195,037</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Surf City's covered-employee payroll | \$ 4,130,836 | \$ 3,856,808 | \$ 3,473,351 | \$ 3,797,442 | \$ 3,445,352 | \$ 3,087,112 | \$ 2,747,515 |
| Contributions as a percentage of covered-employee payroll | 9.19% | 8.00% | 7.74% | 7.50% | 6.93% | 7.33% | 7.10% |

Town of Surf City, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Beginning balance | \$ 301,592 | \$ 400,476 | \$ 315,688 | \$ 313,702 |
| Service cost | 22,973 | 21,360 | 22,214 | 20,642 |
| Interest on the total pension liability | 10,791 | 12,331 | 11,790 | 10,819 |
| Differences between expected and actual experience in the measurement of the total pension liability | 61,109 | (98,470) | 44,636 | - |
| Changes of assumptions or other inputs | 12,983 | (13,603) | 26,650 | (8,184) |
| Benefit payments | (10,251) | (20,502) | (20,502) | (21,291) |
| Ending balance of the total pension liability | <u>\$ 399,197</u> | <u>\$ 301,592</u> | <u>\$ 400,476</u> | <u>\$ 315,688</u> |

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

Town of Surf City, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|-------------|-------------|
| Total pension liability | \$ 399,197 | \$ 301,592 | \$ 400,476 | \$ 315,688 |
| Covered payroll | 1,035,519 | 875,121 | 1,027,707 | 869,216 |
| Total pension liability as a percentage of covered payroll | 38.55% | 34.46% | 38.97% | 36.32% |

Notes to the schedules:

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

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Individual Fund Statements and Schedules

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|------------------|-------------------|---|
| Revenues: | | | |
| Ad valorem taxes: | | | |
| Taxes | \$ | \$ 6,479,092 | \$ |
| Penalties and interest | | 36,489 | |
| Total | <u>6,142,000</u> | <u>6,515,581</u> | <u>373,581</u> |
| Other taxes and licenses: | | | |
| Privilege licenses | | 353 | |
| Total | <u>700</u> | <u>353</u> | <u>(347)</u> |
| Unrestricted intergovernmental: | | | |
| Local option sales taxes | | 2,111,405 | |
| Utility sales tax | | 398,663 | |
| Telecommunications sales tax | | 13,143 | |
| Video franchise fee | | 63,651 | |
| Beer and wine tax | | 960 | |
| ABC profit distribution | | 94,651 | |
| Fire district tax | | 212,379 | |
| Total | <u>2,456,099</u> | <u>2,894,852</u> | <u>438,753</u> |
| Restricted intergovernmental: | | | |
| Powell bill allocation | | 80,266 | |
| Controlled substance tax | | 936 | |
| Solid waste disposal tax | | 1,648 | |
| Federal grants | | 490,906 | |
| Total | <u>571,906</u> | <u>573,756</u> | <u>1,850</u> |
| Permits and fees: | | | |
| Building permits | | 369,792 | |
| Court cost and fees | | 1,647 | |
| Total | <u>142,000</u> | <u>371,439</u> | <u>229,439</u> |
| Sales and services: | | | |
| Solid waste | | 1,262,640 | |
| Total | <u>1,185,000</u> | <u>1,262,640</u> | <u>77,640</u> |
| Investment earnings | <u>\$ 20,000</u> | <u>\$ 208,247</u> | <u>\$ 188,247</u> |

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------|-------------------|-------------------|---|
| Miscellaneous: | | | |
| Insurance proceeds | \$ | \$ 39,561 | \$ |
| Other | | 325,553 | |
| Total | <u>421,560</u> | <u>365,114</u> | <u>(56,446)</u> |
| Total revenues | <u>10,939,265</u> | <u>12,191,982</u> | <u>1,252,717</u> |
| Expenditures: | | | |
| Governing body: | | | |
| Salaries and employee benefits | | 30,373 | |
| Other expenditures | | 50,626 | |
| Total | <u>99,900</u> | <u>80,999</u> | <u>18,901</u> |
| Administration: | | | |
| Salaries and employee benefits | | 387,561 | |
| Other expenditures | | 126,383 | |
| Total | <u>537,880</u> | <u>513,944</u> | <u>23,936</u> |
| Finance: | | | |
| Salaries and employee benefits | | 279,346 | |
| Other expenditures | | 81,620 | |
| Total | <u>366,890</u> | <u>360,966</u> | <u>5,924</u> |
| Elections: | | | |
| Other expenditures | | 8,254 | |
| Total | <u>10,000</u> | <u>8,254</u> | <u>1,746</u> |
| Insurance: | | | |
| Other expenditures | | 406,367 | |
| Total | <u>407,272</u> | <u>406,367</u> | <u>905</u> |
| Legal: | | | |
| Other expenditures | | 46,174 | |
| Total | <u>20,000</u> | <u>46,174</u> | <u>(26,174)</u> |
| Public buildings: | | | |
| Salaries and employee benefits | | 505,634 | |
| Other expenditures | | 92,998 | |
| Capital outlay | | 30,811 | |
| Debt service: | | | |
| Principal retirement | | 140,000 | |
| Interest and fees | | 28,557 | |
| Total | <u>\$ 804,077</u> | <u>\$ 798,000</u> | <u>\$ 6,077</u> |

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------|---------------------|-------------------|---|
| Public works: | | | |
| Other expenditures | \$ | \$ 22,993 | \$ |
| Total | <u>27,500</u> | <u>22,993</u> | <u>4,507</u> |
| Police: | | | |
| Salaries and employee benefits | | 1,771,620 | |
| Other expenditures | | 191,948 | |
| Capital outlay | | 170,125 | |
| Debt service: | | | |
| Principal retirement | | 202,715 | |
| Interest and fees | | 4,446 | |
| Total | <u>2,341,658</u> | <u>2,340,854</u> | <u>804</u> |
| Fire: | | | |
| Salaries and employee benefits | | 1,339,181 | |
| Other expenditures | | 271,809 | |
| Capital outlay | | 73,321 | |
| Debt service: | | | |
| Principal retirement | | 40,458 | |
| Interest and fees | | 20,814 | |
| Total | <u>1,822,598</u> | <u>1,745,583</u> | <u>77,015</u> |
| Community development: | | | |
| Salaries and employee benefits | | 332,123 | |
| Other expenditures | | 29,625 | |
| Total | <u>445,427</u> | <u>361,748</u> | <u>83,679</u> |
| Street department: | | | |
| Other expenditures | | 1,478,178 | |
| Total | <u>1,666,067</u> | <u>1,478,178</u> | <u>187,889</u> |
| Sanitation: | | | |
| Other expenditures | | 1,096,250 | |
| Total | <u>899,250</u> | <u>1,096,250</u> | <u>(197,000)</u> |
| Parks and recreation: | | | |
| Salaries and employee benefits | | 475,076 | |
| Other expenditures | | 256,901 | |
| Capital outlay | | 111,682 | |
| Debt service: | | | |
| Interest and fees | | 22,397 | |
| Total | <u>\$ 1,069,658</u> | <u>\$ 866,056</u> | <u>\$ 203,602</u> |

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|--------------------|---------------------|---|
| Emergency management: | | | |
| Salaries and employee benefits | \$ | \$ 73,427 | \$ |
| Other expenditures | | 25,559 | |
| Capital outlay | | 15,344 | |
| Total | <u>135,266</u> | <u>114,330</u> | <u>20,936</u> |
| Nondepartmental: | | | |
| Hurricane | | 461,317 | |
| Other expenditures | | 72,000 | |
| Total | <u>577,613</u> | <u>533,317</u> | <u>44,296</u> |
| Total expenditures | <u>11,231,056</u> | <u>10,774,013</u> | <u>434,361</u> |
| Revenues over (under) expenditures | <u>(291,791)</u> | <u>1,417,969</u> | <u>818,356</u> |
| Other financing sources (uses): | | | |
| Transfers (to) other funds | (1,521,892) | (1,511,892) | (10,000) |
| Transfers from other funds | 145,000 | 125,000 | 20,000 |
| Total other financing sources (uses) | <u>(1,376,892)</u> | <u>(1,386,892)</u> | <u>10,000</u> |
| Fund balance appropriated | <u>1,668,683</u> | - | <u>1,668,683</u> |
| Net change in fund balance | <u>\$ -</u> | 31,077 | <u>\$ -</u> |
| Fund balance, beginning | | <u>6,809,805</u> | |
| Fund balance, ending | | <u>\$ 6,840,882</u> | |

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Major Governmental Funds

Capital Project Funds

Town of Surf City, North Carolina
Beach Renourishment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
From Inception and For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|--------------------|---------------------|---|
| <u>Revenues:</u> | | | |
| Restricted intergovernmental: | | | |
| State and County grants | \$ | \$ 1,846,667 | \$ |
| Total | <u>180,000</u> | <u>1,846,667</u> | <u>1,666,667</u> |
| Investment earnings | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>180,000</u> | <u>1,846,667</u> | <u>1,666,667</u> |
| <u>Expenditures:</u> | | | |
| Beach and Strand: | | | |
| Other expenditures | | 7,395,914 | |
| Debt service: | | | |
| Principal retirement | | 132,820 | |
| Interest and other charges | | 10,541 | |
| | <u>7,553,805</u> | <u>7,539,275</u> | <u>14,530</u> |
| Total expenditures | <u>7,553,805</u> | <u>7,539,275</u> | <u>14,530</u> |
| Revenues over (under) expenditures | <u>(7,373,805)</u> | <u>(5,692,608)</u> | <u>1,681,197</u> |
| <u>Other financing sources (uses):</u> | | | |
| Transfers from General Fund | | 1,901,378 | |
| Total other financing sources (uses) | <u>1,901,378</u> | <u>1,901,378</u> | <u>-</u> |
| Fund balance appropriated | <u>5,472,427</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>(3,791,230)</u> | <u>\$ (3,791,230)</u> |
| Fund balance, beginning | | <u>10,197,737</u> | |
| Fund balance, ending | | <u>\$ 6,406,507</u> | |

Major Governmental Funds

Special Revenue Funds

Town of Surf City, North Carolina
Accommodations Tax Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|------------------|---------------------|---|
| <u>Revenues:</u> | | | |
| Other taxes and licenses: | | | |
| Accommodations tax | \$ | \$ 1,366,147 | \$ |
| Total | <u>1,200,000</u> | <u>1,366,147</u> | <u>166,147</u> |
| | | | |
| Miscellaneous | <u>-</u> | <u>1,955</u> | <u>1,955</u> |
| | | | |
| Total revenues | <u>1,200,000</u> | <u>1,368,102</u> | <u>168,102</u> |
| | | | |
| <u>Expenditures:</u> | | | |
| Beach and Strand: | | | |
| Other expenditures | | 186,616 | |
| Capital outlay | | 8,981 | |
| Total | <u>252,200</u> | <u>195,597</u> | <u>56,603</u> |
| | | | |
| Tourism: | | | |
| Salaries and employee benefits | | 100,998 | |
| Other expenditures | | 129,892 | |
| Capital outlay | | 19,681 | |
| Debt service: | | | |
| Principal retirement | | 96,218 | |
| Interest and other charges | | 10,494 | |
| Total | <u>395,048</u> | <u>357,283</u> | <u>37,765</u> |
| | | | |
| Total expenditures | <u>647,248</u> | <u>552,880</u> | <u>94,368</u> |
| | | | |
| Revenues over (under) expenditures | <u>552,752</u> | <u>815,222</u> | <u>262,470</u> |
| | | | |
| Other financing sources (uses): | | | |
| Transfers (to) from other funds | (670,363) | (670,363) | - |
| Total other sources (uses) | <u>(670,363)</u> | <u>(670,363)</u> | <u>-</u> |
| | | | |
| Fund balance appropriated | <u>117,611</u> | <u>-</u> | <u>-</u> |
| | | | |
| Net change in fund balance | <u>\$ -</u> | <u>144,859</u> | <u>\$ 144,859</u> |
| | | | |
| Fund balance, beginning | | <u>2,296,029</u> | |
| Fund balance, ending | | <u>\$ 2,440,888</u> | |

Nonmajor Governmental Funds

Capital Project Funds

Town of Surf City, North Carolina
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2020

| | <u>Capital Reserve Fund</u> | <u>Sidewalk Capital Project Fund</u> | <u>Community Center Fund</u> | <u>Disaster Recovery Fund</u> | <u>Town Hall Capital Project Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|-------------------------------------|--|--------------------------------------|---------------------------------------|---|--|
| Assets: | | | | | | |
| Cash and cash equivalents | \$ 295,877 | \$ 10,000 | \$ 1,076 | \$ 745,000 | \$ 12,521 | \$ 1,064,474 |
| Due from other funds | 205,239 | 10,000 | - | - | 9,000 | 224,239 |
| Total assets | <u>\$ 501,116</u> | <u>\$ 20,000</u> | <u>\$ 1,076</u> | <u>\$ 745,000</u> | <u>\$ 21,521</u> | <u>\$ 1,288,713</u> |
| Fund balances: | | | | | | |
| Assigned: | | | | | | |
| Beach and strand | \$ 501,116 | \$ - | \$ - | \$ 745,000 | \$ - | \$ 1,246,116 |
| Street department | - | 20,000 | - | - | - | 20,000 |
| Public buildings | - | - | 1,076 | - | 21,521 | 22,597 |
| Total fund balances | <u>501,116</u> | <u>20,000</u> | <u>1,076</u> | <u>745,000</u> | <u>21,521</u> | <u>1,288,713</u> |
| Total liabilities and fund balances | <u>\$ 501,116</u> | <u>\$ 20,000</u> | <u>\$ 1,076</u> | <u>\$ 745,000</u> | <u>\$ 21,521</u> | <u>\$ 1,288,713</u> |

Town of Surf City, North Carolina
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the Year Ended June 30, 2020

| | <u>Capital Reserve Fund</u> | <u>Sidewalk Capital Project Fund</u> | <u>Community Center Fund</u> | <u>Disaster Recovery Fund</u> | <u>Town Hall Capital Project Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|-------------------------------------|--|--------------------------------------|---------------------------------------|---|--|
| <u>Other Financing Sources (Uses):</u> | | | | | | |
| Transfers in (out) | \$ 155,877 | \$ - | \$ - | \$ - | \$ - | \$ 155,877 |
| Revenues and other sources over expenditures and other uses | 155,877 | - | - | - | - | 155,877 |
| Fund balance, beginning | 345,239 | 20,000 | 1,076 | 745,000 | 21,521 | 1,132,836 |
| Fund balance, ending | <u>\$ 501,116</u> | <u>\$ 20,000</u> | <u>\$ 1,076</u> | <u>\$ 745,000</u> | <u>\$ 21,521</u> | <u>\$ 1,288,713</u> |

Town of Surf City, North Carolina
Capital Reserve Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2020

| | Final Budget | Actual | Variance Positive (Negative) |
|---|-------------------------|---------------|---|
| Other financing sources (uses): | | | |
| Transfers from General Fund | \$ - | \$ 155,877 | \$ (155,877) |
| Total other financing sources (uses) | - | 155,877 | (155,877) |
| Net change in fund balance | \$ - | 155,877 | \$ (155,877) |
| Fund balance, beginning | | 345,239 | |
| Fund balance, ending | | \$ 501,116 | |

Town of Surf City, North Carolina
Sidewalk Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2020

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|-------------------------|------------------|---|
| Other financing sources (uses): | | | |
| Transfers from General Fund | \$ - | \$ - | \$ - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | |
| Net change in fund balance | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> |
| | | | |
| Fund balance, beginning | | <u>20,000</u> | |
| Fund balance, ending | | <u>\$ 20,000</u> | |

Town of Surf City, North Carolina
Community Center Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2020

| | Final Budget | Actual | Variance Positive (Negative) |
|---|-------------------------|-----------------|---|
| Other financing sources (uses): | | | |
| Transfers from General Fund | \$ - | \$ - | \$ - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | |
| Net change in fund balance | <u>\$ -</u> | - | <u>\$ -</u> |
| | | | |
| Fund balance, beginning | | 1,076 | |
| Fund balance, ending | | <u>\$ 1,076</u> | |

Town of Surf City, North Carolina
Disaster Recovery Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2020

| | Final Budget | Actual | Variance Positive (Negative) |
|---|-------------------------|---------------|---|
| Other financing sources (uses): | | | |
| Transfers from General Fund | \$ - | \$ - | \$ - |
| Total other financing sources (uses) | - | - | - |
| Net change in fund balance | \$ - | - | \$ - |
| Fund balance, beginning | | 745,000 | |
| Fund balance, ending | | \$ 745,000 | |

Town of Surf City, North Carolina
Town Hall Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2020

| | Final Budget | Actual | Variance Positive (Negative) |
|---|-------------------------|---------------|---|
| Other financing sources (uses): | | | |
| Transfers from General Fund | \$ - | \$ - | \$ - |
| Total other financing sources (uses) | - | - | - |
| Net change in fund balance | \$ - | - | \$ - |
| Fund balance, beginning | | 21,521 | |
| Fund balance, ending | | \$ 21,521 | |

Enterprise Funds

**Town of Surf City, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------|-------------------|-------------------|---|
| Revenues: | | | |
| Operating revenues: | | | |
| Water charges | \$ | \$ 1,948,126 | \$ |
| Wastewater charges | | 2,406,626 | |
| Tap fees | | 423,326 | |
| Total | <u>4,259,000</u> | <u>4,778,078</u> | <u>519,078</u> |
| Investment earnings | <u>-</u> | <u>170</u> | <u>170</u> |
| Miscellaneous | <u>290,000</u> | <u>335,257</u> | <u>45,257</u> |
| Total revenues | <u>4,549,000</u> | <u>5,113,505</u> | <u>564,505</u> |
| Expenditures: | | | |
| Administration: | | | |
| Salaries and employee benefits | | 206,341 | |
| Other expenditures | | 38,482 | |
| Total | <u>252,996</u> | <u>244,823</u> | <u>8,173</u> |
| Insurance: | | | |
| Other expenditures | | 3,043 | |
| Total | <u>105,000</u> | <u>3,043</u> | <u>101,957</u> |
| Water operations: | | | |
| Salaries and employee benefits | | 122,081 | |
| Other expenditures | | 166,795 | |
| Repairs and maintenance | | 17,137 | |
| Debt service: | | | |
| Principal retirement | | 401,906 | |
| Interest expense | | 27,170 | |
| Total | <u>\$ 801,165</u> | <u>\$ 735,089</u> | <u>\$ 66,076</u> |

Town of Surf City, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP) (continued)
For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|------------------|-------------------|---|
| Wastewater collection: | | | |
| Salaries and employee benefits | \$ | \$ 646,396 | \$ |
| Repairs and maintenance | | 183,145 | |
| Other expenditures | | 300,107 | |
| Capital outlay | | 27,558 | |
| Debt service: | | | |
| Principal retirement | | 419,871 | |
| Interest expense | | 119,461 | |
| Total | <u>2,092,461</u> | <u>1,696,538</u> | <u>395,923</u> |
| Wastewater treatment: | | | |
| Salaries and employee benefits | | 403,535 | |
| Repairs and maintenance | | 78,140 | |
| Other expenditures | | 407,240 | |
| Capital outlay | | 60,545 | |
| Debt service: | | | |
| Principal retirement | | 1,206,432 | |
| Interest expense | | 129,731 | |
| Total | <u>2,372,594</u> | <u>2,285,623</u> | <u>86,971</u> |
| Total expenditures | <u>5,624,216</u> | <u>4,965,116</u> | <u>659,100</u> |
| Revenues over (under) expenditures | (1,075,216) | 148,389 | (1,223,605) |
| Other financing sources (uses): | | | |
| Transfers from Capital Reserve Funds | <u>1,075,216</u> | <u>87,000</u> | <u>988,216</u> |
| Total other financing sources (uses) | <u>1,075,216</u> | <u>87,000</u> | <u>988,216</u> |
| Revenues and other sources over expenditures and other uses | <u>\$ -</u> | <u>\$ 235,389</u> | <u>\$ (235,389)</u> |

**Town of Surf City, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP) (continued)
For the Year Ended June 30, 2020**

**Reconciliation from budgetary basis
(modified accrual) to full accrual:**

| | |
|--|----------------------------|
| Revenues and other sources over expenditures and other uses | \$ 235,389 |
| Reconciling items: | |
| Depreciation expense | (1,040,689) |
| Capital outlay | 88,103 |
| Principal retirement | 2,028,209 |
| Increase in deferred outflows of resources-pensions | (12,987) |
| Increase in net pension liability | (48,199) |
| Increase in deferred inflows of resources-pensions | 5,383 |
| Decrease in accrued vacation | 17,097 |
| Transfers from Capital Reserve Funds | (87,000) |
| Impact fees: | |
| Water capital reserve fund | 333,500 |
| Wastewater capital reserve fund | 1,061,703 |
| Other revenues: | |
| Water capital reserve fund | 68 |
| Wastewater capital reserve fund | 25 |
| Wastewater capital project fund | 47,224 |
| Total reconciling items | <u>2,392,437</u> |
| Change in net position | <u><u>\$ 2,627,826</u></u> |

Town of Surf City, North Carolina
Water Capital Reserve Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
From Inception and For the Year Ended June 30, 2020

| | <u>Project</u> <u>Authorization</u> | <u>Prior</u> <u>Years</u> | <u>Actual</u> <u>Current</u> <u>Year</u> | <u>Total to</u> <u>Date</u> | <u>Variance</u> <u>Positive</u> <u>(Negative)</u> |
|--|--|------------------------------|--|--------------------------------|---|
| Revenues: | | | | | |
| Restricted intergovernmental: | | | | | |
| Impact fees | \$ 3,139,500 | \$ 5,153,557 | \$ 333,500 | \$ 5,487,057 | \$ 2,347,557 |
| Assessments | 1,850 | 1,850 | - | 1,850 | - |
| Investment earnings | 44,000 | 49,464 | 68 | 49,532 | 5,532 |
| Total revenues | <u>3,185,350</u> | <u>5,204,871</u> | <u>333,568</u> | <u>5,538,439</u> | <u>2,353,089</u> |
| Expenditures: | | | | | |
| Contingency | 40,562 | - | - | - | 40,562 |
| Total expenditures | <u>40,562</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>40,562</u> |
| Revenues over (under) expenditures | <u>3,144,788</u> | <u>5,204,871</u> | <u>333,568</u> | <u>5,538,439</u> | <u>2,393,651</u> |
| Other financing sources (uses): | | | | | |
| Appropriated fund balance | 100,000 | - | - | - | (100,000) |
| Transfers from other funds: | | | | | |
| Water and Wastewater Fund | 144,260 | - | - | - | (144,260) |
| Wastewater Capital Project Fund | 115,000 | - | - | - | (115,000) |
| Transfers to other funds: | | | | | |
| Water and Wastewater Fund | (3,070,048) | (3,850,138) | (43,500) | (3,893,638) | (823,590) |
| Capital Project Fund | (269,000) | 283,248 | - | 283,248 | 552,248 |
| Installment purchase obligations | (165,000) | - | - | - | 165,000 |
| Total other financing sources (uses) | <u>(3,144,788)</u> | <u>(3,566,890)</u> | <u>(43,500)</u> | <u>(3,610,390)</u> | <u>(465,602)</u> |
| Revenues and other sources over expenditures and other uses | <u>\$ -</u> | <u>\$ 1,637,981</u> | <u>\$ 290,068</u> | <u>\$ 1,928,049</u> | <u>\$ 1,928,049</u> |

**Town of Surf City, North Carolina
Wastewater Capital Reserve Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
From Inception and For the Year Ended June 30, 2020**

| | <u>Project Authorization</u> | <u>Prior Years</u> | <u>Actual Current Year</u> | <u>Total to Date</u> | <u>Variance Positive (Negative)</u> |
|--|----------------------------------|------------------------|------------------------------------|--------------------------|---|
| Revenues: | | | | | |
| Restricted intergovernmental: | | | | | |
| Impact fees | \$ 3,811,485 | \$ 7,481,765 | \$ 1,061,703 | \$ 8,543,468 | \$ 4,731,983 |
| Assessments | 409,600 | 17,728 | - | 17,728 | (391,872) |
| Investment earnings | 86,000 | 65,836 | 25 | 65,861 | (20,139) |
| Total revenues | <u>4,307,085</u> | <u>7,565,329</u> | <u>1,061,728</u> | <u>8,627,057</u> | <u>4,319,972</u> |
| Expenditures: | | | | | |
| Contingency | 7,006 | - | - | - | 7,006 |
| Total expenditures | <u>7,006</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,006</u> |
| Revenues over (under) expenditures | <u>4,300,079</u> | <u>7,565,329</u> | <u>1,061,728</u> | <u>8,627,057</u> | <u>4,326,978</u> |
| Other financing sources (uses): | | | | | |
| Transfers from other funds: | | | | | |
| Wastewater Capital Project Fund | 379,000 | 182,000 | - | 182,000 | (197,000) |
| Transfers to other funds: | | | | | |
| Water and Wastewater Fund | (2,230,379) | (4,707,622) | (43,500) | (4,751,122) | (2,520,743) |
| Wastewater Capital Project Fund | (2,448,700) | - | - | - | 2,448,700 |
| Total other financing sources (uses) | <u>(4,300,079)</u> | <u>(4,525,622)</u> | <u>(43,500)</u> | <u>(4,569,122)</u> | <u>(269,043)</u> |
| Revenues and other sources over expenditures and other uses | <u>\$ -</u> | <u>\$ 3,039,707</u> | <u>\$ 1,018,228</u> | <u>\$ 4,057,935</u> | <u>\$ 4,057,935</u> |

Town of Surf City, North Carolina
Wastewater Capital Project Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
From Inception and For the Year Ended June 30, 2020

| | Project Authorization | Actual | | Total to Date | Variance Positive (Negative) |
|--|--------------------------|--------------------|---------------------|---------------------|------------------------------------|
| | | Prior Years | Current Year | | |
| Revenues: | | | | | |
| Restricted intergovernmental: | | | | | |
| Other | \$ - | \$ 21,669 | \$ 47,224 | \$ 68,893 | \$ 68,893 |
| Town contributions | 708,093 | - | - | - | (708,093) |
| Total revenues | 708,093 | 21,669 | 47,224 | 68,893 | (639,200) |
| Expenditures: | | | | | |
| Construction | 3,397,232 | 2,645,472 | 700,491 | 3,345,963 | 51,269 |
| Professional services | 817,218 | 785,108 | 120,979 | 906,087 | (88,869) |
| Land and Right-of-Way | 1,070 | - | - | - | 1,070 |
| Interest | 72,573 | 72,573 | - | 72,573 | - |
| Total expenditures | 4,288,093 | 3,503,153 | 821,470 | 4,324,623 | (36,530) |
| Revenues over (under) expenditures | (3,580,000) | (3,481,484) | (774,246) | (4,255,730) | (675,730) |
| Other financing sources (uses): | | | | | |
| Transfers from other funds: | | | | | |
| Installment purchase obligations | 3,580,000 | 3,580,000 | - | 3,580,000 | - |
| Total other financing sources (uses) | 3,580,000 | 3,580,000 | - | 3,580,000 | - |
| Revenues and other sources over expenditures and other uses | \$ - | \$ 98,516 | \$ (774,246) | \$ (675,730) | \$ (675,730) |

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Agency Funds

Town of Surf City, North Carolina
Agency Fund
Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2020

| | Beginning Balance | Additions | Deletions | Ending Balance |
|-----------------------------|------------------------------|------------------|------------------|---------------------------|
| <u>Assets:</u> | | | | |
| Cash and cash equivalents | \$ 2,181 | \$ 650 | \$ - | \$ 2,831 |
| Total assets | 2,181 | 650 | - | 2,831 |
| <u>Liabilities:</u> | | | | |
| Accounts payable | 1,450 | - | - | 1,450 |
| Total liabilities | 1,450 | - | - | 1,450 |
| <u>Net position:</u> | | | | |
| Held in trust | 731 | 650 | - | 1,381 |
| Total net position | \$ 731 | \$ 650 | \$ - | \$ 1,381 |

Other Schedules

This section contains additional information on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

Town of Surf City, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

| <u>Fiscal Year</u> | <u>Uncollected Balances June 30, 2019</u> | <u>Additions</u> | <u>Collections and Credits</u> | <u>Uncollected Balances June 30, 2020</u> |
|--------------------|---|---------------------|--|---|
| 2019-2020 | \$ - | \$ 6,431,302 | \$ 6,314,488 | \$ 116,814 |
| 2018-2019 | 129,481 | - | 87,348 | 42,133 |
| 2017-2018 | 38,762 | - | 11,953 | 26,809 |
| 2016-2017 | 22,892 | - | 3,108 | 19,784 |
| 2015-2016 | 12,368 | 2,319 | - | 14,687 |
| 2014-2015 | 6,530 | 5,929 | - | 12,459 |
| 2013-2014 | 10,347 | 2,891 | - | 13,238 |
| 2012-2013 | 10,230 | 430 | - | 10,660 |
| 2011-2012 | 9,141 | - | 1,857 | 7,284 |
| 2010-2011 | 9,315 | - | 789 | 8,526 |
| | <u>\$ 249,066</u> | <u>\$ 6,442,871</u> | <u>\$ 6,419,543</u> | <u>272,394</u> |

Less: allowance for uncollectible accounts - General Fund 30,000

Ad valorem taxes receivable - net \$ 242,394

Reconciliation to revenues:

| | |
|--------------------------------------|----------------------------|
| Ad valorem taxes - General Fund | \$ 6,515,581 |
| Reconciling items: | |
| Interest collected | (36,489) |
| Taxes written off | <u>(59,549)</u> |
| Total collections and credits | <u><u>\$ 6,419,543</u></u> |

Town of Surf City, North Carolina
Analysis of Current Year Tax Levy
For the Year Ended June 30, 2020

| | Town-Wide Levy | | Total Levy | | |
|---|--------------------------------|-------|----------------------------|--|---------------------------------|
| | Property Valuation | Rate | Total Levy | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original levy | | | | | |
| Property taxed at | | | | | |
| current year's rate | \$ 1,568,610,244 | 0.410 | \$ 6,431,302 | \$ 6,177,153 | \$ 254,149 |
| Total | <u>1,568,610,244</u> | | <u>6,431,302</u> | <u>6,177,153</u> | <u>254,149</u> |
| Discoveries | <u>-</u> | 0.410 | <u>-</u> | <u>-</u> | <u>-</u> |
| Releases | <u>-</u> | 0.410 | <u>-</u> | <u>-</u> | <u>-</u> |
| Total property valuation | <u><u>\$ 1,568,610,244</u></u> | | | | |
| Net levy | | | 6,431,302 | 6,177,153 | 254,149 |
| Uncollected taxes at June 30, 2020 | | | <u>(116,814)</u> | <u>(116,814)</u> | <u>-</u> |
| Current year's taxes collected | | | <u><u>\$ 6,314,488</u></u> | <u><u>\$ 6,060,339</u></u> | <u><u>\$ 254,149</u></u> |
| Current levy collection percentage | | | <u><u>98.18%</u></u> | <u><u>98.11%</u></u> | <u><u>100.00%</u></u> |

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Compliance Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Surf City, North Carolina

We have audited, 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, 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 Surf City, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Town of Surf City's basic financial statements and have issued our report thereon dated January 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Surf City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Surf City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (item 2020-001).

Compliance and Other Matters

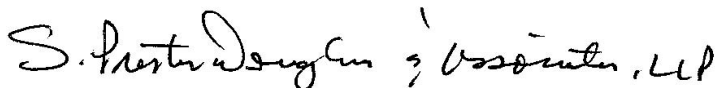
As part of obtaining reasonable assurance about whether the Town of Surf City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as item 2020-001.

Town of Surf City's Response to Findings

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

Purpose of this Report

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

Handwritten signature in black ink that reads "S. Preston Douglas, CPA". The signature is written in a cursive style.

Lumberton, North Carolina
January 29, 2021



S. Preston Douglas & Associates, LLP
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With
OMB Uniform Guidance and the State Single Audit Implementation Act**

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Surf City, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Town of Surf City's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Town of Surf City's major federal programs for the year ended June 30, 2020. Town of Surf City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion the Town of Surf City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

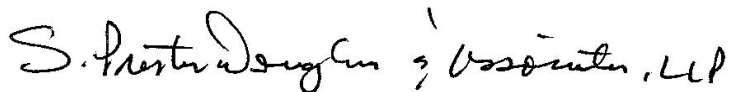
Report on Internal Control Over Compliance

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

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

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

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



S. Preston Douglas & Associates, LLP

Lumberton, North Carolina
January 29, 2021



S. Preston Douglas & Associates, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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**Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance;
In accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act**

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Surf City, North Carolina

Report on Compliance for Each Major State Program

We have audited the Town of Surf City's compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Town's major State programs for the year ended June 30, 2020. The Town of Surf City's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

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

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

Opinion on Each Major State Program

In our opinion, the Town of Surf City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as an item 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

The Town's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Town of Surf City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

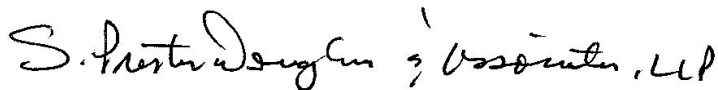
Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal controls over compliance that we consider to be a material weakness (item 2020-002).

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



Lumberton, North Carolina
January 29, 2021

Town of Surf City, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

| |
|--|
| Section I. Summary of Auditor's Results |
|--|

Financial Statements

| | |
|--|--|
| Type of auditor's report issued: | Unmodified. |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | <u> X </u> yes <u> </u> no |
| • Significant deficiency(s) identified that are not considered to be material weaknesses | <u> </u> yes <u> X </u> none reported |
| • Noncompliance material to financial statements | <u> X </u> yes <u> </u> no |

Federal Awards

| | | |
|--|---------|-----------------|
| Internal control over major federal programs | | |
| • Material weakness(es) identified? | ___ yes | <u> X </u> no |
| • Significant deficiency(s) identified that are not considered to be material weaknesses | ___ yes | <u> X </u> no |

| | |
|---|-------------------------|
| Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) | ___ yes <u> X </u> no |

Identification of major federal programs:

| <u>Names of Federal Program or Cluster</u> | <u>CFDA</u> <u>Numbers</u> |
|--|-------------------------------|
| • Water and Waste Disposal Systems for Rural Communities | 10.760 |

| | |
|---|-----------|
| Dollar threshold used to distinguish between Type A And Type B programs | \$750,000 |
|---|-----------|

| | |
|--|-------------------------|
| Auditee qualified as low-risk auditee? | ___ yes <u> X </u> no |
|--|-------------------------|

Town of Surf City, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2020

| |
|--|
| Section I. Summary of Auditor's Results (continued) |
|--|

State Awards

Internal control over major federal programs

- Material weakness(es) identified? X yes no
- Significant deficiency(s) identified that are not considered to be material weaknesses yes X no

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) X yes no

Identification of major State programs:

Names of State Programs

- Session Law 2019-75

Dollar threshold used to distinguish between Type A And Type B programs \$500,000

Auditee qualified as low-risk auditee? yes X no

Town of Surf City, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2020

| |
|---|
| Section II. Financial Statement Findings |
|---|

MATERIAL WEAKNESS / MATERIAL NONCOMPLIANCE

| | |
|--|--|
| Finding 2020-001 | Material Noncompliance Excess of Expenditures over Appropriations |
| Criteria: | N.C. General Statute 159-8(a) states that all moneys received and expended by a local government should be included in the budget ordinance. |
| Condition: | The Town expended more than appropriated in the annual budget ordinance in multiple departments in the General Fund and Sewer Capital Project Fund. The amount of expenditures that exceeded appropriations by department are presented in Note 2. |
| Effect: | Expenditures were incurred that had not been budgeted. |
| Cause: | The Town did not monitor reports at frequent intervals to ensure budgetary compliance. |
| Repeat Finding: | This is not a repeat finding. |
| Recommendation: | Management should closely monitor the budget versus actual statements to ensure actual expenditures are within budgetary constraints. |
| Views of responsible officials and planned corrective actions: | The Town agrees with the finding and agrees to adhere to the correction action plan on page 89. |

Town of Surf City, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2020

| |
|---|
| Section III. Federal Award Findings and Questioned Costs |
|---|

No findings.

Town of Surf City, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2020

| |
|--|
| Section IV. State Award Findings and Questioned Costs |
|--|

MATERIAL WEAKNESS / MATERIAL NONCOMPLIANCE

State Program: Session Law 2019-75

Finding 2020-002 Material Noncompliance
Failure to Report to Oversight Committee

Criteria: N.C. Session Law 2019-75 states that on or before October 1, 2019, the recipients of allocations under this section shall submit a report to the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources and the Fiscal Research Division. The report should consist of a list of participating governments and engineering firms, a list of projects funded, including a summary of cost and scope of each project, and documentation of the impact of the resilience of beach nourishment projects.

Condition: The Town did not submit a report by the required deadline.

Effect: The Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources and the Fiscal Research Division did not receive reporting in a timely manner.

Cause: The Town did not keep up with the State grant reporting requirements.

Repeat Finding: This is not a repeat finding.

Recommendation: Management should conduct their due diligence in understanding grant agreement compliance requirements upon receiving grant awards.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 89.



Town of Surf City

201 COMMUNITY CENTER
POST OFFICE BOX 2475
SURF CITY, NORTH CAROLINA 28445
(910) 328-4131 | FAX (910) 328-1746

Douglas C. Medlin, Mayor
William J. (Buddy) Fowler, Mayor Pro-Tem
Dwight Torres, Councilman

Donald R. Helms, Councilman
Teresa B. Batts, Councilwoman
Jeremy Shugarts, Councilman

Corrective Action Plan For the Year Ended June 30, 2020

Section II. Financial Statement Findings

MATERIAL WEAKNESS / MATERIAL NONCOMPLIANCE

Finding 2020-001 **Excess of Expenditures over Appropriations**

Name of Contact Person: David McCole, Finance Officer

Corrective Action: The Town will monitor the budget and expenditures and make amendments accordingly.

Proposed Completion Date: The Town will implement the above procedures immediately.

Section IV. State Award Finding and Questioned Costs

MATERIAL WEAKNESS / MATERIAL NONCOMPLIANCE

Finding 2020-002 **Failure to Report to Oversight Committee**

Name of Contact Person: David McCole, Finance Officer

Corrective Action: The Town will conduct their due diligence in understanding grant agreement compliance requirements in the future, as well as submit the required report to the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources and the Fiscal Research Division.

Proposed Completion Date: The Town will implement the above procedures immediately.

Town of Surf City, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2020

Finding: 2017-001
Status: Corrected

Finding: 2018-001
Status: Corrected

Finding: 2018-002
Status: Corrected

Town of Surf City, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2020

| Grantor/Pass-through Grant/Program Title | Federal CFDA Number | Award Number/State Pass-through Grantor's Number | Federal (Direct Pass- through) Expenditures | State Expenditures |
|---|---------------------------|---|--|-----------------------|
| Federal Grants: | | | | |
| Direct Programs: | | | | |
| <u>US Department of Agriculture</u> | | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | | \$ 821,470 | \$ - |
| Pass Through: | | | | |
| <u>US Department of Homeland Security</u> | | | | |
| North Carolina Department of Public Safety Disaster Grants - Public Assistance Program | 97.036 | FEMA-4393-DR-NC | 371,279 | 123,760 |
| State Grants: | | | | |
| Cash Assistance: | | | | |
| <u>N.C. Department of Environmental Quality</u> | | | | |
| Session Law 2019-75 | | | - | 1,666,666 |
| <u>N.C. Department of Transportation</u> | | | | |
| Powell Bill | | DOT-4 | - | 80,266 |
| Total assistance | | | <u>\$ 1,192,749</u> | <u>\$ 1,870,692</u> |

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of Federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Surf City under the programs of the federal government and the State of North Carolina for the year ended June 30, 2020. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Surf City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Surf City.

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

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

Note 4. Loans Outstanding

The outstanding balance of USDA revenue bonds is \$3,489,000 at June 30, 2020.