

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Report of Audit

For the Fiscal Year Ended June 30, 2014



	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report .....	5
Management's Discussion and Analysis .....	8

***Basic Financial Statements***

*Government-wide Financial Statements:*

Statement of Net Position .....	18
Statement of Activities.....	20

*Fund Financial Statements:*

Balance Sheet – Governmental Funds .....	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	25
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund .....	26
Statement of Fund Net Position – Proprietary Fund.....	28
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund.....	29
Statement of Cash Flows – Proprietary Fund .....	30
Notes to the Financial Statements .....	32

***Required Supplementary Financial Data***

Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress .....	56
Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions.....	57
Other Postemployment Benefits – Schedule of Funding Progress .....	58
Other Postemployment Benefits – Schedule of Employer Contributions.....	59

*Major Governmental Funds – General Fund*

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund .....	62
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*Enterprise Funds*

Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Water Fund.....	66
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*Other Schedules*

Schedule of Ad Valorem Taxes Receivable – General Fund .....	70
Analysis of Current Tax Levy.....	71

**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 <i>Government Auditing Standards</i> .....	74
Schedule of Findings and Responses.....	76
Corrective Action plan .....	78

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 *Governmental Auditing Standards*, issued by the Comptroller 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 from material misstatement.

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

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

## Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, 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 Topsail Beach, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules are presented for purposed of additional analysis and are not a required part of the basic financial statements.

The combining and 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, and the procedures performed as described above, the combining and individual statements, budgetary schedules, and other are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2014 on our consideration of Town of Topsail Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Topsail Beach's internal control over financial reporting and compliance.

*W Greene PLLC*

Whiteville, North Carolina  
August 15, 2014

## Management's Discussion and Analysis

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As management of the Town of Topsail Beach, we offer readers of the Town of Topsail Beach's financial statements this narrative overview and analysis of the financial activities of Town of Topsail Beach for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

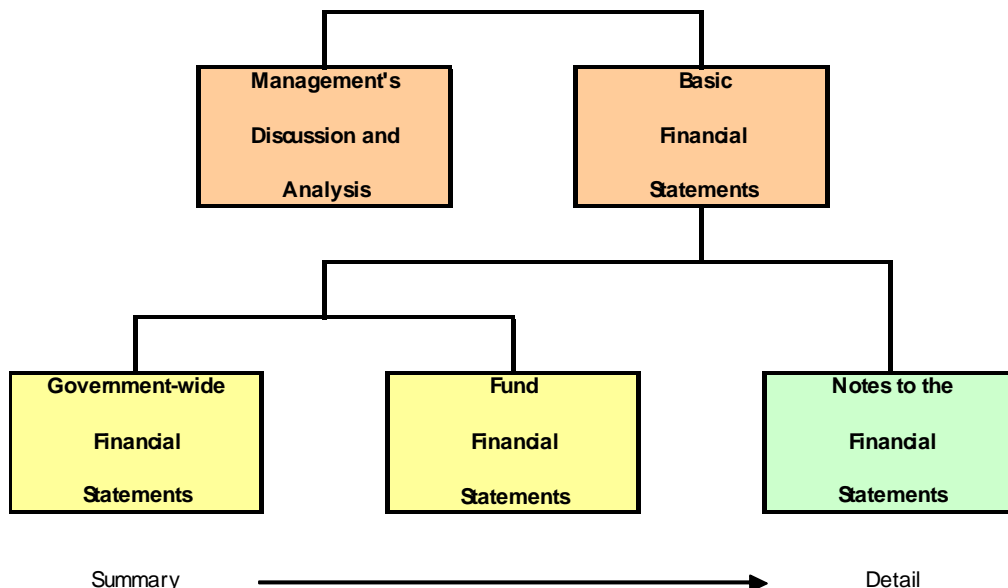
- The assets and deferred outflows of resources of the Town of Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$11,238,951 (net position).
- The government's total net position increased by \$1,781,697 primarily due to an increase in operating grants and contributions.
- As of the close of the current fiscal year, the Town of Topsail Beach's governmental funds reported combined ending fund balances of \$4,716,145, with an increase of \$1,228,130 in comparison with the prior year.
- At the end of the current fiscal year, fund balance available for the General Fund was \$4,331,627, or 156 percent of total general fund expenditures for the fiscal year.

### Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements



The first two statements (pages 18 through 21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (pages 22 through 31) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

### **Government-wide Financial Statements**

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

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

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

The government-wide financial statements are on pages 18 through 21 of this report.

### **Fund Financial Statements**

The fund financial statements (see Figure 2) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Topsail Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Topsail Beach can be divided into two categories: governmental funds and proprietary funds.

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

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

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 32 through 53 of this report.

Government-Wide Financial Analysis

The Town of Topsail Beach's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 4,786,387	\$ 3,561,647	\$ 1,474,911	\$ 1,567,295	\$ 6,261,298	\$ 5,128,942
Capital assets	4,837,963	4,827,503	6,208,791	6,032,953	11,046,754	10,860,456
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	9,624,350	8,389,150	7,683,702	7,600,248	17,308,052	15,989,398
Long-term liabilities outstanding	1,035,468	1,258,548	4,379,864	4,500,844	5,415,332	5,759,392
Other liabilities	292,413	297,151	361,356	475,074	653,769	772,225
Deferred inflows of resources	-	527	-	-	-	527
Total liabilities and deferred inflows of resources	1,327,881	1,556,226	4,741,220	4,975,918	6,069,101	6,532,144
Net position:						
Net investment in capital assets	3,674,648	3,444,705	1,568,469	1,267,539	5,243,117	4,712,244
Restricted	395,936	396,093	-	-	395,936	396,093
Unrestricted	4,225,885	2,992,126	1,374,013	1,356,791	5,599,898	4,348,917
Total net position	\$ 8,296,469	\$ 6,832,924	\$ 2,942,482	\$ 2,624,330	\$ 11,238,951	\$ 9,457,254

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Topsail Beach exceeded liabilities and deferred inflows by \$11,238,951 as of June 30, 2014. The Town's net position increased by \$1,781,697 for the fiscal year ended June 30, 2014. However, the largest portion (47%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Topsail Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Topsail Beach's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Topsail Beach's net position \$395,936 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$5,599,898 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.45%

**Management's Discussion and Analysis (Continued)**

**The Town of Topsail Beach's Changes in Net Position**

**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 384,652	\$ 345,279	\$ 868,343	\$ 561,178	\$ 1,252,995	\$ 906,457
Operating grants and contributions	431,246	366,206	-	-	431,246	366,206
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	1,791,582	1,775,280	-	-	1,791,582	1,775,280
Other taxes	1,243,965	1,308,230	-	-	1,243,965	1,308,230
Other	152,464	104,644	29,932	20,413	182,396	125,057
<b>Total revenues</b>	<b>4,003,909</b>	<b>3,899,639</b>	<b>898,275</b>	<b>581,591</b>	<b>4,902,184</b>	<b>4,481,230</b>
<b>Expenses:</b>						
Governing Body	198,239	68,128	-	-	198,239	68,128
Administration	384,482	399,065	-	-	384,482	399,065
Police	643,647	602,110	-	-	643,647	602,110
Fire	268,214	274,675	-	-	268,214	274,675
Inspections	15,581	22,759	-	-	15,581	22,759
Public Services	171,843	189,785	-	-	171,843	189,785
Powell Bill	6,950	54,768	-	-	6,950	54,768
Sanitation	270,425	269,936	-	-	270,425	269,936
Beach Management Tourism	227,135	292,940	-	-	227,135	292,940
Marina	30,060	43,241	-	-	30,060	43,241
Federal Beach Project	26,748	81,411	-	-	26,748	81,411
Beach/Inlet/Sound Maintenance	267,767	513,463	-	-	267,767	513,463
Interest on Long-term Debt	28,973	53,070	-	-	28,973	53,070
Water	-	-	580,123	530,030	580,123	530,030
<b>Total expenses</b>	<b>2,540,064</b>	<b>2,865,351</b>	<b>580,123</b>	<b>530,030</b>	<b>3,120,187</b>	<b>3,395,381</b>
Increase(Decrease) in net position before transfers	1,463,845	1,034,288	318,152	51,561	1,781,997	1,085,849
Transfers	-	-	-	-	-	-
Change in net position	1,463,845	1,034,288	318,152	51,561	1,781,997	1,085,849
Net position, July 1 (consolidated)	6,832,924	5,798,636	2,624,330	2,572,769	9,457,254	8,371,405
Net position, June 30	\$ 8,296,769	\$ 6,832,924	\$ 2,942,482	\$ 2,624,330	\$ 11,239,251	\$ 9,457,254

**Governmental activities.** Governmental activities increased the Town's net position by \$1,463,845 primarily due to decreased expenses in the general fund.

**Business-type activities:** Business-type activities increased the Town of Topsail Beach's net position by \$318,152 primarily due to an increase in revenues in the water fund.

### Financial Analysis of the Town's Funds

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

**Governmental Funds.** The focus of the Town of Topsail Beach's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Topsail Beach's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Topsail Beach. At the end of the current fiscal year, the Town of Topsail Beach's fund balance available in the General Fund was \$4,331,627, while total fund balance reached \$4,716,145. The Town currently has an available fund balance of 156% of general fund expenditures, while total fund balance represents 170% of that same amount.

At June 30, 2014, the governmental funds of the Town of Topsail Beach reported a combined fund balance of \$4,716,415 with a net increase in fund balance of \$1,228,430. Included in this change in fund balance are increases in fund balance in the General Fund.

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

Revenues were more than the budgeted amounts primarily because of an increase in sales and service revenue as well as interest income. Expenditures were held in check to comply with its budgetary requirements.

**Proprietary Funds.** The Town of Topsail Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Proprietary Fund at the end of the fiscal year amounted to \$1,374,013. The total change in net position for the proprietary fund was an increase of \$318,152.

**Capital Asset and Debt Administration**

**Capital assets.** The Town of Topsail Beach's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$11,046,754 (net of accumulated depreciation). These assets include buildings, land, and equipment.

The Town of Topsail Beach's Capital Assets

Figure 4

	(Net of depreciation)					
	Governmental		Business-Type		Total	
	Activities	Activities	Activities	Activities	2014	2013
	2014	2013	2014	2013	2014	2013
Land	\$ 3,951,452	\$ 3,951,452	\$ 1,303,353	\$ 1,303,353	\$ 5,254,805	\$ 5,254,805
Construction in Progress	-	-	-	-	-	-
Buildings	258,586	204,931	1,567	1,817	260,153	206,748
Infrastructure	338,919	354,909	-	-	338,919	354,909
Vehicles	182,430	254,137	-	-	182,430	254,137
Plant and Distribution	-	-	4,855,125	4,651,649	4,855,125	4,651,649
Equipment	106,576	62,074	48,746	76,134	155,322	138,208
<b>Total</b>	<b>\$ 4,837,963</b>	<b>\$ 4,827,503</b>	<b>\$ 6,208,791</b>	<b>\$ 6,032,953</b>	<b>\$ 11,046,754</b>	<b>\$ 10,860,456</b>

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

**Management’s Discussion and Analysis (Continued)**

**Long-term Debt.** As of June 30, 2014, Town of Topsail Beach had total long-term debt outstanding of \$5,803,637. Of this, \$-0- is debt backed by the full faith and credit of Town of Topsail Beach.

The Town of Topsail Beach's Outstanding Debt,  
Installment Purchases and Capital Leases

**Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Installment purchases	\$ 1,163,315	\$ 1,382,798	\$ 4,640,322	\$ 4,765,414	\$ 5,803,637	\$ 6,148,212
Capital Leases	-	-	-	-	-	-
<b>Total</b>	<b>\$ 1,163,315</b>	<b>\$ 1,382,798</b>	<b>\$ 4,640,322</b>	<b>\$ 4,765,414</b>	<b>\$ 5,803,637</b>	<b>\$ 6,148,212</b>

The Town of topsail Beach’s total debt decreased by \$344,575 during the fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for Town of Topsail Beach is \$48,915,581. The Town of Topsail Beach does not have any authorized but un-issued debt at June 30, 2014.

Additional information regarding Town of Topsail Beach’s long-term debt can be found beginning on page 52 in the Notes to the Financial Statements.

**Economic Factors and Next Year’s Budgets Rates**

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

- Population growth
- New construction

**Budget Highlights for the Fiscal Year Ending June 30, 2015**

**Governmental Activities:** Property taxes will maintain at levels to fund budgeted revenues.

**Business Activities:** Water rates in the Town will be reviewed during the budget process annually.

**Requests for Information**

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

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



## ***Basic Financial Statements***

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Net Position  
June 30, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 4,375,255	\$ 1,390,624	\$ 5,765,879
Receivables (net):			
Ad Valorem Taxes	13,037	-	13,037
Accommodations Taxes	118,940	-	118,940
Interest	2,159	-	2,159
Accounts	23,402	84,287	107,689
Due from Other Governments	242,176	-	242,176
Restricted Cash and Cash Equivalents	11,418	-	11,418
<b>Total Current Assets</b>	<b>4,786,387</b>	<b>1,474,911</b>	<b>6,261,298</b>
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	3,951,452	1,303,353	5,254,805
Other Capital Assets, Net of Depreciation	886,511	4,905,438	5,791,949
<b>Total Noncurrent Assets</b>	<b>4,837,963</b>	<b>6,208,791</b>	<b>11,046,754</b>
<b>Total Assets</b>	<b>\$ 9,624,350</b>	<b>\$ 7,683,702</b>	<b>\$ 17,308,052</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Net Position (Continued)  
June 30, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 55,046	\$ 13,915	\$ 68,961
Interest Payable	16,032	5,052	21,084
Customer Deposits	-	66,210	66,210
Current Portion of Long-Term Liabilities	221,335	276,179	497,514
Total Current Liabilities	292,413	361,356	653,769
Long-Term Liabilities:			
Due in More Than One year	1,035,468	4,379,864	5,415,332
<b>Total Liabilities</b>	<b>1,327,881</b>	<b>4,741,220</b>	<b>6,069,101</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid Taxes	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,674,648	1,568,469	5,243,117
Restricted for:			
Transportation	11,418	-	11,418
Stabilization by State Statute	384,518	-	384,518
Unrestricted	4,225,885	1,374,013	5,599,898
<b>Total Net Position</b>	<b>\$ 8,296,469</b>	<b>\$ 2,942,482</b>	<b>\$ 11,238,951</b>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Activities

June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
Governing Body	\$ 198,239	\$ -	\$ -	\$ -
Administration	384,482	5,827	161,757	-
Police	643,647	2,824	-	-
Fire	268,214	-	252,952	-
Inspections	15,581	47,528	-	-
Public Services	171,843	-	-	-
Powell Bill	6,950	-	16,331	-
Sanitation	270,425	272,091	206	-
Beach Management and Tourism	227,135	20,490	-	-
Marina	30,060	35,892	-	-
Federal Beach Project	26,748	-	-	-
Beach/Inlet/Sound Maintenance	267,767	-	-	-
Interest on long-term debt	28,973	-	-	-
<b>Total Governmental Activities</b>	<b>2,540,064</b>	<b>384,652</b>	<b>431,246</b>	<b>-</b>
<b>Total Primary Government</b>	<b>2,540,064</b>	<b>384,652</b>	<b>431,246</b>	<b>-</b>
<b>Business-Type Activities:</b>				
Water	580,121	868,343	-	-
<b>Total Business-Type Activities</b>	<b>\$ 580,121</b>	<b>\$ 868,343</b>	<b>\$ -</b>	<b>\$ -</b>

**General Revenues:**

Property Taxes, Levied for General Purpose

Other Taxes and Licenses

Investment Earnings

Miscellaneous

**Transfers**

**Total General Revenues and Transfers**

**Change in Net Position**

**Net Position - Beginning of Year**

**Net Position - End of Year**

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Primary Government</b>			
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
\$	(198,239)	\$ -	\$ (198,239)
	(216,898)	-	(216,898)
	(640,823)	-	(640,823)
	(15,262)	-	(15,262)
	31,947	-	31,947
	(171,843)	-	(171,843)
	9,381	-	9,381
	1,872	-	1,872
	(206,645)	-	(206,645)
	5,832	-	5,832
	(26,748)	-	(26,748)
	(267,767)	-	(267,767)
	(28,973)	-	(28,973)
	(1,724,166)	-	(1,724,166)
	(1,724,166)	-	(1,724,166)
	-	288,222	288,222
	-	288,222	288,222
	1,791,582	-	1,791,582
	1,243,965	-	1,243,965
	18,746	2,499	21,245
	133,418	27,431	160,849
	-	-	-
	3,187,711	29,930	3,217,641
	1,463,545	318,152	1,781,697
	6,832,924	2,624,330	9,457,254
\$	\$ 8,296,469	\$ 2,942,482	\$ 11,238,951

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet

Governmental Funds

June 30, 2014

	<u>Major Funds</u>	
	<u>General</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 4,375,255	\$ 4,375,255
Restricted Cash	11,418	11,418
Receivables (net):		
Ad Valorem Taxes	13,037	13,037
Accommodations Tax	118,940	118,940
Accounts	23,402	23,402
Due from Other Governments	242,176	242,176
<b>Total Assets</b>	<b>\$ 4,784,228</b>	<b>\$ 4,784,228</b>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 55,046	\$ 55,046
<b>Total Liabilities</b>	<b>55,046</b>	<b>55,046</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes Receivable	13,037	13,037
<b>Total Deferred Inflows of Resources</b>	<b>13,037</b>	<b>13,037</b>
<b>FUND BALANCES</b>		
Restricted		
Stabilization by State Statute	384,518	384,518
Streets	11,418	11,418
Committed		
Beach/Inlet/Sound Maintenance	2,992,424	2,992,424
Assigned		
Subsequent Year's Expenditures:	-	-
Unassigned	1,327,785	1,327,785
<b>Total Fund Balances</b>	<b>4,716,145</b>	<b>4,716,145</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 4,784,228</b>	<b>\$ 4,784,228</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet (Continued)

Governmental Funds

June 30, 2014

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Governmental Fund Balance	\$ 4,716,145
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical costs	\$ 6,389,844
Accumulated depreciation	<u>(1,551,881)</u>
	4,837,963
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred	
Accrued interest - taxes	<u>2,159</u>
	2,159
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	
Ad valorem taxes	13,037
Other taxes	<u>-</u>
	13,037
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Accrued interest payable	(16,032)
Installment purchases	(1,163,315)
Net pension obligation	(23,706)
Other postemployment benefits	(3,447)
Compensated absences	<u>(66,335)</u>
	(1,272,835)
<b>Net position of governmental activities.</b>	<u><u>\$ 8,296,469</u></u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2014

	<u>Major Funds</u>	
	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>		
Ad Valorem Taxes	\$ 1,791,567	\$ 1,791,567
Other Taxes and Licenses	816,671	816,671
Unrestricted Intergovernmental	433,121	433,121
Restricted Intergovernmental	431,246	431,246
Permits and Fees	106,734	106,734
Sales and Services	326,720	326,720
Investment Earnings	18,746	18,746
Miscellaneous	78,789	78,789
<b>Total Revenues</b>	<u>4,003,594</u>	<u>4,003,594</u>
<b>Expenditures</b>		
Current		
Governing Body	198,239	198,239
Administration	380,268	380,268
Police	615,540	615,540
Fire	182,449	182,449
Inspections	15,581	15,581
Public Services	167,982	167,982
Powell Bill	4,913	4,913
Marina	23,659	23,659
Sanitation	270,425	270,425
Beach Management and Tourism	216,170	216,170
Beach/Inlet/Sound Maintenance	267,767	267,767
Federal Beach Project	26,748	26,748
Debt Service		
Principal	219,483	219,483
Interest and Other charges	32,685	32,685
Capital Outlay		
Police	23,282	23,282
Beach Management and Tourism	130,273	130,273
<b>Total Expenditures</b>	<u>2,775,464</u>	<u>2,775,464</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>1,228,130</u>	<u>1,228,130</u>
<b>Other Financing Sources (Uses)</b>		
Installment Loan Obligations Issued	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	1,228,130	1,228,130
<b>Fund Balance - Beginning of Year</b>	<u>3,488,015</u>	<u>3,488,015</u>
<b>Fund Balance - End of Year</b>	<u>\$ 4,716,145</u>	<u>\$ 4,716,145</u>

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



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended June 30, 2014**

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

Net changes in fund balances - total governmental funds	\$	1,228,130
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	153,555	
Depreciation expense	<u>(143,095)</u>	10,460

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Change in unavailable revenue for tax revenues	(469)	
Interest earned on ad valorem taxes	<u>484</u>	15

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

Debt issuance	-	
Debt retirement	<u>219,483</u>	219,483

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

Accrued interest payable	3,712	
Compensated absences	(1,472)	
Net pension obligation	3,716	
Other postemployment benefits	<u>(499)</u>	5,457

Total changes in net position of governmental activities	<u>\$</u>	<u>1,463,545</u>
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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2014**

	<b>General Fund</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	
<b>Revenues</b>				
Ad Valorem Taxes	\$ 1,781,839	\$ 1,798,730	\$ 1,791,567	\$ (7,163)
Other Taxes and Licenses	582,000	792,338	816,671	24,333
Unrestricted Intergovernmental	562,638	410,755	433,121	22,366
Restricted Intergovernmental	200,000	309,704	431,246	121,542
Permits and Fees	50,000	103,786	106,734	2,948
Sales and Services	262,513	317,147	326,720	9,573
Investment Earnings	-	13,036	18,746	5,710
Miscellaneous	-	118,348	78,789	(39,559)
<b>Total Revenues</b>	<b>3,438,990</b>	<b>3,863,844</b>	<b>4,003,594</b>	<b>139,750</b>
<b>Expenditures</b>				
Governing Body	76,052	195,290	198,239	(2,949)
Administration	418,243	374,811	380,268	(5,457)
Police	558,213	625,439	638,822	(13,383)
Fire	230,597	303,791	263,382	40,409
Inspections	11,250	15,933	15,581	352
Public Services	203,428	199,459	167,982	31,477
Powell Bill Funds	78,055	55,151	4,913	50,238
Marina	180,619	195,002	194,894	108
Sanitation	251,113	279,202	270,425	8,777
Beach Management and Tourism	238,505	449,948	346,443	103,505
Beach/Inlet/Sound Maintenance	1,125,415	1,188,067	267,767	920,300
Federal Beach Project	67,500	26,751	26,748	3
<b>Total Expenditures</b>	<b>3,438,990</b>	<b>3,908,844</b>	<b>2,775,464</b>	<b>1,133,380</b>
<b>Revenues Over (Under) Expenditures</b>	<b>-</b>	<b>(45,000)</b>	<b>1,228,130</b>	<b>1,273,130</b>
<b>Other Financing Sources (Uses)</b>				
Installment Loan Obligations Issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>-</b>	<b>(45,000)</b>	<b>1,228,130</b>	<b>1,273,130</b>
<b>Appropriated Fund Balance</b>	<b>-</b>	<b>45,000</b>	<b>-</b>	<b>(45,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>1,228,130</b>	<b>\$ 1,228,130</b>
<b>Fund Balance - Beginning of Year</b>			<b>3,488,015</b>	
<b>Fund Balance - End of Year</b>			<b>\$ 4,716,145</b>	



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Fund Net Position

Proprietary Fund

June 30, 2014

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	<u>Water Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 1,390,624
Accounts Receivable (net)	84,287
<b>Total Current Assets</b>	<u>1,474,911</u>
<b>Noncurrent Assets</b>	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	1,303,353
Other Capital Assets, Net of Depreciation	4,905,438
<b>Total Noncurrent Assets</b>	<u>6,208,791</u>
<b>Total Assets</b>	<u>\$ 7,683,702</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable and Accrued Liabilities	\$ 13,915
Interest Payable	5,052
Customer Deposits	66,210
Installment Notes Payable	276,179
<b>Total Current Liabilities</b>	<u>361,356</u>
<b>Noncurrent Liabilities</b>	
Installment Notes Payable	4,364,143
Other Postemployment Benefits	5,213
Compensated Absences Payable	10,508
<b>Total Noncurrent Liabilities</b>	<u>4,379,864</u>
<b>Total Liabilities</b>	<u>4,741,220</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	1,568,469
Unrestricted	1,374,013
<b>Total Net Position</b>	<u>\$ 2,942,482</u>

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Fund  
For the Year Ended June 30, 2014

	<u>Water Fund</u>
<b>Operating Revenues</b>	
Water Charges	\$ 750,093
Water Taps	6,750
Impact Fees	111,500
Miscellaneous	13,911
<b>Total Operating Revenues</b>	<u>882,254</u>
<b>Operating Expenses</b>	
Water Operations	471,793
Depreciation	76,067
<b>Total Operating Expenses</b>	<u>547,860</u>
<b>Operating Income (Loss)</b>	<u>334,394</u>
<b>Nonoperating Revenues (Expenses)</b>	
Investment Earnings	2,499
Tower Lease	13,520
Interest Expense	(32,261)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(16,242)</u>
<b>Total Income (Loss) Before Transfers</b>	318,152
<b>Transfers from Other Funds</b>	<u>-</u>
<b>Change in Net Position</b>	318,152
<b>Total Net Position - Beginning of Year</b>	<u>2,624,330</u>
<b>Total Net Position - End of Year</b>	<u>\$ 2,942,482</u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

## Statement of Cash Flows

## Proprietary Fund

For the Year Ended June 30, 2014

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	<b>Water Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers and Users	\$ 890,886
Cash Paid for Goods and Services	(359,077)
Cash Paid to Employees for Services	(223,294)
Customer Deposits Received	2,130
Customer Deposits Returned	(1,160)
<b>Net Cash Provided(Used) by Operating Activities</b>	<u>309,485</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers in	-
<b>Net Cash Provided(Used) by Noncapital Financing Activities</b>	<u>-</u>
<b>Cash Flows from Capital Financing Activities</b>	
Acquisition of Capital Assets	(251,905)
Capital Project Funds Proceeds	490,740
Installment Loan Proceeds	151,087
Interest Paid on Installment Purchases	(32,261)
Principal Paid on Installment Purchases	(276,179)
<b>Net Cash Provided(Used) by Capital Financing Activities</b>	<u>81,482</u>
<b>Cash Flows from Investing Activities</b>	
Tower Lease Receipts	13,520
Interest on Investments	2,499
<b>Net Cash Provided(Used) by Investing Activities</b>	<u>16,019</u>
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	406,986
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>983,638</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 1,390,624</u>

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Cash Flows (Continued)  
Proprietary Fund  
For the Year Ended June 30, 2014

	<u>Water Fund</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	\$ 334,394
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Depreciation	76,067
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	8,630
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(114,688)
Increase (Decrease) in Customer Deposits	970
Increase (Decrease) in Other Postemployment Benefits	4,231
Increase (Decrease) in Compensated Absences Payable	(119)
Total Adjustments	<u>(24,909)</u>
<b>Net Cash Provided(Used) by Operating Activities</b>	<u><u>\$ 309,485</u></u>

## TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements

For the Year Ended June 30, 2014

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

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

#### B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

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



## TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### B. Basis of Presentation (Continued)

The Town reports the following major enterprise fund:

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus and Basis of Accounting (Continued)**

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property Taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed during this period 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-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. During the year, there were no amendments to the original budget. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

**1. Deposits and Investments**

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**1. Deposits and Investments**

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The securities of the NCCMT – Cash Portfolio are valued at fair value, which is the NCCMT's share price.

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

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

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

**Town of Topsail Beach Restricted Cash**

Governmental Activities	
General Fund	
Streets	\$ 11,418
Total government activities	<u>11,418</u>
Total Restricted Cash	<u>\$ 11,418</u>

**4. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012. 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.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**5. Allowances for Doubtful Accounts**

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

**6. Capital Assets**

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

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

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

**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, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Compensated Absences

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

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

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**10. Net Position/Fund Balances (Continued)**

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

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

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

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

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

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

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

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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**II. DETAIL NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits**

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

At June 30, 2014, the Town's deposits had a carrying amount of \$5,451,525 and a bank balance of \$5,560,515. Of the bank balance, \$3,752,038 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

**2. Investments**

At June 30, 2014, the Town of Topsail Beach had \$325,772 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 amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2014 are net of the following allowances for doubtful accounts:

Fund	06/30/2014
General Fund:	
Taxes receivable	\$ 1,000
Total	\$ 1,000

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2014

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. Assets (Continued)**

**3. Capital Assets**

**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 3,951,452	\$ -	\$ -	\$ 3,951,452
Total capital assets not being depreciated	3,951,452	-	-	3,951,452
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	455,281	62,758	-	518,039
Equipment	275,846	62,471	-	338,317
Vehicles	1,104,571	28,326	-	1,132,897
Infrastructure	449,139	-	-	449,139
Total capital assets being depreciated	2,284,837	153,555	-	2,438,392
<b>Less accumulated depreciation for:</b>				
Buildings and Improvements	250,350	9,103	-	259,453
Equipment	213,772	17,969	-	231,741
Vehicles	850,434	100,033	-	950,467
Infrastructure	94,230	15,990	-	110,220
Total accumulated depreciation	1,408,786	143,095	-	1,551,881
Total capital assets being depreciated, net	876,051			866,511
<b>Governmental activity capital assets, net</b>	<b>\$ 4,827,503</b>			<b>\$ 4,837,963</b>

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

Administration	\$ 3,229
Police	30,837
Fire	85,765
Public Services	3,861
Beach Management and Tourism	10,965
Marina	6,401
Powell Bill	2,037
Total	<u>\$ 143,095</u>



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. Assets (Continued)**

**3. Capital Assets (Continued)**

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Water and Sewer Fund</i>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,303,353	\$ -	\$ -	\$ 1,303,353
Construction In Progress	-	-	-	-
Total capital assets not being depreciated	1,303,353	-	-	1,303,353
<b>Capital assets being depreciated:</b>				
Buildings	5,000	-	-	5,000
Equipment	195,104	-	-	195,104
Vehicles	59,289	-	-	59,289
Plant and distribution systems	5,574,661	251,905	-	5,826,566
Total capital assets being depreciated	5,834,054	251,905	-	6,085,959
<b>Less accumulated depreciation for:</b>				
Buildings	3,183	250	-	3,433
Equipment	118,970	27,388	-	146,358
Vehicles	59,289	-	-	59,289
Plant and distribution systems	923,012	48,429	-	971,441
Total accumulated depreciation	1,104,454	76,067	-	1,180,521
Total capital assets being depreciated, net	4,729,600			4,905,438
<b>Water and Sewer fund capital assets, net</b>	<b>\$ 6,033,252</b>			<b>\$ 6,208,791</b>

**B. Liabilities**

**1. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

*Plan Description.* The Town of 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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

*Funding Policy.* Plan members are required to contribute six percent 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 is 7.07% of annual covered payroll. The contribution requirements of members and of the Town of Topsail Beach are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$33,960, \$50,458, and \$36,325, 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 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 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, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Active plan members	8
Total	9

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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

3. Contributions

The Town is required by Article 12D of 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.

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post employment benefit increases.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$	12,602
Interest on net pension obligation		1,371
Adjustment to annual required contribution		(2,234)
Annual pension cost		<u>11,739</u>
Contributions made		<u>15,455</u>
Increase (decrease) in net pension obligation		(3,716)
Net pension obligation beginning of year		<u>27,422</u>
Net pension obligation end of year	\$	<u><u>23,706</u></u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2012	8,751	176.61	33,648
2013	9,229	167.46	27,422
2014	11,739	131.66	23,706

4. Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$93,458. The covered payroll (annual payroll of active employees covered by the plan) was \$344,263, and the ratio of UAAL to the covered payroll was 27.15 percent.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 were \$44,535, which consisted of \$30,155 from the Town and \$14,380 from the law enforcement officers.

**All Other Employees**

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

*Funding Policy.* The Town matches up to five percent of employees' wages. For the year ended June 30, 2014, total contributions to the plan equaled \$39,071, which consisted of \$20,983 from the Town and \$18,118 from the participating employees.

d. Firefighter's and Rescue Squad Workers' Pension Fund

*Plan Description.* The State of North Carolina contributes, on behalf of the Town of Topsail Beach, to the Firefighter's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firefighter's and Rescue Squad Workers' Pension Fund 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 the Fund. 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 TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Firefighter's and Rescue Squad Workers' Pension Fund (Continued)

*Funding Policy.* Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributes the entire amount to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

e. Other Post Employment Benefits (OPEB)

1. Healthcare Benefits

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

Membership of the HCB Plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	1	1
Active plan members	8	9
Total	<u>9</u>	<u>10</u>

*Funding Policy.* By Town resolution, the Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board of Commissioners. The Town's members pay \$219 per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 1.58% of covered payroll. For the current year the Town contributed \$22,140 or 1.89% of annual covered payroll. The Town's contributions totaled \$22,140 in fiscal year 2014. There were no contributions made by employees. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Board of Commissioners.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Post Employment Benefits (OPEB) (Continued)

1. Healthcare Benefits (Continued)

**Summary of Significant Accounting Policies.** Postemployment expenditures are made from the General and Water Funds, which are maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

**Annual OPEB Cost and Net OPEB Obligation.** The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the current year, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$	16,915
Interest on net OPEB obligation		157
Adjustment to annual required contribution		(150)
Annual OPEB cost (expense)		<u>16,922</u>
Contributions made		<u>(4,332)</u>
Increase (decrease) in net OPEB obligation		12,590
Net OPEB obligation, beginning of year		<u>3,930</u>
Net OPEB obligation, end of year	\$	<u><u>8,660</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 16,922	25.6%	\$ 8,660
2013	12,871	172.0	3,930
2012	11,890	119.4	13,199

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Post Employment Benefits (OPEB) (Continued)

1. Healthcare Benefits (Continued)

*Funded Status and Funding Progress.* As of December 31, 2009, the actuarial accrued liability for benefits was \$131,642, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$752,687, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 17.5 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefit.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

2. Other Employment Benefits

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. Liabilities (Continued)**

**2. Other Employment Benefits**

Some units who provide death benefits through the LGERS Death Benefit Plan have received a payment reprieve depending on the number of years they have contributed to the system, beginning July 1, 2012. For those employers, the following note disclosure might be necessary. Please refer to the employer rate letter which is distributed by the State Treasurer's Retirement Systems Division.

For the fiscal year ended June 30, 2014, the Town made contributions to the State for death benefits of \$0. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

No. Years Contributing	Years Relief	FY Contributions Resume
less than 10	1	2014
10 - 20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town of Topsail Beach will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

**3. Deferred Outflows and Inflows of Resources**

Deferred inflows of resources at year-end are composed of the following:

	Unavailable Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ -
Taxes receivable (General Fund)	13,037	-
Prepaid water billings (Water Fund)	-	-
Total	\$ 13,037	\$ -



## TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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### II. DETAIL NOTES ON ALL FUNDS (Continued)

#### B. Liabilities (Continued)

##### 4. Risk Management

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

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

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

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

##### 5. Claims, Judgments and Contingent Liabilities

At June 30, 2014, the Town did not have any litigation pending.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. Liabilities (Continued)**

**6. Long-Term Obligations**

**a. Installment Purchases**

In October 2005, the business type activity fund has chosen to finance purchases with installment payments from the State Clean Water Grant Fund. The Town has completed its water project as of June 30, 2013, but it is currently indebted to the state for \$1,315,321. Interest on the loan is at an annual rate of 2.305%.

In March 2011, the Town entered into a \$378,886 installment agreement for the purchase of a fire truck. The financing contract requires principal payments beginning in fiscal year 2011 with an interest rate of 2.43 percent.

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

In December 2012, the business type activity fund has chosen to finance purchases with installment payments from the North Carolina Department of Environmental and Natural Resources. The Town has completed its water project as of June 30, 2014, but it is currently indebted to the state for \$3,325,000. Interest on the loan is at an annual rate of 0.00%.

Annual debt service payments of the installment purchases as of June 30, 2014, including \$313,225 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 221,335	\$ 27,398	\$ 276,179	\$ 30,318
2016	223,231	22,065	276,179	27,986
2017	143,750	17,178	276,179	25,654
2018	143,750	13,743	276,179	23,322
2019	143,750	10,307	276,179	20,990
2020-2024	287,500	10,307	1,380,895	69,965
2025-2029	-	-	1,178,537	13,993
2030-2034	-	-	700,000	-
<b>Total</b>	<b>\$ 1,163,316</b>	<b>\$ 100,998</b>	<b>\$ 4,640,321</b>	<b>\$ 212,227</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2014

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. Liabilities (Continued)**

**6. Long-Term Obligations**

**b. Changes in Long-Term Liabilities**

	Balance 07/01/13	Increases	Decreases	Balance 06/30/14	Current Portion of Balance
Governmental activities:					
Installment notes	\$ 1,382,798	\$ -	\$ (219,483)	\$ 1,163,315	\$ 221,335
Compensated absences	64,863	1,590	(118)	66,335	-
Other postemployment benefits	2,948	499	-	3,447	-
Net pension obligation	<u>27,422</u>	<u>-</u>	<u>(3,716)</u>	<u>23,706</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 1,478,031</u>	<u>\$ 2,089</u>	<u>\$ (223,317)</u>	<u>\$ 1,256,803</u>	<u>\$ 221,335</u>
Business-type activities:					
Installment purchase	\$ 4,765,414	\$ 151,087	\$ (276,179)	\$ 4,640,322	\$ 276,179
Compensated absences	10,627	-	(119)	10,508	-
Other postemployment benefits	<u>982</u>	<u>4,231</u>	<u>-</u>	<u>5,213</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 4,777,023</u>	<u>\$ 155,318</u>	<u>\$ (276,298)</u>	<u>\$ 4,656,042</u>	<u>\$ 276,179</u>

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

**C. Interfund Balances and Activity**

Transfers to/from other funds at June 30, 2014, consist of the following:

From the General Fund to the Water Fund	\$ <u>          -</u>
Total	\$ <u>          -</u>

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

**II. DETAIL NOTES ON ALL FUNDS (Continued)**

**D. On-Behalf Payments for Fringe Benefits and Salaries**

For the fiscal year ended June 30, 2014, the Town of Topsail Beach has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$2,952 for the 1 employed firefighter who performs firefighting duties for the town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by \$10 monthly contribution paid by each member, investment income, and a State appropriation.

**E. Net Investment in Capital Assets**

	Governmental	Business-Type
Capital Assets	\$ 4,837,963	\$ 6,208,791
less: long-term debt	1,163,315	4,640,322
add: unexpended debt proceeds		
Net investment in capital asset	<u>\$ 3,674,648</u>	<u>\$ 1,568,469</u>

**F. Fund Balance**

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

<i>Total fund balance – General Fund</i>	\$ 4,716,145
Less:	
Stabilization by State Statute	384,518
Streets	11,418
Beach/Inlet/Sound Maintenance	2,992,424
Appropriated Fund Balance in 2014 budget	-
Remaining Fund Balance	<u>\$ 1,327,785</u>

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

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2014

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**III. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

**Federal and State Assisted Programs**

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

**IV. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 15, 2014, the date on which the financial statements were available to be issued. The Town believes there have been no significant subsequent events.

**V. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2014, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for governing body, administration, and police. Management and the Board will more closely review the budget reports to ensure compliance in future years.



***Required Supplementary  
Financial Data***

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Law Enforcement Officers' Special Separation Allowance  
 Required Supplementary Information  
 Schedule of Funding Progress

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
12/31/2008	-	62,545	62,545	0.00%	287,047	21.79%
12/31/2009	-	55,503	55,503	0.00%	268,667	20.66%
12/31/2010	-	91,268	91,568	0.00%	260,355	35.06%
12/31/2011	-	89,402	89,402	0.00%	257,191	34.76%
12/31/2012	-	102,386	102,386	0.00%	344,866	29.69%
12/31/2013	-	93,458	93,458	0.00%	344,263	27.15%



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Law Enforcement Officers' Special Separation Allowance  
 Required Supplementary Information  
 Schedule of Employer Contributions

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<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2008	\$ 7,511	0.00%
2009	7,611	70.29%
2010	8,310	185.98%
2011	6,303	245.20%
2012	8,751	176.61%
2013	9,229	167.46%
2014	\$ 11,739	131.66%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	12/31/2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Closed
Remaining Amortization Period	17 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Projected Salary Increases	4.25 - 7.85%
Includes Inflation at	3.00%
Cost of Living Adjustments	N/A

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Other Postemployment Benefits

Required Supplementary Information

Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
12/31/2009	\$ -	\$ 131,642	\$ 131,642	0.00%	\$ 752,687	17.5%
12/31/2012	-	251,929	251,929	0.00%	848,762	29.7%
12/31/2013	-	234,472	234,472	0.00%	812,524	28.9%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	December 31, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay Open
Remaining Amortization Period	30 Years
Amortization Factor	26.1695
Asset Valuation Method	30 Years
Actuarial Assumptions:	
Investment Rate of Return	4.00%
Medical Trend Assumptions:	
Pre-Medicare Trend Rate	7.75-5.00%
Year of Ultimate Trend Rate	2019

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Other Postemployment Benefits

Required Supplementary Information

Schedule of Employer Contributions

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 11,890	37.3%
2012	11,890	119.4%
2013	12,871	172.0%
2014	16,922	25.6%

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Local Government Employees' Retirement System  
Required Supplementary Information  
Proportionate Share of Net Pension Liability (Asset)

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	<u>2015</u>	<u>2014</u>
Topsail Beach's proportion of the net pension liability (asset) (%)	0.01473%	0.01560%
Topsail Beach's proportion of the net pension liability (asset) (\$)	\$ (86,870)	\$ 188,040
Topsail Beach's covered-employee payroll	\$ 822,768	\$ 746,414
Topsail Beach's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(10.56%)	25.19%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Local Government Employees' Retirement System  
Required Supplementary Information  
Proportionate Share of Net Pension Liability (Asset)

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	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 58,634	\$ 33,960
Contributions in relation to the contractually required contribution	58,634	33,960
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Topsail Beach's covered employee payroll	\$ 848,594	\$ 822,768
Contributions as a percentage of covered-employee payroll	6.91%	4.13%

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Local Government Employees' Retirement System  
Required Supplementary Information  
Proportionate Share of Net Pension Liability (Asset)

---

2015

Topsail Beach's proportionate share of the net pension liability (%)

-

Topsail Beach's proportionate share of the net pension liability (\$)

-

State's proportionate share of the net pension liability associated with the Town of Topsail Beach

-

Total

Topsail Beach's covered employee payroll

-

Topsail Beach's proportionate share of the net pension liability as a percentage of its covered-employee payroll

#DIV/0!

Plan fiduciary net position as a percentage of the total pension liability



***Major Governmental Funds***

***General Fund***

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
<b>Ad Valorem Taxes</b>			
Taxes		\$ 1,790,050	
Penalties and Interest		1,517	
<b>Total Ad Valorem Taxes</b>	<b>\$ 1,798,730</b>	<b>1,791,567</b>	<b>\$ (7,163)</b>
<b>Other Taxes and Licenses</b>			
Privilege Licenses		5,827	
Accommodations Tax		810,844	
<b>Total Other Taxes and Licenses</b>	<b>792,338</b>	<b>816,671</b>	<b>24,333</b>
<b>Unrestricted Intergovernmental</b>			
Local Option Sales Tax		351,685	
Utility Franchise Tax		38,575	
Telecommunications Tax		8,769	
Video Franchise Fee		23,196	
Beer and Wine Tax		10,896	
<b>Total Unrestricted Intergovernmental</b>	<b>410,755</b>	<b>433,121</b>	<b>22,366</b>
<b>Restricted Intergovernmental</b>			
Powell Bill Allocation		16,331	
Federal Grants		161,757	
State Grants		250,000	
On Behalf Payments - Fire		2,952	
Solid Waste Disposal Tax		206	
<b>Total Restricted Intergovernmental</b>	<b>309,704</b>	<b>431,246</b>	<b>121,542</b>
<b>Permits and Fees</b>			
Building Permits		47,528	
Police Fines		2,558	
Court Fees		266	
CAMA Fees		45	
Beach Access Permits		20,445	
Boat Ramp/Slip Fees		35,892	
<b>Total Permits and Fees</b>	<b>103,786</b>	<b>106,734</b>	<b>2,948</b>
<b>Sales and Services</b>			
Solid Waste		272,091	
Rental Fees		54,629	
<b>Total Sales and Services</b>	<b>317,147</b>	<b>326,720</b>	<b>9,573</b>
<b>Investment Earnings</b>			
General		18,746	
<b>Total Investment Earnings</b>	<b>13,036</b>	<b>18,746</b>	<b>5,710</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)  
 Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
<b>Miscellaneous</b>			
Other		79,089	
<b>Total Miscellaneous</b>	118,348	78,789	(39,559)
<b>Total Revenues</b>	3,863,844	4,003,594	139,750
<b>Expenditures</b>			
<b>Governing Body</b>			
Salaries, Wages and Employee Benefits		19,849	
Other Expenditures		178,390	
<b>Total Governing Body</b>	195,290	198,239	(2,949)
<b>Administration</b>			
Salaries, Wages and Employee Benefits		254,608	
Other Expenditures		125,660	
<b>Total Administration</b>	374,811	380,268	(5,457)
<b>Police</b>			
Salaries, Wages and Employee Benefits		546,924	
Capital Outlay		23,282	
Other Expenditures		68,616	
<b>Total Police</b>	625,439	638,822	(13,383)
<b>Fire</b>			
Salaries, Wages and Employee Benefits		144,952	
Other Expenditures		37,497	
Debt - Interest		5,200	
Debt - Principal		75,733	
<b>Total Fire</b>	303,791	263,382	40,409
<b>Inspections</b>			
Salaries, Wages and Employee Benefits		19	
Other Expenditures		15,562	
<b>Total Planning and Zoning</b>	15,933	15,581	352
<b>Public Services</b>			
Salaries, Wages and Employee Benefits		129,886	
Other Expenditures		38,096	
<b>Total Public Services</b>	199,459	167,982	31,477
<b>Powell Bill</b>			
Other Expenditures		4,913	
<b>Total Powell Bill</b>	55,151	4,913	50,238

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)  
 Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
<b>Marina</b>			
Salaries, Wages and Employee Benefits		14,389	
Other Operating		9,270	
Debt - Interest		27,485	
Debt - Principal		143,750	
<b>Total Marina</b>	195,002	194,894	108
<b>Sanitation</b>			
Other Expenditures		270,425	
<b>Total Sanitation</b>	279,202	270,425	8,777
<b>Beach Management and Tourism</b>			
Salaries, Wages and Employee Benefits		37,120	
Other Expenditures		179,050	
Capital Outlay		130,273	
<b>Total Beach Management and Tourism</b>	449,948	346,443	103,505
<b>Beach/Inlet/Sound Maintenance</b>			
Other Expenditures		267,767	
<b>Total Beach/Inlet/Sound Maintenance</b>	1,188,067	267,767	920,300
<b>Federal Beach Project</b>			
Other Expenditures		26,748	
<b>Total Federal Beach Project</b>	26,751	26,748	3
<b>Total Expenditures</b>	3,908,844	2,775,464	1,133,380
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(45,000)	1,228,130	1,273,130
<b>Other Financing Sources (Uses)</b>			
Installment Loan Obligations Issued	-	-	-
<b>Total Other Financing Sources (Uses)</b>	-	-	-
<b>Fund Balance Appropriated</b>	45,000	-	(45,000)
<b>Net Change in Fund Balance</b>	\$ -	1,228,130	\$ 1,228,130
<b>Fund Balance - Beginning of Year</b>		3,488,015	
<b>Fund Balance - End of Year</b>		\$ 4,716,145	

## ***Enterprise Funds***

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Water Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water Charges		\$ 750,093	
Water Taps		6,750	
Impact Fees		111,500	
Tower Lease		13,520	
Investment Earnings		2,499	
Miscellaneous		13,913	
<b>Total Revenues</b>	<b>\$ 802,445</b>	<b>898,275</b>	<b>\$ 95,830</b>
<b>Expenditures</b>			
<b>Water and Sewer Operations</b>			
Salaries and Employee Benefits		223,175	
Repairs and Maintenance		29,844	
Other Expenditures		214,545	
Capital Outlay		251,905	
Debt Service			
Principal Retirement		276,179	
Interest Expense		32,650	
<b>Total Water Operations</b>	<b>1,070,519</b>	<b>1,028,298</b>	<b>42,221</b>
<b>Total Expenditures</b>	<b>1,070,519</b>	<b>1,028,298</b>	<b>42,221</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(268,074)</b>	<b>(130,023)</b>	<b>138,051</b>
<b>Other Financing Sources (Uses)</b>			
installment Loan Proceeds	268,074	151,087	(116,987)
<b>Total Other Financing Sources (Uses)</b>	<b>268,074</b>	<b>151,087</b>	<b>(116,987)</b>
<b>Appropriated Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>\$ -</b>	<b>\$ 21,064</b>	<b>\$ 21,064</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Water Fund  
 Schedule of Revenues and Expenditures (Continued)  
 Budget and Actual (Non-GAAP)  
 For the Fiscal Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>			
Revenues and Other Sources Over Expenditures and Other Uses		\$ 21,064	
Reconciling Items:			
Depreciation Expense		(76,067)	
Accrued Interest Payable		389	
Compensated Absences Payable		-	
Other Postemployment Benefits Payable		(4,231)	
Installment Loan Proceeds		(151,087)	
Capital Outlay		251,905	
Principal Retirement		276,179	
Total Reconciling Items		<u>297,088</u>	
<b>Change in Net Position</b>		<u>\$ 318,152</u>	



## ***Other Schedules***

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TOWN OF TOPSAIL BEACH, NORTH CAROLINA  
 General Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2014

Fiscal Year	Uncollected Balance 7-1-13	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-14
2013-14	\$ -	\$ 1,795,056	\$ 1,785,287	\$ 9,769
2012-13	10,580	-	9,964	616
2011-12	998	-	95	903
2010-11	312	-	-	312
2009-10	235	-	-	235
2008-09	412	-	124	288
2007-08	1,657	-	-	1,657
2006-07	106	-	-	106
2005-06	98	-	-	98
2004-05	53	-	-	53
2003-04	55	-	55	-
	<u>\$ 14,506</u>	<u>\$ 1,795,056</u>	<u>\$ 1,795,525</u>	14,037

Less: Allowance for Uncollectible Accounts:  
 General Fund

1,000

Ad Valorem Taxes Receivable - Net

\$ 13,037

Reconciliation with Revenues

Ad Valorem Taxes - General Fund

\$ 1,791,567

Reconciling Items:

Interest and Penalties Collected

(1,517)

Taxes Released

5,420

Taxes Written Off

55

Total Collections and Credits

\$ 1,795,525

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Analysis of Current Tax Levy  
 Town-Wide Levy  
 June 30, 2014

	Town-Wide		Total Levy		
	Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property Taxed at					
Current Year's Rate	\$ 613,149,050	0.2925	\$ 1,795,056	\$ 1,786,482	\$ 8,574
Penalties	-		-	-	-
	<u>613,149,050</u>		<u>1,795,056</u>	<u>1,786,482</u>	<u>8,574</u>
<b>Discoveries:</b>					
Current Year Taxes	-	0.2925	-	-	-
Penalties	-		-	-	-
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Abatements:</b>					
Property Taxes -					
Current Year's Rate	1,704,293	0.2925	\$ (4,985)	(4,740)	(245)
	<u>1,704,293</u>		<u>(4,985)</u>	<u>(4,740)</u>	<u>(245)</u>
<b>Total Property Valuations</b>	<u>\$ 611,444,757</u>				
<b>Net Levy</b>			1,790,071	1,781,742	8,329
<b>Uncollected Taxes at June 30, 2014</b>			9,769	9,372	397
<b>Current Year's Taxes Collected</b>			<u>\$ 1,780,302</u>	<u>\$ 1,772,370</u>	<u>\$ 7,932</u>
<b>Current Levy Collection Percentage</b>			<u>99.45%</u>	<u>99.47%</u>	<u>95.23%</u>



## ***Compliance Section***

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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***

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the Town of Topsail Beach's basic financial statements, and have issued our report thereon dated August 15, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Topsail Beach's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 14-1.

### **Town of Topsail Beach's Response to Findings**

The Town of Topsail Beach's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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.

***W Greene PLLC***

Whiteville, North Carolina  
August 15, 2014

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Responses

For the Fiscal Year Ended June 30, 2014

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<b>SECTION I. SUMMARY OF AUDITOR'S RESULTS</b>
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**Financial Statements**

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes        X   No

Significant deficiency(s) identified that are  
not considered to be material weaknesses

\_\_\_\_\_ Yes        X   No

Noncompliance material to financial statements noted

  X   Yes      \_\_\_\_\_ No

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Responses

For the Fiscal Year Ended June 30, 2014

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<b>SECTION II. FINANCIAL STATEMENT FINDINGS</b>
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*Finding: 14-1*

**MATERIAL NONCOMPLIANCE**

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

Condition: Town of Topsail Beach expended more for governing body, administration, and police than appropriated in the annual budget ordinance.

Effect: Moneys were spent that had not been appropriated.

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

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

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



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Corrective Action Plan

For the Fiscal Year Ended June 30, 2014

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<b>SECTION II. FINANCIAL STATEMENT FINDINGS</b>
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*Finding: 14-1*

Name of contact person: Tim Holloman, Manager

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

Proposed Completion Date: The Board will implement the above procedures at their next meeting.