TOWN OF NORTH TOPSAIL BEACH

FINANCIAL REPORT

June 30, 2017



Town of North Topsail Beach Table of Contents June 30, 2017

TAB: REPORT	
Independent Auditor's Report	1
Management's Discussion and Analysis	4
TAB: FINANCIAL STATEMENTS Basic Financial Statements	
Government-wide Financial Statements:	
EXHIBIT 1 - Statement of Net Position	14
EXHIBIT 2 - Statement of Activities	15
Fund Financial Statements:	
EXHIBIT 3 - Balance Sheet – Governmental Funds	16
EXHIBIT 4 - Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
EXHIBIT 5 - Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	20
EXHIBIT 6 - Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Beach Nourishment	21
Notes to the Financial Statements	22
Required Supplemental Financial Data:	
Schedule of Proportionate Share of the Net Pension Liability – Local Government Employees' Retirement System	45
Schedule of Contributions – Local Government Employees' Retirement System	46
Schedule of Changes in Total Pension Liability Law Enforcement Officers' Special Separation Allowance	47
Schedule of Total Pension Liability as a Percentage of Covered Payroll Law Enforcement Officers' Special Separation Allowance	48

Town of North Topsail Beach Table of Contents June 30, 2017

Individual Fund Statements and Schedules:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	49
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Beach Nourishment	53
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Shoreline Protection Project	54
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	55
Analysis of Current Tax Levy – Town-wide Levy	56
Compliance Section:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	57





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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Topsail Beach, North Carolina, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprises 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.

Auditors' 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 includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Topsail Beach, North Carolina as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Beach Nourishment Fund for the year then ended in conformity 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 page 4 through 13, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on page 45 and 46, and the Law Enforcements Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 47 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, 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 North Topsail Beach, North Carolina. The individual fund statements, budgetary schedules, and other schedules, are

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2018 on our consideration of Town of North Topsail Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 North Topsail Beach's internal control over financial reporting and compliance.

New Bern, North Carolina

Caux Rigge & Ingram, L.L.C.

April 4, 2018

As management of the Town of North Topsail Beach, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of North Topsail Beach for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

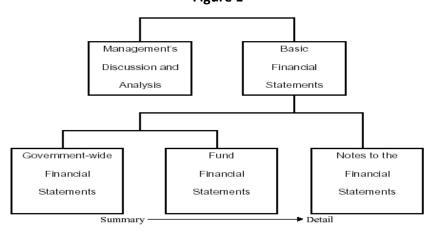
Financial Highlights

- The assets and deferred outflows of resources of the Town of North Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$19,879,576 (net position).
- The government's total net position increased by \$705,608 entirely due to increases in the governmental activities net position.
- The Town continues to monitor its fund balances and this year's total factors in the cost of emergency shoreline expenses that occurred in FY16-17 from Hurricane Matthew and on-going shoreline projects, such as the Harden Structure. This confluence of events is unusual and only occurs episodically. The general fund increased fund balance by Town staff reducing expenditures by \$18,331. To further improve the General Fund Balance, the Town embarked on the sale of surplus real property in 2016 and concluded June 30 2017, which yielded \$518,833 in additional revenues.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,200,906 or 33.09% of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report Figure 1



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 two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements.

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; 2) business-type activities. The governmental activities include the Town's basic services such as public safety, streets, and

general administration. 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. The Town of North Topsail Beach does not currently provide services that are considered business-type activities.

The government-wide financial statements are found in Exhibits 1 and 2 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 North Topsail Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of North Topsail Beach are governmental funds.

Governmental Funds

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

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

Proprietary Funds

The Town of North Topsail Beach currently has no proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain other required supplementary information concerning the Town of North Topsail Beach. The other schedules can be found beginning on page 45 of this report.

Interdependence with Other Entities

The Town depends on financial resources flowing from, or associated with, both the Federal Government and 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.

Town of North Topsail Beach Net Position Figure 2

	Governmental Act	tivities
	2017	2016
Current and other assets	\$ 7,870,222	\$ 7,057,832
Capital assets	31,061,503	32,368,077
Deferred outflows of resources	503,739	137,161
Total assets and deferred outflows of resources	39,435,464	39,563,070
Current liabilities	2,702,970	3,012,605
Long-term liabilities	16,788,778	17,009,492
Deferred inflows of resources	64,140	83,833
Total liabilities and deferred inflows of resources	19,555,888	20,105,930
		_
Net investment in capital assets	12,582,352	13,165,218
Restricted net position	3,603,206	3,023,420
Unrestricted net position	3,694,018	3,268,502
Total net positon	\$ 19,879,576	\$ 19,457,140

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of North Topsail Beach exceeded liabilities and deferred inflows by \$19,879,576 as of June 30, 2017. The Town's net position increased by \$705,608 for fiscal year ending June 30, 2017. However, the largest portion (63.29%) of net position reflects the Town's net investment in capital assets (e.g. land, building, machinery, and equipment). The Town of North Topsail Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although The Town of North Topsail Beach's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of North Topsail Beach's net position, \$3,603,206, represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted.

The government-wide statement of net position for governmental activities reflects \$3,694,018 unrestricted net position balance. During the fiscal year, the Town's liability of long-term debt is mainly associated with the Phase V Beach Project. The unrestricted net position increased from the prior fiscal year; the amount reflects a positive increase of \$425,516 when reported under the full accrual basis of accounting.

Town of North Topsail Beach Changes in Net Position Figure 3

	Governmental Activities			
	2017	2016		
Revenues:				
Program revenues:				
Charges for services	\$ 460,534	\$ 423,164		
Operating grants and contributions	166,671	73,669		
Capital grants and contributions	256,686	3,936,769		
General revenues:				
Property taxes	3,245,080	3,199,329		
Other taxes	3,032,359	2,922,330		
Investment earnings	22,180	9,417		
Miscellaneous	550,111	53,169		
Total revenues	7,733,621	10,617,847		
Expenses:				
General government	1,340,869	1,271,467		
Public safety	1,810,896	1,732,513		
Transportation	90,102	135,845		
Economic and physical development	2,035	3,871		
Environmental protection	2,443,069	2,991,073		
Cultural and recreation	100,553	118,587		
Interest on long-term debt	552,084	470,568		
Total expenses	6,339,608	6,723,924		
Settlement on sandbag revetment receivable	(688,405)	_		
Asset impairment loss	-	(126,540)		
Increase in net position	705,608	3,767,383		
Net position, July 1, as previously reported	19,457,140	15,803,145		
Prior period adjustment	(283,172)	(113,388)		
Net position, July 1, as restated	19,173,968	15,689,757		
Net position, June 30	\$ 19,879,576	\$ 19,457,140		

Governmental Activities

Governmental activities increased the Town's net position by \$705,608, thereby accounting for 100% of the total increase in the net position of the Town of North Topsail Beach.

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

- Net expenses of the Town's governmental activities overall decreased from the year prior by approximately \$384,316 primarily due to decreases in transportation and environmental protection expenditures.
- Total overall revenues decreased by approximately \$2,884,226 primarily due to decreases in large capital grants and other contributions. However, the property tax rate remained unchanged and the Town did receive several smaller State and County Grants in the current fiscal year.

Business-type Activities

There were no business-type activities in the current year.

Financial Analysis of the Town's Funds

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

Governmental Funds

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

The General Fund is the chief operating fund of the Town of North Topsail Beach. At the end of the current fiscal year, Town of North Topsail Beach's fund balance available in the General Fund was \$1,200,906 while total fund balance was \$1,476,580, an increase of \$799,909 from the prior fiscal year. Essentially, the fund balance improved from last year due to staff identifying savings in operating expenses totaling \$288,231 and Revenues were more than budgeted primarily due to the sale of Surplus Property.

As a measure of the General Fund's liquidity, it maybe useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 33.09% of total General Fund expenditures, while total fund balance represents 40.7% of that same amount. This is an increase of approximately 22% from the year prior; and both the unassigned and total fund balance exceeds the 8% requirement of the Local Government Commission.

General Fund and Beach Nourishment Budgetary Highlights

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

 Revenues were more than the budgeted amounts primarily because the Town received additional revenue from the sale of surplus property and unrestricted intergovernmental revenues that became available. Expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds

The Town of North Topsail Beach had no proprietary funds in the current year.

Capital Assets

The Town of North Topsail Beach's investment in capital assets for its governmental activities as of June 30, 2017, totals \$31,061,503 (net of accumulated depreciation). These assets include land, buildings, vehicles and equipment, and infrastructure.

Major capital assets transactions during the year included the Rodney Knowles Park, installation of a Generator at Town Hall and one vehicle. The Park will serve both residents and visitors to launch their Kayaks, the KOHLER Generator will allow Town Hall to operate normal functions during storm related events and the vehicle will be used by the Planning Department for inspection purposes.

Town of North Topsail Beach's Capital Assets (Net of depreciation) Figure 4

	Governmenta	al Activities		
	2017	2016		
Land	\$ 1,082,341	\$ 1,082,341		
Construction in progress	391,096	2,825,510		
Buildings	502,758	536,871		
Vehicle	598,571	558,658		
Infrastructure	28,486,737	27,364,697		
Total	\$ 31,061,503	\$ 32,368,077		

Additional information on the Town's capital assets can be found in Note III.A.4 of the basic financial statements.

Long-Term Debt

As of June 30, 2017, the Town had total debt outstanding of \$17,906,531. The Town's debt represents an accrual for compensated absences, equipment purchased and the Beach Nourishment Project.

Town of North Topsail Beach's Long-term Liabilities Figure 5

	Government	Governmental Activities						
	2017	2016						
Installment purchase	\$ 264,974	\$ 241,199						
Special obligation bonds	16,668,000	17,601,000						
Compensated absences	119,821	122,636						
Net pension liability (LGERS)	554,354	138,722						
Net pension liability (LEO)	299,382	283,172						
Total	\$ 17,906,531	\$ 18,386,729						

The Town's total debt decreased by \$480,198 during the fiscal year, as debt is amortized. North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of North Topsail Beach is \$65,822,990.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicator reflects the growth and prosperity of the Town:

- Continued increase in accommodations tax revenue as a result of continued development, ongoing beach maintenance, and attractiveness of a premier residential vacation community.
- Continued increase to tax base as development continues to improve from the previous fiscal year.
- Improvement in Sales Tax Revenue from the previous fiscal year due to an increase in construction activities.

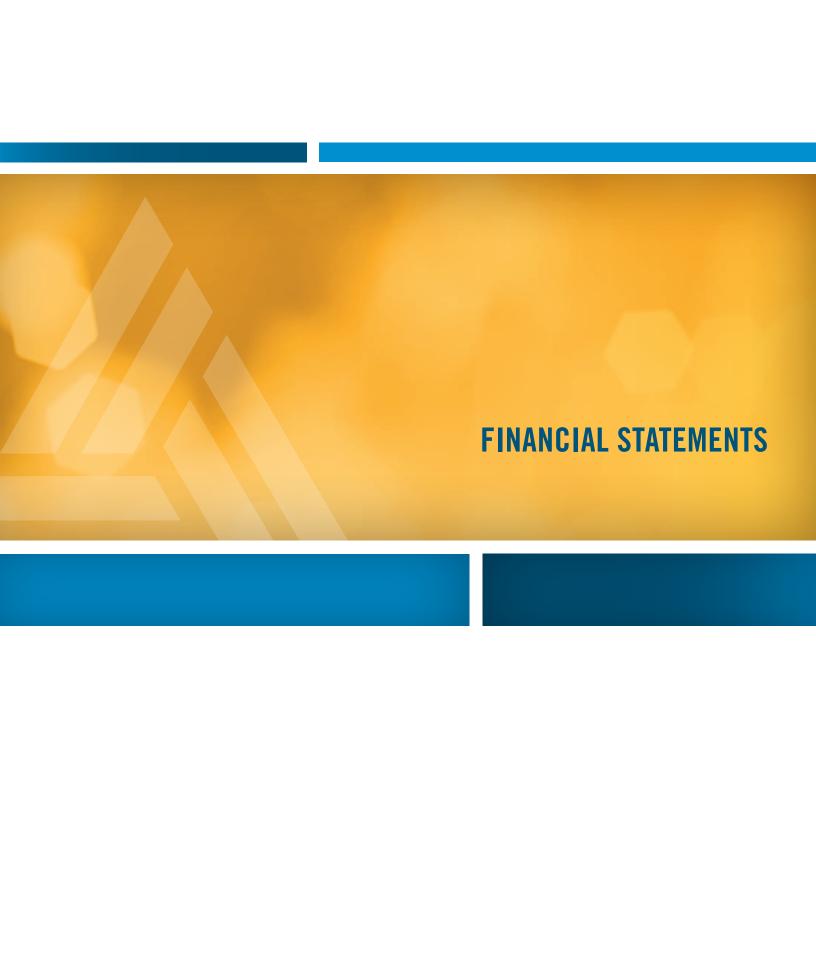
Budget Highlights for the Fiscal Year Ending June 30, 2018

- Under the Town's current revenue structure the Town of North Topsail Beach plans to add two fulltime positions to the Police Department and purchase new vehicles for both the Police and Fire Department in accordance to our Capital Improvement Plan.
- Based on past trends and the continued efforts to improve accommodation tax collections, the Town is forecasting a 25% to 30% increase in accommodations tax revenue from the previous fiscal year.

- The final debt service payment for the 2012 Beach Renourishment Project (Phase One) will be made in October 2017 in the amount of \$577,883.20.
- The Town will continue with its various Shoreline Protection Projects, which includes the Harden Structure Project at the North End. The Town will also be working towards obtaining Federal and State Assistance and/or Grants to aid with replenishing the sand lost during Hurricane Matthew and upgrading one of the Town parks.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Town Manager, Town of North Topsail Beach, 2008 Loggerhead Court, North Topsail Beach, NC 28460.



Town of North Topsail Beach Statement of Net Position June 30, 2017 Exhibit 1

Primary

	Government Governmental
	Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,342,332
Taxes receivable (net)	88,496
Assessment receivable (net)	788,944
Accrued interest receivable on taxes	20,244
Accounts receivable (net)	677,406
Prepaid items	27,000
Restricted cash and cash equivalents	2,925,800
Total current assets	7,870,222
Capital assets:	
Land and non-depreciable improvements	1,473,437
Other capital assets,net of depreciation	29,588,066
Total capital assets	31,061,503
Total assets	38,931,725
DEFERRED OUTFLOWS OF RESOURCES	
Contributions to pension plan in current fiscal year	503,739
LIABILITIES	
Current liabilities:	
Accounts payable	1,533,712
Accrued interest payable	51,505
Current portion of long-term liabilities	1,117,753
Total current liabilities	2,702,970
Long-term liabilities:	
Net pension liability	554,354
Total pension liability	299,382
Due in more than one year	15,935,042
Total liabilities	19,491,748
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	64,140
NET POSITION	
Net investment in capital assets Restricted for:	12,582,352
Environmental protection	2,925,800
Stabilization by State Statute	677,406
Unrestricted	3,694,018
Total net position	\$ 19,879,576

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

Town of North Topsail Beach Statement of Activities For the Year Ended June 30, 2017 Exhibit 2

Net (Expense)

									evenue and anges in Net
			ı	Progra	am Revenu	es		C	Position
Functions/ Programs	Expenses	Charges 1		Gra	erating ants and cributions	Ī	ital Grants and ntributions		overnmental Activiites
Primary government:									
Governmental activities:									
General government	\$ 1,340,869	\$ -	-	\$	-	\$	-	\$	(1,340,869)
Public safety	1,810,896	28,9	49		-		-		(1,781,947)
Transportation	90,102	-			26,649		-		(63,453)
Environmental protection	2,443,069	429,5	85		140,022		256,686		(1,616,776)
Economical and physical development	2,035	-			-		-		(2,035)
Cultural and recreation	100,553	2,8	53		-		-		(97,700)
Interest on long-term debt	552,084	-			-		-		(552,084)
Total governmental activities	6,339,608	461,3	87		166,671		256,686		(5,454,864)

General revenues:	
Taxes:	
Property taxes	3,245,080
Other taxes	3,032,359
Unrestricted investment earnings	22,180
Miscellaneous	549,258
Special Item: Settlement on sandbag	
revetment receivable	(688,405)
Total general revenues and special item	6,160,472
Change in net position	705,608
Net position - beginning as	
previously reported	19,457,140
Restatement	(283,172)
Net position - beginning as restated	19,173,968
Net position - ending	\$ 19,879,576

Town of North Topsail Beach Balance Sheet – Governmental Funds June 30, 2017 Exhibit 3

		Major Funds		
		-	Shoreline	Total
		Beach	Protection	Governmental
	General	Nourishment	Project	Funds
ASSETS				
Cash and cash equivalents	\$ 1,264,026	\$ 466,016	\$ 1,612,290	\$ 3,342,332
Receivables, net:				
Accounts	275,674	88,214	313,518	677,406
Taxes	88,496	-	-	88,496
Assessment	-	788,944	-	788,944
Prepaid items	-	27,000	-	27,000
Retricted cash and cash equivalents	-	1,462,900	1,462,900	2,925,800
Total assets	1,628,196	2,833,074	3,388,708	7,849,978
LIABILITIES				
Accounts payable and accrued liabilities	63,120	1,426,356	44,236	1,533,712
Total liabilities	63,120	1,426,356	44,236	1,533,712
DEFERRED INFLOWS OF RESOURCES				
Property tax receivable	88,496	-	-	88,496
Assessment receivable	-	788,944	-	788,944
Total deferred inflows of resources	88,496	788,944	-	877,440
FUND BALANCES				
Nonspendable				
Prepaid items	-	27,000	-	27,000
Restricted				
Stabilization of State Statute	275,674	88,214	313,518	677,406
Environmental Protection	-	1,462,900	1,462,900	2,925,800
Committed				
Beach Nourishment	-	-	1,568,054	1,568,054
Unassigned	1,200,906	(960,340)	-	240,566
Total fund balances	1,476,580	617,774	3,344,472	5,438,826
Total liabilities, deferred inflows of				_
resources and fund balances	\$ 1,628,196	\$ 2,833,074	\$ 3,388,708	\$ 7,849,978

Town of North Topsail Beach Balance Sheet – Governmental Funds June 30, 2017 Exhibit 3

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

Total fund balances - governmental funds	\$	5,438,826
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Gross capital assets at historical cost Accumulated depreciation	38,110,769 (7,049,266)	31,061,503
Accumulated depreciation	(7,049,200)	31,001,303
Deferred outflows of resources related to pensions are not reported in the funds		503,739
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current period expenditures and therefore are inflows		
of resources in the funds.		20,244
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		877,440
Long-term liabilities used in governmental activities are not financial uses		
and therefore are not reported in the funds.		
Gross long-term debt	(16,932,974)	
Net pension liability	(554,354)	
Total pension liability	(299,382)	
Compensated absences	(119,821)	(17,906,531)
Deferred inflows of resources related to pensions are not reported		
in the funds		(64,140)
Other long-term liabilities (accrued interest) are not due and payable		
in the current period and therefore are not reported in the funds.		(51,505)
Net position of governmental activities	\$	19,879,576

Town of North Topsail Beach Statement of Revenues, Expenditures and Changes In Fund Balance – Governmental Funds For the Year Ended June 30, 2017 Exhibit 4

		Maj	or Funds			_	
				Shoreline		Total	
			Beach	F	Protection	Go	vernmental
	General	Nou	ırishment	Project			Funds
REVENUES							
Ad valorem taxes	\$ 1,969,498	\$	-	\$	1,275,957	\$	3,245,455
Other taxes and licenses	946,391		504,455		1,260,941		2,711,787
Unrestricted intergovernmental	320,572		-		-		320,572
Restricted intergovernmental	166,671		74,705		181,981		423,357
Sales and services	461,387		-		-		461,387
Investment earnings	16,034		42		6,104		22,180
Miscellaneous	29,360		1,065		-		30,425
Total revenues	3,909,913		580,267		2,724,983		7,215,163
EXPENDITURES							
Current:							
General government	1,264,078		-		-		1,264,078
Public safety	1,722,538		-		-		1,722,538
Environmental protection	469,282		391,379		398,885		1,259,546
Transportation	90,102		-		-		90,102
Cultural and recreation	23,230		-		-		23,230
Debt service	59,607		-		1,487,906		1,547,513
Total expenditures	3,628,837		391,379		1,886,791		5,907,007
Excess (deficiency) of revenues							
over expenditures	281,076		188,888		838,192		1,308,156
OTHER FINANCING SOURCES (USES)							
Sale of fixed assets	518,833		-		-		518,833
Transfers from other funds	-		-		-		-
Transfers to other funds	-		-		-		-
Total other financing sources (uses)	518,833		-		-		518,833
Net change in fund balance	 799,909		188,888		838,192		1,826,989
Fund balances - beginning	676,671		428,886		2,506,280		3,611,837
Fund balances - ending	\$ 1,476,580	\$	617,774	\$	3,344,472	\$	5,438,826

Town of North Topsail Beach Statement of Revenues, Expenditures and Changes In Fund Balance – Governmental Funds For the Year Ended June 30, 2017 Exhibit 4

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities:

Net change in fund balances - governmental funds	\$ 1,826,989
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 outlay exceeded depreciation in the current period.	
Capital outlay expenditures which were capitalized 345,607	
Depreciation expense for governmental assets (1,652,182)	(1,306,575)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities Benefits payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities	117,456 9,683
Revenues in the Statement of Activities that do not provide current	
financial resources are not reported as revenues in the funds. Change in unavailable revenue for tax revenue Change in unavailable revenue for special assessment	(375) (688,405)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items. New long-term debt issued (78,673) Principal payments on long-term debt 987,898 Decrease in accrued interest payable 7,504	916,729
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. Pension expense (172,709)	7
Compensated absences 2,815	(169,894)
Total changes in net position of governmental activities	\$ 705,608

Town of North Topsail Beach Statement of Revenues, Expenditures and Changes In Fund Balance – Budget to Actual General Fund For the Year Ended June 30, 2017 Exhibit 5

Variance with Final Budget - Positive

Ad valorem taxes \$ 2,045,000 \$ 1,969,498 \$ (75,502) Other taxes and licenses 887,550 887,550 946,391 58,841 Unrestricted intergovernmental 344,000 344,000 320,572 (23,428) Restricted intergovernmental 27,500 108,818 166,671 57,853 Sales and services 447,200 447,200 461,387 14,187 Investment earnings 4,000 4,000 16,034 12,034 Miscellaneous 30,500 30,500 29,360 (1,140) Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation <t< th=""><th></th><th></th><th></th><th></th><th></th><th></th><th></th><th></th><th>POSITIVE</th></t<>									POSITIVE
Ad valorem taxes \$ 2,045,000 \$ 1,969,498 \$ (75,502) Other taxes and licenses 887,550 887,550 946,391 58,841 Unrestricted intergovernmental 344,000 344,000 320,572 (23,428) Restricted intergovernmental 27,500 108,818 166,671 57,853 Sales and services 447,200 447,200 461,387 14,187 Investment earnings 4,000 4,000 16,034 12,034 Miscellaneous 30,500 30,500 29,360 (1,140) Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation <t< th=""><th></th><th>Ori</th><th>ginal Budget</th><th>F</th><th>inal Budget</th><th>Act</th><th>tual Amounts</th><th></th><th>(Negative)</th></t<>		Ori	ginal Budget	F	inal Budget	Act	tual Amounts		(Negative)
Other taxes and licenses 887,550 887,550 946,391 58,841 Unrestricted intergovernmental 344,000 344,000 320,572 (23,428) Restricted intergovernmental 27,500 108,818 166,671 57,853 Sales and services 447,200 447,200 461,387 14,187 Investment earnings 4,000 4,000 16,034 12,034 Miscellaneous 30,500 30,500 29,360 (1,140) Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778	REVENUES								
Unrestricted intergovernmental 344,000 344,000 320,572 (23,428) Restricted intergovernmental 27,500 108,818 166,671 57,853 Sales and services 447,200 447,200 461,387 14,187 Investment earnings 4,000 4,000 16,034 12,034 Miscellaneous 30,500 30,500 29,360 (1,140) Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures (2	Ad valorem taxes	\$	2,045,000	\$	2,045,000	\$	1,969,498	\$	(75,502)
Restricted intergovernmental 27,500 108,818 166,671 57,853 Sales and services 447,200 447,200 461,387 14,187 Investment earnings 4,000 4,000 16,034 12,034 Miscellaneous 30,500 30,500 29,360 (1,140) Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: 86,383 99,913 42,845 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000	Other taxes and licenses		887,550		887,550		946,391		58,841
Sales and services 447,200 447,200 461,387 14,187 Investment earnings 4,000 4,000 16,034 12,034 Miscellaneous 30,500 30,500 29,360 (1,140) Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833	Unrestricted intergovernmental		344,000		344,000		320,572		(23,428)
Investment earnings	Restricted intergovernmental		27,500		108,818		166,671		57,853
Miscellaneous 30,500 30,500 29,360 (1,140) Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: Seperal government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833	Sales and services		447,200		447,200		461,387		14,187
Total revenues 3,785,750 3,867,068 3,909,913 42,845 EXPENDITURES Current: 3,785,750 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated - - - - - Fund balances - beginning	Investment earnings		4,000		4,000		16,034		12,034
Current: General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures 3,810,750 3,917,068 3,628,837 288,231 Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds -	Miscellaneous		30,500		30,500		29,360		(1,140)
Current: General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures 3,810,750 3,917,068 3,628,837 288,231 Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated - - - - - -	Total revenues		3,785,750		3,867,068		3,909,913		42,845
General government 1,230,005 1,350,461 1,264,078 86,383 Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated - - - - - Fund balances - beginning \$ - \$ - 799,909 \$ 799,909	EXPENDITURES								
Public safety 1,762,296 1,781,233 1,722,538 58,695 Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated - - - - - Net change in fund balance \$ - \$ 799,909 \$ 799,909 Fund balances - beginning 676,671 - - - - - - - -	Current:								
Environmental protection 510,209 479,356 469,282 10,074 Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures 3,810,750 3,917,068 3,628,837 288,231 Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds -	General government		1,230,005		1,350,461		1,264,078		86,383
Streets 196,240 173,240 90,102 83,138 Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures 3,810,750 3,917,068 3,628,837 288,231 Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds -	Public safety		1,762,296		1,781,233		1,722,538		58,695
Cultural and recreation 69,000 69,000 23,230 45,770 Debt service 43,000 63,778 59,607 4,171 Total expenditures 3,810,750 3,917,068 3,628,837 288,231 Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated - - - - - Fund balances - beginning \$ - \$ 799,909 \$ 799,909	Environmental protection		510,209		479,356		469,282		10,074
Debt service 43,000 63,778 59,607 4,171 Total expenditures 3,810,750 3,917,068 3,628,837 288,231 Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds -			196,240		173,240		90,102		83,138
Total expenditures 3,810,750 3,917,068 3,628,837 288,231 Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated -	Cultural and recreation		69,000		69,000		23,230		45,770
Revenues over (under) expenditures (25,000) (50,000) 281,076 331,076 OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated - - - - - - Net change in fund balance \$ - \$ - 799,909 \$ 799,909 Fund balances - beginning 676,671 676,671 -	Debt service		43,000		63,778		59,607		4,171
OTHER FINANCING SOURCES (USES) Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - - - - - Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated -	Total expenditures		3,810,750		3,917,068		3,628,837		288,231
Sale of fixed assets 25,000 50,000 518,833 468,833 Transfers from (to) other funds - <td>Revenues over (under) expenditures</td> <td></td> <td>(25,000)</td> <td></td> <td>(50,000)</td> <td></td> <td>281,076</td> <td></td> <td>331,076</td>	Revenues over (under) expenditures		(25,000)		(50,000)		281,076		331,076
Transfers from (to) other funds - <t< td=""><td>OTHER FINANCING SOURCES (USES)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></t<>	OTHER FINANCING SOURCES (USES)								
Total other financing sources (uses) 25,000 50,000 518,833 468,833 Fund balance appropriated - <td>Sale of fixed assets</td> <td></td> <td>25,000</td> <td></td> <td>50,000</td> <td></td> <td>518,833</td> <td></td> <td>468,833</td>	Sale of fixed assets		25,000		50,000		518,833		468,833
Fund balance appropriated 799,909 \$ 799,909 Fund balances - beginning 676,671	Transfers from (to) other funds		-		-		-		-
Net change in fund balance \$ - \$ - 799,909 \$ 799,909 Fund balances - beginning 676,671	Total other financing sources (uses)		25,000		50,000		518,833		468,833
Fund balances - beginning 676,671	Fund balance appropriated		-		-		-		-
	Net change in fund balance	\$	-	\$	-	•	799,909	\$	799,909
Fund balance - ending \$ 1,476,580	Fund balances - beginning						676,671		
	Fund balance - ending					\$	1,476,580	l	

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

Town of North Topsail Beach Statement of Revenues, Expenditures and Changes In Fund Balance – Budget to Actual Beach Nourishment Fund For the Year Ended June 30, 2017 Exhibit 6

617,774

Variance with Final Budget -**Positive Original Budget Final Budget Actual Amounts** (Negative) **REVENUES** Ad valorem taxes \$ 2,200 \$ 2,200 \$ \$ (2,200)Other taxes and licenses 520,000 520,000 504,455 (15,545)78,000 Restricted intergovernmental 78,000 74,705 (3,295)Sales and services Investment earnings 1,000 1,000 42 (958)Miscellaneous 250 250 1,065 815 Total revenues 601,450 601,450 580,267 (21,183)**EXPENDITURES** Current: **Environmental protection** 601,450 601,450 391,379 210,071 601,450 601,450 Total expenditures 391,379 210,071 Revenues over (under) expenditures 188,888 188,888 **OTHER FINANCING SOURCES (USES)** Transfers from other funds Transfers (to) other funds Total other financing sources (uses) Revenues over (under) expenditures and other financing uses 188,888 188,888 Fund balance appropriated \$ \$ Net change in fund balance 188,888 \$ 188,888 Fund balances - beginning 428,886

Fund balance - ending

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of North Topsail Beach is a municipal corporation that is governed by an elected mayor and five-member board. As required by generally accepted accounting principles, these financial statements present the Town, which has no discretely presented component units.

B. <u>Basis of Presentation</u>

Government-wide Statements. The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. These statements report the *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Town's funds. The Town currently maintains only one fund category – governmental. The emphasis of 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.

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. The primary expenditures are for public safety, general government, street maintenance and construction, and sanitation services.

BEACH NOURISHMENT FUND – This is a special revenue fund that uses tax money for beach nourishment.

SHORELINE PROTECTION PROJECT FUND – This is a capital project fund used to account for phase two of a beach nourishment project.

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

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

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 revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicle 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. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then general revenues.

D. <u>Budgetary Data</u>

The Town's budget is adopted as required by the North Carolina General Statuses. An annual budget is adopted for the General and Beach Nourishment Funds. All annual appropriations lapse at the fiscal year end. Project length ordinances are utilized in capital project funds whereby appropriations lapse at project completion. The budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The finance officer is authorized by the budget ordinance to transfer appropriations between departmental areas within a fund up to \$2,500; however, any revisions that alter total expenditures of any fund or that change departmental appropriations by more than \$2,500 must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town 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 bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NC Capital Management Trust Government Portfolio, a SEC-registered external investment pool meets all of the specified criteria in Section I50: Investments of the GASB Codification to qualify to elect to measure their investments at amortized cost, which approximates the NCCMT's share price.

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

The USDA requires that three years of debt service payments be restricted per the loan agreement for the Series 2014 bonds issued. Also, the Town must deposit into a restricted special savings account ten percent of the annual payment with each payment.

Town of North Topsail Beach Restricted Cash

Governmental Activities

Beach Nourishment Fund

Beach Nourishment \$ 1,462,900

Shoreline Protection Project Fund

Beach Nourishment 1,462,900

Total governmental activities

\$ 2,925,800

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015. 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 revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

The Town does not maintain an allowance for doubtful accounts. Losses arising from uncollected accounts receivable are estimated to be insignificant.

6. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs for all assets are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

	Estimated			
Asset Class	Useful Lives			
Infrastructure	20			
Buildings	40			
Vehicles and equipment	5 to 10			

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category- property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bonds issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

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

The Town's sick leave policy 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 has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

Net position in government-wide financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent 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 four 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:

<u>Nonspendable Fund Balance</u> – 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.

Prepaid expense – portion of fund balance that is not an available resource because it represent the year-end balance of expense prepaid for future use, which are not spendable resources.

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

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

Restricted for Environmental Protection – portion of fund balance that is restricted by the USDA for future debt service.

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

Committed for Beach Nourishment – portion of fund balance assigned by the board for beach nourishment.

<u>Unassigned Fund Balance</u> – the portion of fund balance that has not been restricted, committed or assigned to specific purposes or other funds.

12. Defined Benefit Cost-Sharing Plans

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

II. Stewardship, Compliance and Accountability

1. Noncompliance with North Carolina General Statutes

During the fiscal year, the Town held marketable securities in violation of G.S. 159-30. The marketable securities consisted of shares of common stock that were determined to have been acquired in 2001. Upon finding the violation, the Town and the Town's Finance Officer, liquidated the ineligible investment in an expeditious manner prior to June 30, 2017.

The Town was not in compliance with G.S. 135-1(7a) and 128-21(7a) that govern the types of compensation that are eligible for retirement contributions under the Local Governmental Employees' Retirement System. Longevity pay in the amount of \$10,550 was not reported as wages subject to employee or employer contributions to the Local Governmental Employees' Retirement System through the ORBIT system. The Town has corrected the payroll item setup and is resolving this issue of noncompliance with the Local Governmental Employees' Retirement System.

III. Detail Notes on All Funds

A. <u>Assets</u>

1. Deposits

All the deposits of the Town are either insured or collateralized by the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in their name. The amount of the pledged collateral is based on an approved averaging method for noninterest 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 the G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Town's deposits had a carrying amount of \$2,206,697 and a bank balance of \$2,201,457. Of the balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2017, the Town's petty cash fund totaled \$200.

2. <u>Investments</u>

At June 30, 2017, the Town of North Topsail Beach had \$4,068,684 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables – Allowances for Doubtful Accounts

The Town does not maintain an allowance for doubtful accounts. Losses arising from uncollected accounts receivable are estimated to be insignificant.

4. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2017, was as follows:

	Beginning			Ending
	Balance Increases Decreases		Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,082,341	\$ -	\$ -	\$ 1,082,341
Construction in progress	2,825,510	50,591	2,485,005	391,096
Total capital assets not being depreciated	3,907,851	50,591	2,485,005	1,473,437
Capital assets being depreciated:				
Buildings	1,364,535	-	-	1,364,535
Vehicles and equipment	2,850,889	188,998	26,679	3,013,208
Infrastructure	29,668,565	2,591,024	-	32,259,589
Total capital assets being depreciated	33,883,989	2,780,022	26,679	36,637,332
Less accumualted depreciation for:				
Buildings	827,664	34,113	-	861,777
Vehicles and equipment	2,292,231	149,085	26,679	2,414,637
Infrastructure	2,303,868	1,468,984	-	3,772,852
Total accumulated depreciation	5,423,763	1,652,182	26,679	7,049,266
Total capital asset being depreciated, net	28,460,226	_		29,588,066
Governmental activities capital assets, net	\$ 32,368,077	=		\$ 31,061,503

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

General government	\$	59,348
Public safety		128,363
Economic & physical development		2,035
Environmental protection	:	1,385,113
Culture & recreational		77,323
Total depreciation expense	\$:	1,652,182

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description The Town of North Topsail Beach is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEO's) of participating local government 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 Government 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, NC 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Retirement benefits are Benefits Provided. LGERS provides retirement and survivor benefits. 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 North Topsail Beach employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of North Topsail Beach's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.41% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of North Topsail Beach were \$117,456 for the year ended June 30, 2017.

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, 2017, the Town reported a liability of \$554,354 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the Town's proportion was 0.026%, which was a decrease of 0.005% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$149,391. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of		Deferred Inflows of	
	R	Resources		esources
Differences between expected and actual experience	\$	10,415	\$	19,425
Changes of assumptions		37,968		-
Net differences between projected and actual earnings on				
pension plan investments		306,488		-
Changes in proportion and differences between Town				
contributions and proportionate share of contributions		21,729		37,607
Town contributions subsequent to the measurement date		117,456		-
Total	\$	494,056	\$	57,032

\$117,456 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

rear endeagane so:	
2017	\$ 51,274
2018	51,207
2019	135,481
2020	81,607
2021	-
Thereafter	-
	\$ 319,569

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation
	and productivity factor
Investment rate of return	7.25 percent, net of pension plan
	investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 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. 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, 2016 are summarized in the following table:

		Long-Term Expected
	Target	Real Rate of
Asset Class	Allocation	Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

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

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)		-	1% Increase (8.25%)	
Town's proportionate share of the net			_		_	
pension liability (asset)	\$ 1,315,740	\$	554,354	\$	(81,613)	

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 North Topsail Beach administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and 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.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2016 the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to	
but not yet receiving benefits	-
Active plan members	11
Total	11

(2) Summary of Significant Accounting Policies

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

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

(3) Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 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 7.35 percent, including inflation

and productivity factor

Investment rate of return 3.86 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

Mortality rates are based on the RP-2000 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 benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town did not pay any benefits for the reporting period.

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

At June 30, 2017, the Town reported a total pension liability of \$299,382. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$23,318.

	Out	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	\$	-	\$	-	
Changes of assumptions		-		7,108	
Town benefit payments and plan administrative					
expense made subsequent to the measurement date		9,683		-	
		0.000			
Total	\$	9,683	Ş	7,108	

\$9,683 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 1,189
2019	1,189
2020	1,189
2021	1,189
2022	1,189
Thereafter	1,163
	\$ 7,108

\$9,683 paid as benefits came due subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86 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 (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1%	Decrease	Discount Rate		1% Increase	
		(2.86%) (3.86%)		(4.86%)		
Total pension liability	\$	328,917	\$	299,382	\$	272,391

	2017
Beginning balance	\$ 283,172
Service Cost	14,398
Interest on the total pension liability	10,109
Change of benefit terms	-
Differences between expected and actual experience in the measurement	
of the total pension liability	-
Changes of assumptions or other inputs	(8,297)
Benefit payments	-
Other changes	
Ending balance of the total pension liability	\$ 299,382

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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

(1) 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 that 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.

(2) Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 were \$30,709, which consisted of \$24,449 from the Town and \$6,260 from the law enforcement officers.

The Town has also elected to contribute to the Supplemental Retirement Income Plan for general employees as well as law enforcement officers. The Town's contributions for general employees for the year ended June 30, 2016 were \$54,346, which consisted of \$31,655 from the Town and \$22,691 from the 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 Governmental Employees' Retirement System (Death Benefit Plan), a multipleemployer, State-administered, cost-sharing plan funded on a one-year term cost basis. beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly gross payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

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

Contributions to pension plan in current fiscal year	\$ 117,456
Benefit payments made and administrative expenses for LEOSSA	9,683
Differences between expected and actual experience	10,415
Changes of assumptions	37,968
Net difference between projected and actual earnings on pension	
plan investments	306,488
Changes in proportion and differences between employer	
contributions and proportionate share of contributions	21,729
Total	\$ 503,739

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

	State	Statement of		General Fund	
	Net	Net Position		Balance Sheet	
Taxes receivable (General Fund)	\$	-	\$	88,496	
Assessment receivable (Beach Nourishment Fund)		-		788,944	
Changes in assumptions		7,108		-	
Differences between expected and actual experience		19,425		-	
Changes in proportion and differences between employer					
contributions and proportionate share of contributions		37,607		-	
Total	\$	64,140	\$	877,440	

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 has general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$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.

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 Town Finance Officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$1,000,000.

The Town has a VFIS policy with American Alternative Insurance Corporation covering certain fire department equipment and property. The Town also has a flood insurance policy with Lloyd's of London.

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2017, the Town was a defendant to various lawsuits. One lawsuit between the Town and affected property owners regarding the Town's special assessment for costs associated with emergency sandbag revetment in FY 2014-15 was settled in November 2017. The Town settled with the plaintiffs in the lawsuit and agreed to reduce the amount due from the affected property owners not party to the lawsuit. The Town also negotiated with the vendors regarding the ultimate cost of the sandbag revetment. These adjustments are reflected in the Town's financial statements at June 30, 2017. In the opinion of the Town's management and the Town attorney, the ultimate effect of other legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment purchases

In March 2013, the Town entered into a loan to finance the purchase of a fire truck. The financing contract requires principal payments beginning in 2013 with an interest rate of 1.79%.

In February 2017, the Town entered into a loan to finance the purchase of a backhoe. The financing contract requires principal payments beginning in 2017 with an interest rate of 3.21%.

Annual debt service payments of the installment purchases as of June 30, 2017, including \$16,222 of interest, are as follows:

Governmental Activities

Year Ending June 30	Principal	Interest
2018	\$ 53,932	\$ 5,675
2019	55,119	4,488
2020	56,333	3,274
2021	57,577	2,029
2022	42,013	756
Total	\$ 264,974	\$ 16,222

b. Special Obligation Indebtedness

The Town's special obligation bonds serviced by the governmental funds were issued for the purpose of beach renourishment. The special obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2017 are comprised of the following individual issues.

Serviced by the Beach Nourishment Fund:

\$2,840,000 Beach Renourishment, Series 2012 bonds due on October $\mathbf{1}^{\text{st}}$ in installments of \$568,000 plus interest through

October 1, 2018; interest at 1.74%.

\$16,815,000 Special Obligation, Series 2015 USDA bonds issued on November 6, 2015, and due on June 1st in various installments plus interest through June 1, 2045; interest at 3.25%.

\$16,100,000

\$ 568,000

Annual debt service payments to maturity for long-term obligations are as follows:

Governmental Activities

Year Ending June 30	Principal	Interest
2018	\$ 944,000	\$ 533,133
2019	388,000	511,030
2020	401,000	498,420
2021	414,000	485,388
2022	427,000	471,933
2023-2027	2,352,000	2,142,270
2028-2032	2,760,000	1,734,427
2033-2037	3,239,000	1,255,767
2038-2042	3,800,000	694,200
2043-2045	1,943,000	107,055
Total	\$ 16,668,000	\$ 8,433,623

c. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	En	ding Balance	 rent Portion of Balance
Governmental activities:						
Installment purchase	\$ 241,199	\$ 78,673	\$ 54,898	\$	264,974	\$ 53,932
Special obligation bonds	17,601,000	-	933,000		16,668,000	944,000
Compensated absences	122,636	3,162	5,977		119,821	119,821
Net pension liability (LGERS)	138,722	415,632	-		554,354	-
Total pension liability (LEO)	283,172	16,210	-		299,382	-
Governmental long-term liabilities	\$ 18,386,729	\$ 513,677	\$ 993,875	\$	17,906,531	\$ 1,117,753

7. Special Item

The Town estimates that reduction related to settlement of the sandbag revetment assessment receivable will be \$688,405. This amount is reflected in the Statement of Activities as a special item.

8. 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	\$ 1,476,580
Less:	
Stabilization by State Statute	275,674
Remaining Fund Balance	\$ 1,200,906

IV. Summary Disclosure Significant Contingencies

<u>Federal and State Assisted Programs</u>

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

V. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$283,172.

Town of North Topsail Beach Proportionate Share of Net Pension Liability (Asset) Required Supplementary Information Last Four Fiscal Years

Local Government Employees' Retirement System

	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.026%	0.031%	0.031%	0.025%
Town's proportion of the net pension liability (asset) (\$)	\$ 554,354	\$ 138,722	\$ (182,821)	\$ 298,935
Town's covered-employee payroll	1,627,781	1,604,908	1,599,383	1,510,668
Town's proportionate share of the net pension liability				
(asset) as a percentage of its covered-employee payroll	34.06%	8.64%	-11.43%	19.79%
Plan fiduciary net position as a percentage of the total				
pension liability	91.47%	98.09%	102.64%	94.35%

Town of North Topsail Beach Schedule of Contributions Required Supplementary Information Last Four Fiscal Years

Local Government Employees' Retirement System

		2017		2016	2015	 2014
Contractually required contribution	\$	117,456	\$	104,513	\$ 113,221	\$ 103,790
Contributions in relation to the contractually						
required contribution	_	117,456	_	104,513	113,221	103,790
Contribution deficiency (excess)	\$		\$		\$ 	\$
Town's covered-employee payroll	\$	1,627,781	\$	1,604,908	\$ 1,599,383	\$ 1,510,668
Contributions as a percentage of covered- employee payroll		7.22%		6.51%	7.08%	6.87%
employee payron		1.22/0		0.51/0	7.0070	0.07/0

Town of North Topsail Beach Schedule of Changes in Total Pension Liability Law Enforcement Officers' Special Separation Allowance Required Supplementary Information June 30, 2017

	2017
Beginning balance	\$ 283,172
Service Cost	14,398
Interest on the total pension liability	10,109
Change of benefit terms	-
Differences between expected and actual experience in the measurement	
of the total pension liability	-
Changes of assumptions or other inputs	(8,297)
Benefit payments	-
Other changes	
Ending balance of the total pension liability	\$ 299,382

Town of North Topsail Beach Schedule of Total Pension Liability as a Percentage of Covered Payroll Law Enforcement Officers' Special Separation Allowance Required Supplementary Information June 30, 2017

	 2017
Total pension liability	\$ 299,382
Covered payroll	498,295
Total pension liability as a percentage of covered payroll	60.08%

Notes to the schedules:

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

	Budget	Actual	(Negative)	
REVENUES				
Ad valorem taxes				
Taxes		\$ 1,957,182		
Penalties and interest		12,316		
Total	\$ 2,045,00	0 1,969,498	\$ (75,502)	
Other taxes and licenses				
Local option sales tax		853,303		
Licenses and permits		93,088		
Total	887,55	946,391	58,841	
Unrestricted intergovernmental				
Utility franchise tax		301,118		
Cable franchise tax		-		
Beer and wine tax		3,476		
Sales tax refunds		15,978		
Total	344,000	320,572	(23,428)	
Restricted intergovernmental				
Solid waste disposal tax		18,728		
FEMA grant		121,294		
Powell Bill allocation		26,649		
Total	108,81	8 166,671	57,853	
Sales and services				
Donations		853		
Refuse collection fees		429,585		
Officer and other fees		30,949		
Total	447,20	0 461,387	14,187	
Investment earnings	4,000	0 16,034	12,034	
Miscellaneous	30,50	0 29,360	(1,140)	
Total revenues	3,867,06	8 3,909,913	42,845	

EXPENDITURES			
General government			
General government			
Salaries and benefits		11,088	
Professional services		53,246	
Operating expenses		217,199	
Total	287,329	281,533	5,796
Administration			
Salaries and benefits		310,613	
Operating expenses		95,138	
Total	454,179	405,751	48,428
Planning			
Salaries and benefits		100,908	
Operating expenses		5,235	
Capital outlay		14,500	
Capital Outlay		14,300	
Total	125,810	120,643	5,167
Public works			
Salaries and benefits		208,619	
Operating expenses		64,154	
Capital outlay		5,240	
Total	288,493	278,013	10,480
Public buildings			
Operating expenses		172,538	
Capital outlay		5,600	
Total	194,650	178,138	16,512
Total general government	1,350,461	1,264,078	86,383
	_,550,101	=,== .,= .	20,000

Public safety Police and fire departments			
Salaries and benefits		1,371,768	
Operating expenses		171,099	
Capital outlay		40,005	
Total	1,639,421	1,582,872	56,549
Inspections			
Salaries and benefits		135,569	
Operating expenses		4,097	
Total	141,812	139,666	2,146
Total public safety	1,781,233	1,722,538	58,695
Environmental protection Sanitation Contracted services	479,356	469,282	10,074
		*	
Total environmental protection	479,356	469,282	10,074
Transportation Operating expenses		90,102	
Capital outlay		-	
Total transportation	173,240	90,102	83,138
Cultural and recreational			
Operating expenses		23,230	
Total cultural and recreation	69,000	23,230	45,770
Debt service	63,778	59,607	4,171
Total expenditures	3,917,068	3,628,837	288,231

Revenues over (under) expenditures	(50,000)	281,076	331,076
OTHER FINANCING SOURCES (USES)			
Sale of fixed assets	50,000	518,833	468,833
Total other financing sources (uses)	50,000	518,833	468,833
Fund balance appropriated	-	-	-
Net change in fund balance	\$ -	799,909 \$	799,909
Fund balance, beginning	-	676,671	
Fund balance, ending	=	\$ 1,476,580	

	Budget	Actual	Variance Positive (Negative)
REVENUES	<u> </u>		, ,
Ad valorem taxes			
Prior year	\$ 2,200	\$ -	\$ (2,200)
Other taxes and licenses			
Accommodations tax	520,000	504,455	(15,545)
Restricted intergovernmental			_
Cost shares		74,705	
Total restricted intergovernmental	78,000	74,705	(3,295)
Sales and services			
Special assessment		0	
Investment earnings	1,000	42	(958)
Miscellaneous	250	1,065	815
Total revenues	601,450	580,267	(21,183)
EXPENDITURES			
Environmental protection			
Administrative expenses		3,284	
Operating expenses		190,196	
Contracted services		197,899	
Total expenditures	601,450	391,379	210,071
Revenues over (under) expenditures	-	188,888	188,888
OTHER FINANCING SOURCES (USES)			
Transfer to Shoreline Project	-	-	-
Total other financing sources (uses)	-	-	-
Revenues over (under) expenditures			
and other financing uses	-	188,888	188,888
Fund balance appropriated	-	-	-
Net change in fund balance	\$ -	188,888	\$ 188,888
Fund balance - beginning		= 428,886	
Fund balance, ending		\$ 617,774	-
, 3			=

					Variance Positive
	Budget	Actual		(Negative)	
REVENUES					
Ad valorem taxes	\$ 1,290,000	\$	1,275,957	\$	(14,043)
Restricted intergovernmental	7,149,886		181,981		(6,967,905)
Accommodations tax	500,000		504,238		4,238
Sales tax	900,000		756,703		(143,297)
County contribution	250,000		0		(250,000)
Investment earnings	1,000		6,104		5,104
Total revenues	10,090,886		2,724,983		(7,365,903)
EXPENDITURES					
Construction	450,000		9,221		440,779
Debt service	1,487,878		1,487,906		(28)
Engagement contracts	101,425		125,805		(24,380)
Design	7,867,686		98,618		7,769,068
Legal	15,000		21,439		(6,439)
Repairs	175,000		143,802		31,198
Total expenditures	10,096,989		1,886,791		8,210,198
Revenues under expenditures	(6,103)		838,192		844,295
OTHER FINANCING SOURCES					
Appropriated fund balance	6,103		-		(6,103)
Net change in fund balance	\$ -		838,192	\$	838,192
Fund balance, beginning			2,506,280		
Fund balance, ending	=	\$	3,344,472		

Town of North Topsail Beach Schedule of Ad Valorem Taxes Receivable June 30, 2017 **Schedule 4**

Figure Voca	Uncollected Balance June 30, 2016			A ddisiona		Collections and		Uncollected Balance June 30, 2017		
Fiscal Year		2016		Additions		Credits		2017		
2016-2017	\$	-	\$	3,235,200	\$	3,193,692	\$	41,508		
2015-2016		42,854		-		30,578		12,276		
2014-2015		9,793		-		3,494		6,299		
2013-2014		11,649		-		3,999		7,650		
2012-2013		5,366		-		769		4,597		
2011-2012		5,194		-		783		4,411		
2010-2011		4,125		-		1,337		2,788		
2009-2010		3,055		-		-		3,055		
2008-2009		2,733		-		-		2,733		
2007-2008		3,179		-		-		3,179		
2006-2007		904		-		904		-		
	\$	88,852	\$	3,235,200	\$	3,235,556	\$	88,496		

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 1,969,498
Ad valorem taxes - Beach Nourishment Fund	-
Ad valorm taxes - Shoreline Protection Project	1,275,957
Interest collected	(12,316)
Taxes written off	2,417
Total collections and credits	\$ 3,235,556

Town of North Topsail Beach Analysis of Current Tax Levy For the Year Ended June 30, 2017 Schedule 5

					Total I	Levy	e vy	
	Property Valuation	Rate	Total Levy	Re	Property excluding gistered Motor Vehicles		Registered otor Vehicles	
Property taxed at current	823,559,766	0.3932	\$ 3,238,237	\$	3,186,863	\$	51,374	
Penalties	170,651		671		671		-	
Discoveries	23,143		91		91		-	
Abatements	(966,175)		(3,799)		(3,799)		-	
Total property valuation	\$ 822,787,385							
Net levy			\$ 3,235,200	\$	3,183,826	\$	51,374	
Uncollected taxes at June 30,	2016		 41,508		41,508			
Current year's tax collected			\$ 3,193,692	\$	3,142,318	\$	51,374	
Current levy collection percen	tage		98.72%		98.70%		100.00%	



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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Topsail Beach, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated April 4, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of North Topsail Beach'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 below.

17-1 Violation of G.S.159-30

Criteria: Municipalities may not hold marketable securities in violation of G.S. 159-30.

Condition: During the fiscal year, the Town discovered they held marketable securities consisting of shares of common stock that were determined to have been acquired in 2001.

Effect: The Town was in violation of G.S. 159-30.

Cause: Town management was not aware of ownership of these marketable securities.

Recommendation: The Town should liquidate these marketable securities.

Town's Response: Upon finding the violation, the Town and the Town's Finance Officer, liquidated the ineligible investment in an expeditious manner prior to June 30, 2017.

17-2 Violation of G.S 135-1(7a) and 128-21(7a)

Criteria: G.S. 135-1(7a) and 128-21(7a) govern the types of compensation that are eligible for retirement contributions under the Local Governmental Employees' Retirement System.

Condition: Longevity pay in the amount of \$10,550 was not reported as wages subject to employee or employer contributions to the Local Governmental Employees' Retirement System(LGERS) through the ORBIT system.

Effect: The Town did not withhold or match the longevity pay as required and as a result did not submit the required amounts to LGERS.

Cause: The longevity payroll item was not setup properly subjecting it to the LGERS withholding or match in the Town's payroll reports.

Recommendation: Correct the longevity payroll item setup to include them in wages subject to retirement withholding and Town matching.

Town's Response: The Town has corrected the payroll item setup and is resolving this issue of noncompliance with the Local Governmental Employees' Retirement System.

Response to Findings

The Town of North Topsail Beach's response to the findings identified in our audit are described in each finding above. 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.

New Bern, North Carolina

Caux Rigge & Ingram, L.L.C.

April 4, 2018