

TOWN OF NORTH TOPSAIL BEACH
North Carolina

Financial Statements

Year Ended June 30, 2013

Town of North Topsail Beach
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FINANCIAL SECTION

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, 2013 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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, 2013, and the respective changes in financial position and cash flows, where appropriate, thereof 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 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's. The individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the 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 October 30, 2013 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.

Cam, Riggs & Ingram, L.L.C.

New Bern, North Carolina
October 30, 2013

Town of North Topsail Beach
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

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, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

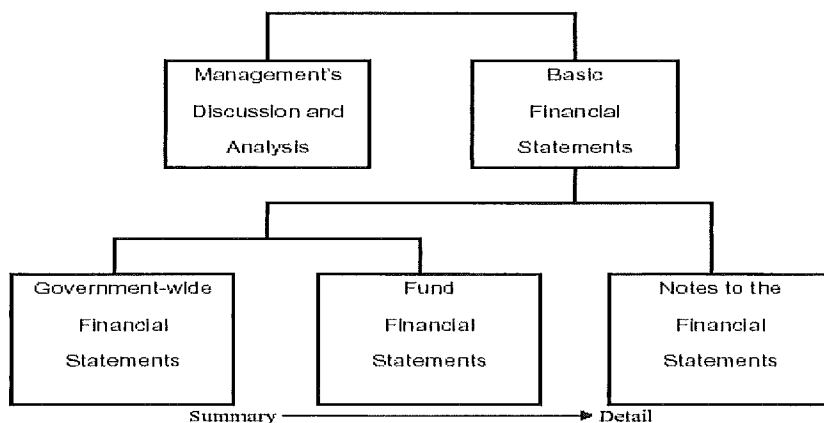
Financial Highlights

- The assets of the Town of North Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,803,259. (net position).
- The government's total net position increased by \$949,931, entirely due to increases in the governmental activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$4,479,073, a decrease of \$2,203,376 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,945,427 or 86.84% 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



Town of North Topsail Beach
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

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 most of 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.

Town of North Topsail Beach
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

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 38 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

Town of North Topsail Beach Net Position
Figure 2

	Governmental Activities	
	2013	2012
Current and other assets	\$ 4,818,835	\$ 6,927,723
Capital assets	<u>9,498,920</u>	<u>3,133,584</u>
Total assets	<u>14,317,755</u>	<u>10,061,307</u>
Long-term liabilities outstanding	716,884	98,450
Other liabilities	208,943	109,529
Deferred inflows of resources	-	<u>758</u>
Total liabilities and deferred inflows of resources	<u>925,827</u>	<u>207,979</u>
Net position:		
Net investment in capital assets	6,306,461	3,133,584
Restricted	1,520,871	4,171,374
Unrestricted	<u>2,975,927</u>	<u>2,548,370</u>
Total net position	<u>\$ 10,803,259</u>	<u>\$ 9,853,328</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the town of North Topsail Beach exceeded liabilities and deferred inflows by \$10,803,259 as of June 30, 2013. The Town's net position increased by \$949,931 for the fiscal year ended June 30, 2013. However, the largest portion (87.93%) 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 \$1,520,871 represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,975,927 is unrestricted.

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 decreased by approximately \$206,492 due to an increase in public safety and cultural and recreational expenditures.
- General revenues decreased by approximately \$12,556 due to a decrease in operating grants.

Town of North Topsail Beach
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

Town of North Topsail Beach Changes in Net Position
Figure 3

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 422,033	\$ 380,338
Operating grants and contributions	74,900	222,651
Capital grants and contributions	-	-
General revenues:		
Property taxes	2,010,190	2,003,190
Other taxes	1,750,033	1,744,928
Investment earnings	5,043	6,072
Miscellaneous	143,215	60,791
Total revenues	<u>4,405,414</u>	<u>4,417,970</u>
Expenses:		
General government	1,044,178	1,086,915
Public safety	1,530,777	1,528,230
Economic and physical development	43,463	57,215
Environmental protection	754,512	891,989
Cultural and recreational	82,553	97,626
Total expenses	<u>3,454,483</u>	<u>3,661,975</u>
Increase (decrease) in net position	949,931	755,995
Net position, July 1	<u>9,853,328</u>	<u>9,097,333</u>
Net position, June 30	<u>\$ 10,803,259</u>	<u>\$ 9,853,328</u>

Governmental Activities

Governmental activities increased the Town's net position by \$949,931, thereby accounting for 100% of the total increase in the net position of the Town of North Topsail Beach. Key elements of this increase are as follows:

Business-type Activities

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

Town of North Topsail Beach
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

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 \$2,945,427, while total fund balance was \$3,137,960. 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 86.84% of total General Fund expenditures, while total fund balance represents 92.51% of that same amount.

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 sales tax 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.

Town of North Topsail Beach
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

Capital Assets

The Town of North Topsail Beach's investment in capital assets for its governmental activities as of June 30, 2013, totals \$9,498,920 (net of accumulated depreciation). These assets include land, buildings, vehicles and equipment, and infrastructure.

Major capital assets transactions during the year included the purchase of three vehicles and the completion of a major beach renourishment project. The three vehicles are to be used for public safety and the beach renourishment project will be used for environmental protection.

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

	Governmental Activities 2013	Governmental Activities 2012
Land	\$ 752,127	\$ 752,127
Building	639,210	647,216
Vehicles and equipment	826,997	484,141
Infrastructure	<u>7,280,586</u>	<u>1,250,100</u>
Total	<u>\$ 9,498,920</u>	<u>\$ 3,133,584</u>

Additional information on the Town's capital assets can be found in Note II.A.4 of the Basic Financial Statements.

Long-Term Debt

As of June 30, 2013, the Town had total debt outstanding of \$3,304,915. The Town's debt represents an accrual for compensated absences, new equipment purchased and the Beach Nourishment Project.

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

	Governmental Activities 2013	Governmental Activities 2012
Installment purchase obligation	\$ 352,459	\$ -
Special obligation bonds	2,840,000	-
Compensated absences	<u>112,456</u>	<u>98,450</u>
Total	<u>\$ 3,304,915</u>	<u>\$ 98,450</u>

The Town's total debt increased by \$3,206,465 during the past fiscal year. This increase is due the purchase of new equipment, the Beach Nourishment Project, and to changes in compensated balances.

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 \$64,938,293.

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 and attractiveness of a premier residential vacation community.

Town of North Topsail Beach
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

Budget Highlights for the Fiscal Year Ending June 30, 2014

- The property tax rate will increase to 37.55 cents per hundred valuations. Of the rate, 22.55 cents will be used to fund General Fund operations and 15 cents to fund Beach Nourishment Capital Projects.
- Continued increase in Ad Valorem Revenues due to a return to median housing values continued development of homes.
- Increase in Sales Tax collections, as the economy improves. Next year a change in the Sales Tax distribution formula will result in a substantial increase in this tax.
- Solid waste fees were increased from \$152 to \$161 per year, per residential cart in order to cover the increase by the Town's contractor.
- The Town is continuing its vehicle replacement program and purchasing two vehicles for the Police Department each year
- The Town's contribution rate to the Local Governmental Employees' Retirement Systems is 6.74% for general employees and 6.77% for law enforcement officers.
- The Town plans to continue the Shoreline Protection Project, as funds were budgeted to conduct the Planning, Engineering, and construction of Phase 5 initially, with continued planning/permitting for the remaining Phases 2-4 this year.

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 Breck Smith, Finance Officer, Town of North Topsail Beach, 2008 Loggerhead Court, North Topsail Beach, NC 28460.

BASIC FINANCIAL STATEMENTS

Town of North Topsail Beach
STATEMENT OF NET POSITION
June 30, 2013

EXHIBIT 1

Primary
Government
Governmental
Activities

ASSETS

Current assets

Cash and cash equivalents	\$ 4,346,789
Taxes receivables (net)	110,095
Accrued interest receivable on taxes	20,086
Accounts receivable (net)	329,090
Prepaid expenses	<u>12,775</u>
Total current assets	<u>4,818,835</u>

Capital assets

Land and non-depreciable improvements	752,127
Other capital assets, net of depreciation	<u>8,746,793</u>
Total capital assets	<u>9,498,920</u>

Total assets

\$ 14,317,755

LIABILITIES

Current liabilities

Accounts payable	\$ 208,943
Current portion of long-term liabilities	<u>716,884</u>
Total current liabilities	925,827

Long-term liabilities:

Due in more than one year	<u>2,588,031</u>
Total liabilities	<u>3,513,858</u>

DEFERRED INFLOWS OF RESOURCES

Prepaid taxes

	<u>638</u>
Total deferred inflows of resources	<u>638</u>

NET POSITION

Net investment in capital assets

6,306,461

Restricted for:

Environmental protection	1,341,113
Stabilization by State Statute	179,758

Unrestricted

2,975,927

Total net position

\$ 10,803,259

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, 2013

EXHIBIT 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,044,178	\$ -	\$ -	\$ -	(\$ 1,044,178)
Public safety	1,530,777	24,879	-	-	(1,505,898)
Economic & physical development	43,463	-	26,298	-	(17,165)
Environmental protection	754,512	395,884	48,602	-	(310,026)
Cultural and recreation	82,553	1,270	-	-	(81,283)
Total governmental activities	<u>3,455,483</u>	<u>422,033</u>	<u>74,900</u>	<u>-</u>	<u>(2,958,550)</u>
General revenues:					
Taxes:					
Property taxes					2,010,190
Other taxes					1,564,450
Grants and contributions not restricted to specific programs					185,583
Unrestricted investment earnings					5,043
Miscellaneous					<u>143,215</u>
					<u>3,908,481</u>
Change in net position					949,931
Net position-beginning					<u>9,853,328</u>
Net position-ending					<u>\$ 10,803,259</u>

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

Town of North Topsail Beach
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

EXHIBIT 3

	Major Funds		Total Governmental Funds
	General	Beach Nourishment	
ASSETS			
Cash and cash equivalents	\$ 3,054,652	\$ 1,292,137	\$ 4,346,789
Receivables, net			
Accounts	185,608	143,482	329,090
Taxes	110,095	-	110,095
Prepaid expenses	12,775	-	12,775
Due from other funds	-	5,850	5,850
Total assets	<u>\$ 3,363,130</u>	<u>\$ 1,441,469</u>	<u>\$ 4,804,599</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 108,587	\$ 100,356	\$ 208,943
Due to other funds	5,850	-	5,850
Total liabilities	<u>114,437</u>	<u>100,356</u>	<u>214,793</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	110,095	-	110,095
Prepaid taxes	638	-	638
Total deferred inflows of resources	<u>110,733</u>	<u>-</u>	<u>110,733</u>
FUND BALANCES			
Non Spendable			
Prepaid expenses	12,775	-	12,775
Restricted			
Stabilization by State Statute	179,758	-	179,758
Committed			
Beach Nourishment	-	1,341,113	1,341,113
Unassigned	2,945,427	-	2,945,427
Total fund balances	<u>3,137,960</u>	<u>1,341,113</u>	<u>4,479,073</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,363,130</u>	<u>\$ 1,441,469</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,498,920
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current period expenditures and therefore are deferred in the funds.	20,086
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	110,095
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)	(3,304,915)
Net position of governmental activities	<u>\$ 10,803,259</u>

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
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

EXHIBIT 4

	Major Funds		Total Governmental Funds
	General	Beach Nourishment	
REVENUES			
Ad valorem taxes	\$ 1,930,160	\$ 85,594	\$ 2,015,754
Other taxes and licenses	822,352	742,098	1,564,450
Unrestricted intergovernmental	185,116	-	185,116
Restricted intergovernmental	29,560	45,807	75,367
Sales and services	424,943	-	424,943
Investment earnings	3,420	1,623	5,043
Miscellaneous	54,462	47,869	102,331
Total revenues	<u>3,450,013</u>	<u>922,991</u>	<u>4,373,004</u>
EXPENDITURES			
Current:			
General government	1,080,255	-	1,080,255
Public safety	1,822,789	-	1,822,789
Environmental protection	383,638	6,460,162	6,843,800
Streets	34,571	-	34,571
Culture and recreational	27,849	-	27,849
Debt service	42,769	-	42,769
Total expenditures	<u>3,391,871</u>	<u>6,460,162</u>	<u>9,852,033</u>
Excess (deficiency) of revenues over expenditures	<u>58,142</u>	<u>(5,537,171)</u>	<u>(5,479,029)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	40,425	-	40,425
Debt proceeds	395,228	2,840,000	3,235,228
Transfers to other funds	-	(14,080)	(14,080)
Transfers from other funds	14,080	-	14,080
Total other financing sources (uses)	<u>449,733</u>	<u>2,825,920</u>	<u>3,275,653</u>
Net change in fund balance	507,875	(2,711,251)	(2,203,376)
Fund balances – beginning of year	<u>2,630,085</u>	<u>4,052,364</u>	<u>6,682,449</u>
Fund balances – end of year	<u>\$ 3,137,960</u>	<u>\$ 1,341,113</u>	<u>\$ 4,479,073</u>

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
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

EXHIBIT 4 (cont.)

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

Net changes in fund balances – total governmental funds (\$ 2,203,376)

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	\$ 6,656,591	
Depreciation expense for governmental assets	(288,804)	
Gain on sale of assets	(<u>2,451</u>)	
		6,365,336

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 (5,564)

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	(3,235,228)	
Principal payments on long-term debt	<u>42,769</u>	
		(3,192,459)

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

Compensated absences (14,006)

Total changes in net position of governmental activities \$ 949,931

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

Town of North Topsail Beach
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
For the Year Ended June 30, 2013

EXHIBIT 5

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Ad valorem taxes	\$ 1,901,713	\$ 1,901,713	\$ 1,930,160	\$ 28,447
Other taxes and licenses	706,800	706,800	822,352	115,552
Unrestricted intergovernmental	201,316	201,316	185,116	(16,200)
Restricted intergovernmental	26,000	26,000	29,560	3,560
Sales and services	443,710	443,710	424,943	(18,767)
Investment earnings	3,500	3,500	3,420	(80)
Miscellaneous	26,600	26,600	54,462	27,862
Total revenues	3,309,639	3,309,639	3,450,013	140,374
EXPENDITURES				
Current:				
General government	1,207,642	1,219,384	1,080,255	139,129
Public safety	1,563,786	1,984,353	1,822,789	161,564
Environmental protection	456,525	456,525	383,638	72,887
Streets	54,000	54,000	34,571	19,429
Culture and recreational	55,000	56,487	27,849	28,638
Debt service	48,000	48,000	42,769	5,231
Total expenditures	3,384,953	3,818,749	3,391,871	426,878
Revenues over (under) expenditures	(75,314)	(509,110)	58,142	567,252
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	3,000	3,000	40,425	37,425
Installment purchase obligation issued	-	395,228	395,228	-
Transfers from other funds	18,000	18,000	14,080	(3,920)
Total other financing sources	21,000	416,228	449,733	33,505
Fund balance appropriated	54,314	92,882	-	(92,882)
Net change in fund balance	\$ -	\$ -	507,875	\$ 507,875
Fund balances – beginning of year			2,630,085	
Fund balances – end of year			\$ 3,137,960	

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

Town of North Topsail Beach
ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND – BEACH NOURISHMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
For the Year Ended June 30, 2013

EXHIBIT 6

<u>Special Revenue Fund – Beach Nourishment</u>				
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Ad valorem taxes	\$ 86,317	\$ 86,317	\$ 85,594	(\$ 723)
Other taxes and licenses	725,000	725,000	742,098	17,098
Restricted intergovernmental	5,272,000	5,322,000	45,807	(5,276,193)
Investment earnings	-	-	1,623	1,623
Miscellaneous	-	-	47,869	47,869
Total revenues	<u>6,083,317</u>	<u>6,133,317</u>	<u>922,991</u>	<u>(5,210,326)</u>
EXPENDITURES				
Current				
Environmental protection	<u>8,257,000</u>	<u>8,413,125</u>	<u>6,460,162</u>	<u>1,952,963</u>
Total expenditures	<u>8,257,000</u>	<u>8,413,125</u>	<u>6,460,162</u>	<u>1,952,963</u>
Revenues over (under) expenditures	<u>(2,173,683)</u>	<u>(2,279,808)</u>	<u>(5,537,171)</u>	<u>(3,257,363)</u>
OTHER FINANCING SOURCES (USES)				
General obligation bonds issued	-	-	2,840,000	2,840,000
Transfer to other funds	<u>(14,080)</u>	<u>(14,080)</u>	<u>(14,080)</u>	<u>-</u>
Total other financing sources (uses)	<u>(14,080)</u>	<u>(14,080)</u>	<u>2,825,920</u>	<u>2,840,000</u>
Fund balance appropriated	2,187,763	2,293,888	-	(2,293,888)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(2,711,251)</u>	<u>\$ 2,711,251</u>
Fund balances – beginning of year			<u>4,052,364</u>	
Fund balances – end of year			<u>\$ 1,341,113</u>	

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

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

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 which 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. Basis of Presentation

Government-wide Statement. 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.

The Town did not report any non-major governmental funds.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Onslow County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of North Topsail Beach. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Onslow County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

C. Measurement Focus and Basis of Accounting (continued)

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. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budget is adopted as required by the North Carolina General Statutes. 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, 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 as determined by quoted market prices. The securities of the NCCMT cash portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

E. Assets, Liabilities, and Fund Equity (continued)

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. 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, 2011. 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.

4. 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.

5. Prepaid Items

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

6. 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 are recorded at their estimated fair value at the date of donation. 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20
Buildings	40
Vehicles and equipment	5 to 10

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

E. Assets, Liabilities, and Fund Equity (continued)

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no items that meet this criterion. 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- prepaid taxes and property taxes receivable.

8. 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.

9. 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 policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

E. Assets, Liabilities, and Fund Equity (continued)

10. 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:

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

Prepaid expenses – portion of fund balance that is not an available resource because it represents the year's end balance of prepaid expenses, which are not spendable resources.

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

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of North Topsail Beach's governing body (highest level of decision making authority). Any changes or removal of specific purpose requires majority action by the governing body.

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

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

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one 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 non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of the G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2013, the Town's deposits had a carrying amount of \$1,885,348 and a bank balance of \$2,006,519. Of the balance, \$758,297 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2013, the Town's petty cash fund totaled \$157.

2. Investments

At June 30, 2013, the Town of North Topsail Beach had \$2,461,284 invested with the North Carolina Capital Management Trust's Cash 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.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

4. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Government activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 752,127	\$ -	\$ -	\$ 752,127
Total capital assets not being depreciated	<u>752,127</u>	<u>-</u>	<u>-</u>	<u>752,127</u>
Capital assets being depreciated:				
Buildings	1,338,760	25,775	-	1,364,535
Vehicles and equipment	2,456,500	490,357	317,459	2,629,398
Infrastructure	<u>1,507,650</u>	<u>6,140,458</u>	<u>-</u>	<u>7,648,108</u>
Total capital assets being depreciated	<u>5,302,910</u>	<u>6,656,590</u>	<u>317,459</u>	<u>11,642,041</u>
Less accumulated depreciation for:				
Buildings	691,544	33,781	-	725,325
Vehicles and equipment	1,972,359	145,051	315,009	1,802,401
Infrastructure	<u>257,550</u>	<u>109,972</u>	<u>-</u>	<u>367,522</u>
Total accumulated depreciation	<u>2,921,453</u>	<u>288,804</u>	<u>315,009</u>	<u>2,895,248</u>
Total capital assets being depreciated, net	<u>2,381,457</u>			<u>8,746,793</u>
Governmental activity capital assets, net	<u>\$ 3,133,584</u>			<u>\$ 9,498,920</u>

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

General government	\$ 33,641
Public safety	140,397
Economic & physical development	8,892
Environmental protection	51,170
Culture & recreational	<u>54,704</u>
Total depreciation expense	<u>\$ 288,804</u>

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description

The Town of North Topsail Beach contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919)981-5454.

Funding Policy

Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77% respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$84,502, \$90,414 and \$83,879, respectively. The contributions made by the Town equaled the required contributions for each year.

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. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Law Enforcement Officers Special Separation is a defined benefit pension plan. The Town has not obtained an actuarial valuation for the plan because its required contributions are considered to be immaterial.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

b. Law Enforcement Officers Special Separation Allowance (continued)

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2012 the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>12</u>
Total	<u>12</u>

A separate report was not issued for the plan.

(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.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

(3) Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

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.

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

c. Supplemental Retirement Income Plan for Law Enforcement Officers (continued)

(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, 2013 were \$29,574 which consisted of \$22,064 from the Town and \$7,510 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, 2013 were \$48,922, which consisted of \$23,587 from the Town and \$25,335 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 multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. 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. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ 638
Taxes receivable (General Fund)	110,095	-
Total	<u>\$ 110,095</u>	<u>\$ 638</u>

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

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, 2013, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment purchase

In March 2013, the Town entered into a \$395,228 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%.

Annual debt service payments of the installment purchase as of June 30, 2013, including \$32,457 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 36,428	\$ 6,341
2015	37,083	5,685
2016	37,750	5,018
2017	38,429	4,339
2018	39,121	3,648
2019-2023	163,648	7,426
Total	<u>\$ 352,459</u>	<u>\$ 32,457</u>

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

6. Long-term Obligations (continued)

b. General Obligation Indebtedness

The Town's general obligation bonds serviced by the governmental funds were issued for the purpose of beach renourishment. All general 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, 2013 are comprised of the following individual issue.

General Obligation Bonds

Serviced by the Beach Nourishment Fund:

\$2,840,000 Beach Renourishment, Series 2012 bonds due on October 1st in installments of \$568,000 plus interest through October 1, 2018; interest at 1.74%.

\$2,840,000

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 568,000	\$ 49,004
2015	568,000	39,533
2016	568,000	29,650
2017	568,000	19,766
2018	<u>568,000</u>	<u>9,883</u>
Total	<u>\$ 2,840,000</u>	<u>\$ 147,836</u>

c. Changes in Long-Term Liabilities

	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Installment purchase	\$ -	\$ 395,228	\$ 42,769	\$ 352,459	\$ 36,428
General obligation bond	-	2,840,000	-	2,840,000	568,000
Compensated absences	<u>98,450</u>	<u>14,006</u>	<u>-</u>	<u>112,456</u>	<u>112,456</u>
Governmental activities:					
Long-term liabilities	<u>\$ 98,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,304,915</u>	<u>\$ 716,884</u>

Town of North Topsail Beach
Notes to the Financial Statements
For the Year Ended June 30, 2013

7. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2013 consists of the following:

Due to the Beach Nourishment Fund from the General Fund for the misposting of an expense reimbursement	\$ <u>5,850</u>
---	-----------------

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	\$ 3,137,960
Less:	
Prepaid expenses	12,775
Stabilization by State Statute	<u>179,758</u>
Remaining Fund Balance	<u>\$ 2,945,427</u>

III. Summary Disclosure Significant Contingencies

Federal and State Assisted Programs

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

IV. Changes in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

V. Subsequent Events

Subsequent events have been evaluated through October 30, 2013, which is the date the financial statements were available to be issued.

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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

Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Beach Nourishment

Town of North Topsail Beach
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2013

REVENUES	2013		Variance Positive (Negative)
	Budget	Actual	
Ad valorem taxes			
Taxes		\$ 1,918,867	
Penalties and interest		11,293	
Total	\$ 1,901,713	1,930,160	\$ 28,447
Other taxes and licenses			
Local option sales taxes		739,984	
Licenses and permits		82,368	
Total	706,800	822,352	115,552
Unrestricted intergovernmental			
Utility franchise tax		123,878	
Cable franchise tax		47,984	
Beer and wine tax		3,000	
Sales tax refunds		10,254	
Total	201,316	185,116	(16,200)
Restricted intergovernmental			
Other grants		2,795	
Solid waste disposal tax		467	
Powell Bill allocation		26,298	
Total	26,000	29,560	3,560
Sales, services, and other			
Donations		2,303	
Refuse collection fees		395,884	
Officer and other fees		26,756	
Total	443,710	424,943	(18,767)
Investment earnings	3,500	3,420	(80)
Other revenue			
Administrative reimbursement		17,500	
Miscellaneous		36,962	
Total	26,600	54,462	27,862
Total revenues	3,309,639	3,450,013	140,374

Town of North Topsail Beach
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES			
General government			
General government			
Salaries and benefits		11,996	
Professional services		26,204	
Operating expenses		223,769	
Total	321,615	261,969	59,646
Administration			
Salaries and benefits		260,999	
Operating expenses		69,899	
Total	424,910	376,802	48,108
Planning			
Salaries and benefits		90,688	
Operating expenses		4,016	
Total	101,430	94,704	6,726
Public works			
Salaries and benefits		154,645	
Operating expenses		46,603	
Total	221,025	201,248	19,777
Public buildings			
Operating expenses		119,757	
Capital outlay		25,775	
Total	150,404	145,532	4,872
Total general government	1,219,384	1,080,255	139,129

Town of North Topsail Beach
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2013

	2013		Variance
	Budget	Actual	Positive (Negative)
Public safety			
Police and fire departments			
Salaries and benefits		1,089,202	
Operating expenses		163,474	
Capital outlay		444,454	
Total	1,855,816	1,697,130	158,686
Inspections			
Salaries and benefits		120,987	
Operating expenses		4,672	
Total	128,537	125,659	2,878
Total public safety	1,984,353	1,822,789	161,564
Environmental protection			
Sanitation			
Contracted services	447,825	381,386	66,439
Committees			
Operating expense	8,700	2,252	6,448
Total environmental protection	456,525	383,638	72,887
Streets			
Operating expenses	54,000	34,571	19,429
Culture and recreational			
Operating expenses	56,487	27,849	28,638
Debt service	48,000	42,769	5,231
Total expenditures	3,818,749	3,391,871	426,878

Town of North Topsail Beach
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2013

	2013		Variance
	Budget	Actual	Positive (Negative)
Revenues over (under) expenditures	(509,110)	58,142	567,252
Other financing sources (uses)			
Transfer from Special Revenue Fund	18,000	14,080	(3,920)
Installment purchase obligation issued	395,228	395,228	-
Sale of capital assets	3,000	40,425	37,425
Total other financing sources (uses)	416,228	449,733	33,505
Fund balance appropriated	92,882	-	(92,882)
Net change in fund balance	\$ -	507,875	\$ 507,875
Fund balances			
Beginning of year, July 1		2,630,085	
End of year, June 30		\$ 3,137,960	

Town of North Topsail Beach
SPECIAL REVENUE FUND – BEACH NOURISHMENT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2013

	2013		Variance
	Budget	Actual	Positive (Negative)
REVENUES			
Ad valorem taxes			
Current year		\$ 82,885	
Prior year		2,709	
Total	\$ 86,317	85,594	(\$ 723)
Other taxes and licenses			
Accommodations tax	725,000	742,098	17,098
Restricted intergovernmental			
Cost shares	5,322,000	45,807	(5,276,193)
Investment earnings	-	1,623	1,623
Other revenues			
Donations		43,339	
Miscellaneous		4,530	
Total	-	47,869	47,869
Total revenues	6,133,317	922,991	(5,210,326)
EXPENDITURES			
Environmental protection			
Administrative expenses		17,500	
Operating expenses		13,733	
Contracted services		288,471	
Capital outlay		6,140,458	
Total expenditures	8,413,125	6,460,162	1,952,963
Revenues over (under) expenditures	(2,279,808)	(5,537,171)	(3,257,363)
Other financing sources (uses)			
Installment purchase obligation issued	-	2,840,000	2,840,000
Transfer to General Fund	(14,080)	(14,080)	-
Total other financing sources (uses)	(14,080)	2,825,920	2,840,000
Fund balance appropriated	2,293,888	-	(2,293,888)
Net change in fund balance	\$ -	(2,711,251)	(\$ 2,711,251)
Fund balances			
Beginning of year, July 1		4,052,364	
End of year, June 30		\$ 1,341,113	

OTHER SCHEDULES

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy – Town Wide Levy

Town of North Topsail Beach
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
For the Year Ended June 30, 2013

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013	\$ -	\$ 2,006,228	\$ 1,957,384	\$ 48,844
2011-2012	55,275	-	28,354	26,921
2010-2011	34,087	-	19,187	14,900
2009-2010	9,870	-	3,213	6,657
2008-2009	5,398	-	1,749	3,649
2007-2008	4,418	-	513	3,905
2006-2007	1,308	-	367	941
2005-2006	1,427	-	24	1,403
2004-2005	1,108	-	26	1,082
2003-2004	1,793	-	-	1,793
2002-2003	<u>1,495</u>	<u>-</u>	<u>1,495</u>	<u>-</u>
	<u>\$ 116,179</u>	<u>\$ 2,006,228</u>	<u>\$ 2,012,312</u>	<u>\$ 110,095</u>

Reconcilement with revenues

Ad valorem taxes – General Fund	\$ 1,930,160
Ad valorem taxes – Special Revenue Fund	85,594
Interest collected	(14,002)
Taxes written off	<u>10,560</u>
Total collections and credits	<u>\$ 2,012,312</u>

Town of North Topsail Beach
ANALYSIS OF CURRENT TAX LEVY
For the Year Ended June 30, 2013

	Town-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 853,467,941	.2355	\$ 2,009,917	\$ 1,982,059	\$ 27,858
Penalties	-		629	629	-
Total	<u>853,467,941</u>		<u>2,010,546</u>	<u>1,982,688</u>	<u>27,858</u>
Discoveries	<u>1,500,212</u>		<u>3,533</u>	<u>3,501</u>	<u>32</u>
Abatement					
Prior year	(3,333,758)		(7,851)	(5,435)	(2,416)
Total property valuation	<u>\$ 851,634,395</u>				
Net levy			2,006,228	1,980,754	25,474
Uncollected taxes at June 30, 2013			<u>48,844</u>	<u>45,162</u>	<u>3,682</u>
Current year's taxes collected			<u>\$ 1,957,384</u>	<u>\$ 1,935,592</u>	<u>\$ 21,792</u>
Current levy collected percentage			<u>97.57%</u>	<u>97.72%</u>	<u>85.55%</u>

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***

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, 2013, and the related notes to the financial statements, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated October 30, 2013.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of 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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Cam, Riggs & Ingram, L.L.C.

New Bern, North Carolina
October 30, 2013