

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Report of Audit

For the Fiscal Year Ended June 30, 2017



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Financial Section

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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2017, 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 Other Postemployment Benefits' Schedules of Funding Progress and Schedule of Employer Contributions, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Topsail Beach, North Carolina. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

W Greene PLLC

Whiteville, North Carolina
August 25, 2017

Management's Discussion and Analysis

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, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

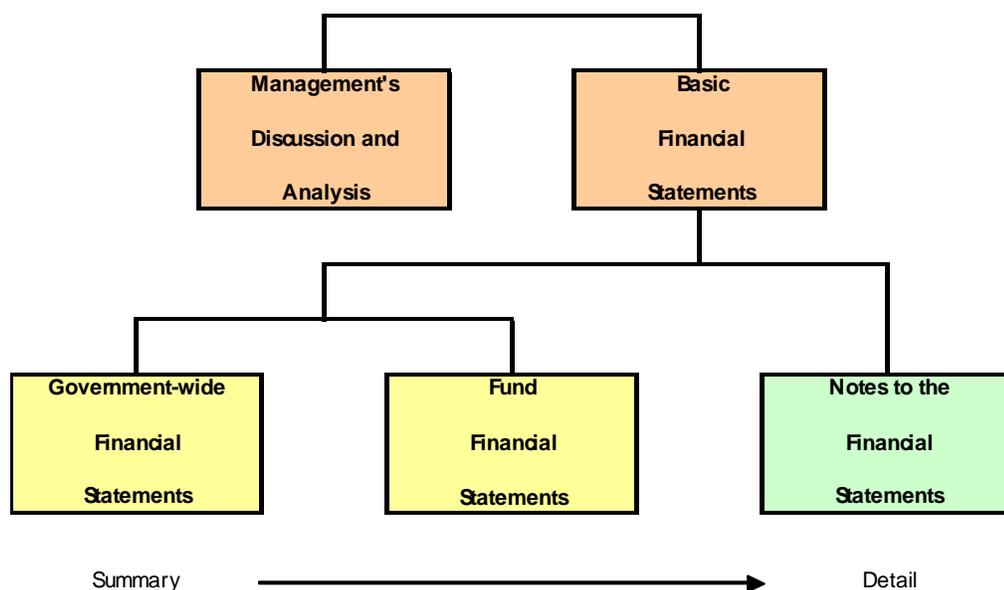
- The assets and deferred outflows of resources of the Town of Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$14,307,158 (net position).
- The government's total net position increased by \$1,854,630.
- As of the close of the current fiscal year, the Town of Topsail Beach's governmental funds reported combined ending fund balances of \$6,030,680, with an increase of \$1,335,481 in comparison with the prior year.
- Of the \$6,030,680 ending fund balance, \$2,804,223 is part of the total fund balance for the General Fund. The remaining \$3,226,457 has been designated to the Beach, Inlet, and Sound Fund (BIS) by the Town.
- At the end of the current fiscal year, fund balance available for the General Fund was \$2,585,956, or 99.77 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 33) 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, public safety, 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 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 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Management's Discussion and Analysis (Continued)

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 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 34 through 62 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Topsail Beach's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 65 of this report.

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

Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis

The Town of Topsail Beach's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 6,085,932	\$ 4,722,712	\$ 1,964,972	\$ 1,774,589	\$ 8,050,904	\$ 6,497,301
Capital assets	5,242,387	5,131,365	5,802,869	5,944,486	11,045,256	11,075,851
Deferred outflows of resources	206,455	46,809	34,687	10,224	241,142	57,033
Total assets and deferred outflows of resources	11,534,774	9,900,886	7,802,528	7,729,299	19,337,302	17,630,185
Long-term liabilities outstanding	866,275	719,226	3,588,737	3,838,139	4,455,012	4,557,365
Other liabilities	188,867	164,804	361,028	363,977	549,895	528,781
Deferred inflows of resources	21,715	32,605	3,522	7,122	25,237	39,727
Total liabilities and deferred inflows of resources	1,076,857	916,635	3,953,287	4,209,238	5,030,144	5,125,873
Net position:						
Net investment in capital assets	4,567,387	4,412,615	1,991,082	1,856,521	6,558,469	6,269,136
Restricted	238,328	221,780	-	-	238,328	221,780
Unrestricted	5,652,202	4,349,856	1,858,159	1,663,540	7,510,361	6,013,396
Total net position	\$ 10,457,917	\$ 8,984,251	\$ 3,849,241	\$ 3,520,061	\$ 14,307,158	\$ 12,504,312

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 \$14,307,158 as of June 30, 2017. The Town's net position increased by \$1,854,630 for the fiscal year ended June 30, 2017. However, a large portion (45.84%) 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 \$238,328 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$7,510,361 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.59%
- Increased collections of several state-shared revenues and local accommodation taxes.
- Continued oversight of expenditures.

Management's Discussion and Analysis (Continued)

The Town of Topsail Beach's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 526,067	\$ 421,589	\$ 921,400	\$ 924,861	\$ 1,447,467	\$ 1,346,450
Operating grants and contributions	64,361	948,674	-	-	64,361	948,674
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	1,972,993	1,838,204	-	-	1,972,993	1,838,204
Other taxes	1,597,000	1,466,870	-	-	1,597,000	1,466,870
Other	58,978	506,911	1,869	16,104	60,847	523,015
Total revenues	4,219,399	5,182,248	923,269	940,965	5,142,668	6,123,213
Expenses:						
Governing Body	154,546	68,389	-	-	154,546	68,389
Administration	432,863	384,976	-	-	432,863	384,976
Police	672,198	675,157	-	-	672,198	675,157
Fire	295,605	321,718	-	-	295,605	321,718
Inspections	25,868	25,527	-	-	25,868	25,527
Public Services	172,328	171,705	-	-	172,328	171,705
Powell Bill	6,584	10,609	-	-	6,584	10,609
Sanitation	285,238	268,404	-	-	285,238	268,404
Beach Management Tourism	187,845	262,949	-	-	187,845	262,949
Marina	61,931	21,801	-	-	61,931	21,801
Federal Beach Project	12,500	-	-	-	12,500	-
Beach/Inlet/Sound Maintenance	352,520	131,373	-	-	352,520	131,373
Interest on Long-term Debt	13,923	22,066	-	-	13,923	22,066
Water	-	-	614,089	632,827	614,089	632,827
Total expenses	2,673,949	2,364,674	614,089	632,827	3,288,038	2,997,501
Increase(Decrease) in net position before transfers	1,545,450	2,817,574	309,180	308,138	1,854,630	3,125,712
Transfers	(20,000)	30,671	20,000	(30,671)	-	-
Change in net position	1,525,450	2,848,245	329,180	277,467	1,854,630	3,125,712
Net position, July 1	8,984,251	6,136,006	3,520,061	3,242,594	12,504,312	9,378,600
Restatement	(51,784)	-	-	-	(51,784)	-
Net position, July 1, restated	8,932,467	6,136,006	3,520,061	3,242,594	12,452,528	9,378,600
Net position, June 30	\$ 10,457,917	\$ 8,984,251	\$ 3,849,241	\$ 3,520,061	\$ 14,307,158	\$ 12,504,312

Governmental activities. Governmental activities increased the Town's net position by \$1,525,450 primarily due to increases in property tax revenue and increased revenues from unrestricted intergovernmental revenues and other taxes and fees.

Business-type activities: Business-type activities increased the Town of Topsail Beach's net position by \$329,180.

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.

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 \$2,585,956 while total fund balance reached \$2,804,223. The Town currently has an available fund balance of 99.77% of general fund expenditures, while total fund balance represents 108.19% of that same amount.

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 intergovernmental revenues as well as sales and service income. Total expenditures were less than budgeted.

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 \$1,858,159. The total change in net position for the proprietary fund was an increase of \$329,180.

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, 2017, totals \$11,045,256 (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			
	2017	2016	2017	2016	2017	2016
Land	\$ 3,951,452	\$ 3,951,452	\$ 1,303,353	\$ 1,303,353	\$ 5,254,805	\$ 5,254,805
Construction in Progress	-	185,884	-	-	-	185,884
Buildings	657,706	485,071	817	1,067	658,523	486,138
Infrastructure	349,951	349,325	-	-	349,951	349,325
Vehicles	205,006	63,555	22,293	28,238	227,299	91,793
Plant and Distribution	-	-	4,454,432	4,587,997	4,454,432	4,587,997
Equipment	78,272	96,078	21,974	23,831	100,246	119,909
Total	\$ 5,242,387	\$ 5,131,365	\$ 5,802,869	\$ 5,944,486	\$ 11,045,256	\$ 11,075,851

Management’s Discussion and Analysis (Continued)

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

Long-term Debt. As of June 30, 2017, Town of Topsail Beach had total long-term debt outstanding of \$4,893,909. Of this, \$-0- is debt backed by the full faith and credit of Town of Topsail Beach.

The Town of Topsail Beach's Outstanding Liabilities

Figure 5

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Installment purchases	\$ 675,000	\$ 718,750	\$ 3,811,787	\$ 4,087,965	\$ 4,486,787	\$ 4,806,715
Compensated absences	68,745	67,381	11,536	11,880	80,281	79,261
Other postemployment benefits	3,137	2,351	3,231	2,445	6,368	4,796
Pension related debt (LGERS)	217,805	55,067	38,362	12,028	256,167	67,095
Pension related debt (LEO)	64,306	71,211	-	-	64,306	71,211
Total	\$ 1,028,993	\$ 914,760	\$ 3,864,916	\$ 4,114,318	\$ 4,893,909	\$ 5,029,078

The Town of Topsail Beach’s total debt decreased by \$135,169 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 \$50,436,287. The Town of Topsail Beach does not have any authorized but un-issued debt at June 30, 2017.

Additional information regarding Town of Topsail Beach’s long-term debt can be found beginning on page 59 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.

- Growth in the number of short term seasonal rentals and day visitors
- New construction

Budget Highlights for the Fiscal Year Ending June 30, 2018

FY 2018’s recommended General Operating Budget is a balanced budget totaling \$28,530,333 for the General Fund, Restricted Funds and the Utility Enterprise Funds. This compares to \$5,480,632 (as amended) in FY 2016 – 2017. The significant increase is due to the budgeting of our next Storm Damage Reduction Project budgeted in the BIS Fund, which accounts for \$24,700,000. A closer look at the breakdown of the budget by fund shows the following:

	FY 2017	Proposed FY 2018
General Fund	\$3,023,016	\$ 2,816,060
BIS Fund	\$1,576,700	\$24,807,100
Utility Fund	\$ 880,916	\$ 907,173

Management's Discussion and Analysis (Continued)

This proposed budget recommends leaving the tax rate level at \$0.3125 per \$100 valuation. The General Fund tax rate would remain at \$0.1925 per \$100 valuation, while the BIS Fund would remain at \$0.12 per \$100 valuation. The combined tax rate for Topsail Beach of \$0.3125 is still in line with similar coastal communities in the area, and in many cases considerably lower. This budget does propose a change in the distribution of the Topsail Beach Accommodations Tax. Currently the revenues generated from this tax is divided between the General Fund and the BIS Fund at a rate of 65% BIS and 35% General Fund. This budget recommends changing the distribution to a 50% split between the two funds. This still meets the requirements for the use of this revenue. The Pender County Accommodations Tax will remain in the BIS Fund at 100%.

This year's estimated revenues are relatively consistent with previous years. As mentioned earlier, the only significant change is the proposed re-allocation of the Topsail Beach Accommodations Tax. Below are a few highlights found in this budget.

- ❖ According to the Pender County Tax Assessor's Office, the total assessed value for property in Topsail Beach for FY 2018 is \$627,558,003. This represents real and personal property and motor vehicle tax. This compares to \$623,475,257 for FY 2017.
- ❖ Accommodations tax (both for Topsail Beach and Pender County) are anticipated to increase by 2.5% over last year for a total amount of \$820,000. Of this amount, \$205,000 is allocated to the General Fund. (The rest is for the BIS Fund).
- ❖ According to State Revenue sources, the distribution of Utilities Franchise Fees at the state level is expected to decrease over the next year. It should be noted however that the funds are impacted by the weather. Mild winters and summers can cause a decrease in revenues.
- ❖ Sales tax figures (both Local Option Sales Tax and County Option 4) are projected to increase by \$25,000 in this budget.
- ❖ In FY 2017 the Town established a policy to fund the Capital Reserve Fund which is designed to plan for larger one-time capital needs in the future. This preliminary budget includes approximately \$177,000 transferred from the Capital Reserve Fund to meet this year's needs.
- ❖ The projected BIS Fund budget revenues of \$24,807,100 for FY 2018 include approximately \$16 million from the NC Shallow Draft Navigation Channel Maintenance and Aquatic Weed Fund and \$6.8 million from FEMA as a result of Hurricane Matthew. This compared to \$1,576,700 for FY 2017.

Much of the operational expenses have not changed significantly over the previous year. Department heads were charged with the task of keeping operational costs as close to previous years as possible, and to identify potential cost reductions. Any increased costs within individual departments are generally related to larger capital needs. The proposed budget also includes an increase to the salary line item for potential salary adjustment/merit increases.

In preparing this budget staff considered many factors that impact Topsail Beach today. Although relatively small in geographic size and population, Topsail Beach provides services to a large number of people, particularly during the vacation season. As part of the greater Wilmington region, Topsail Beach is host to many weekly renters and day trippers that come to experience our large, clean beaches and easy-going lifestyle. Visitors from every state in the United States visit Topsail Island, many of which spend time at our beach or in our waterways. Providing services to our residents, property owners, and visitors takes a lot of effort by the Town, and its huge success in our Beach Nourishment Programs and erosion control efforts has made Topsail Beach a premier location. This was accomplished by hard work, smart planning, and cooperative efforts by our elected officials, citizens, and staff, along with the help of the

Management's Discussion and Analysis (Continued)

State. The Town must remain diligent in these efforts to maintain our pristine beaches, as well as continuing to provide our core services at a high level.

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Net Position
June 30, 2017

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,684,134	\$ 1,757,172	\$ 7,441,306
Receivables (net):			
Ad Valorem Taxes	35,135	-	35,135
Accommodations Taxes	148,311	-	148,311
Interest	4,455	-	4,455
Accounts	26,220	207,800	234,020
Due from Other Governments	167,616	-	167,616
Restricted Cash and Cash Equivalents	20,061	-	20,061
Total Current Assets	6,085,932	1,964,972	8,050,904
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	1,290,935	4,499,516	5,790,451
Total Noncurrent Assets	5,242,387	5,802,869	11,045,256
Total Assets	11,328,319	7,767,841	19,096,160
DEFERRED OUTFLOWS OF RESOURCES			
Pension Deferrals	206,455	34,687	241,142
Total Deferred Outflows of Resources	\$ 206,455	\$ 34,687	\$ 241,142

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Net Position (Continued)
June 30, 2017

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
LIABILITIES			
Current Liabilities:			
Accounts Payable and			
Accrued Liabilities	\$ 15,662	\$ 3,881	\$ 19,543
Interest Payable	10,487	2,138	12,625
Customer Deposits	-	78,830	78,830
Current Portion of Long-Term Liabilities	162,718	276,179	438,897
Total Current Liabilities	188,867	361,028	549,895
Long-Term Liabilities:			
Net Pension Liability	217,805	38,362	256,167
Total Pension Liability	64,306	-	64,306
Due in More Than One year	584,164	3,550,375	4,134,539
Total Liabilities	1,055,142	3,949,765	5,004,907
DEFERRED INFLOWS OF RESOURCES			
Pension Deferrals	21,715	3,522	25,237
Total Deferred Inflows of Resources	21,715	3,522	25,237
NET POSITION			
Net Investment in Capital Assets	4,567,387	1,991,082	6,558,469
Restricted for:			
Transportation	20,061	-	20,061
Stabilization by State Statute	218,267	-	218,267
Unrestricted	5,652,202	1,858,159	7,510,361
Total Net Position	\$ 10,457,917	\$ 3,849,241	\$ 14,307,158

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Activities

June 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Governing Body	\$ 154,546	\$ -	\$ -	\$ -
Administration	432,863	73,966	-	-
Police	672,198	13,341	-	-
Fire	295,605	-	28,990	-
Inspections	25,868	60,551	-	-
Public Services	172,328	-	18,637	-
Powell Bill	6,584	-	16,537	-
Sanitation	285,238	302,596	197	-
Beach Management and Tourism	187,845	26,420	-	-
Marina	61,931	49,193	-	-
Federal Beach Project	12,500	-	-	-
Beach/Inlet/Sound Maintenance	352,520	-	-	-
Interest on long-term debt	13,923	-	-	-
Total Governmental Activities	2,673,949	526,067	64,361	-
Business-Type Activities:				
Water	614,089	921,400	-	-
Total Business-Type Activities	614,089	921,400	-	-
Total Primary Government	3,288,038	1,447,467	64,361	-

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Activities (Continued)

June 30, 2017

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Primary Government:			
Governmental Activities:			
Governing Body	\$ (154,546)	\$ -	\$ (154,546)
Administration	(358,897)	-	(358,897)
Police	(658,857)	-	(658,857)
Fire	(266,615)	-	(266,615)
Inspections	34,683	-	34,683
Public Services	(153,691)	-	(153,691)
Powell Bill	9,953	-	9,953
Sanitation	17,555	-	17,555
Beach Management and Tourism	(161,425)	-	(161,425)
Marina	(12,738)	-	(12,738)
Federal Beach Project	(12,500)	-	(12,500)
Beach/Inlet/Sound Maintenance	(352,520)	-	(352,520)
Interest on long-term debt	(13,923)	-	(13,923)
Total Governmental Activities	(2,083,521)	-	(2,083,521)
Business-Type Activities:			
Water	-	307,311	307,311
Total Business-Type Activities	-	307,311	307,311
Total Primary Government	(2,083,521)	307,311	(1,776,210)
General Revenues:			
Property Taxes, Levied for General Purpose	1,972,993	-	1,972,993
Other Taxes and Licenses	1,597,000	-	1,597,000
Investment Earnings	28,718	1,869	30,587
Miscellaneous	30,260	-	30,260
Transfers	(20,000)	20,000	-
Total General Revenues and Transfers	3,608,971	21,869	3,630,840
Change in Net Position	1,525,450	329,180	1,854,630
Net Position - Beginning of Year	8,984,251	3,520,061	12,504,312
Restatement	(51,784)	-	(51,784)
Net Position - Beginning of Year, Restated	8,932,467	3,520,061	12,452,528
Net Position - End of Year	\$ 10,457,917	\$ 3,849,241	\$ 14,307,158

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Balance Sheet

Governmental Funds

June 30, 2017

	<u>Major Funds</u>		
	General Fund	Beach, Inlet, and Sound Capital Project Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 2,581,557	\$ 3,102,577	\$ 5,684,134
Restricted Cash	20,061	-	20,061
Receivables (net):			
Ad Valorem Taxes	22,838	12,297	35,135
Accommodations Tax	25,926	122,385	148,311
Accounts	26,220	-	26,220
Due from Other Governments	166,121	1,495	167,616
Total Assets	\$ 2,842,723	\$ 3,238,754	\$ 6,081,477
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 15,662	\$ -	\$ 15,662
Total Liabilities	15,662	-	15,662
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Receivable	22,838	12,297	35,135
Total Deferred Inflows of Resources	22,838	12,297	35,135
FUND BALANCES			
Restricted			
Stabilization by State Statute	218,267	-	218,267
Streets	20,061	-	20,061
Committed			
Beach/Inlet/Sound Maintenance	-	3,226,457	3,226,457
Future Capital Expenditures	606,096	-	606,096
Assigned			
Subsequent Year's Expenditures:	-	-	-
Unassigned	1,959,799	-	1,959,799
Total Fund Balances	2,804,223	3,226,457	6,030,680
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,842,723		

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Balance Sheet (Continued)

Governmental Funds

June 30, 2017

		<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total Governmental Fund Balance		\$ 6,030,680
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical costs	\$ 7,152,186	
Accumulated depreciation	<u>(1,909,799)</u>	5,242,387
Deferred outflows of resources related to pensions are not reported in the funds		
		206,455
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>4,455</u>	4,455
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
Ad valorem taxes	35,135	
Other taxes	<u>-</u>	35,135
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(10,487)	
Installment purchases	(675,000)	
Total pension liability	(64,306)	
Other postemployment benefits	(3,137)	
Net pension liability	(217,805)	
Compensated absences	<u>(68,745)</u>	(1,039,480)
Deferred inflows of resources related to pensions are not reported in the funds		
		<u>(21,715)</u>
Net position of governmental activities.		<u><u>\$ 10,457,917</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, 2017

	Major Funds		
	General Fund	Beach, Inlet, and Sound Capital Project Fund	Total Governmental Funds
Revenues			
Ad Valorem Taxes	\$ 1,206,604	\$ 747,000	\$ 1,953,604
Other Taxes and Licenses	147,248	874,049	1,021,297
Unrestricted Intergovernmental	575,703	-	575,703
Restricted Intergovernmental	64,361	-	64,361
Permits and Fees	149,505	-	149,505
Sales and Services	376,562	-	376,562
Investment Earnings	17,005	11,713	28,718
Miscellaneous	30,260	-	30,260
Total Revenues	2,567,248	1,632,762	4,200,010
Expenditures			
Current			
Governing Body	154,546	-	154,546
Administration	424,935	-	424,935
Police	674,035	-	674,035
Fire	269,251	-	269,251
Inspections	25,868	-	25,868
Public Services	166,581	-	166,581
Powell Bill	4,547	-	4,547
Marina	55,530	-	55,530
Sanitation	284,382	-	284,382
Beach Management and Tourism	164,006	-	164,006
Beach/Inlet/Sound Maintenance	-	352,520	352,520
Federal Beach Project	12,500	-	12,500
Debt Service			
Principal	143,750	-	143,750
Interest and Other charges	17,178	-	17,178
Capital Outlay			
Police	33,561	-	33,561
Fire	142,140	-	142,140
Beach Management and Tourism	19,199	-	19,199
Total Expenditures	2,592,009	352,520	2,944,529
Excess (Deficiency) of Revenues Over Expenditures	(24,761)	1,280,242	1,255,481
Other Financing Sources (Uses)			
Transfers from Other Funds	11,950	-	11,950
Transfers to Other Funds	(20,000)	(11,950)	(31,950)
Installment Purchase Obligations Issued	100,000	-	100,000
Total Other Financing Sources (Uses)	91,950	(11,950)	80,000
Net Change in Fund Balance	67,189	1,268,292	1,335,481
Fund Balance - Beginning of Year	2,737,034	1,958,165	4,695,199
Fund Balance - End of Year	\$ 2,804,223	\$ 3,226,457	\$ 6,030,680

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2017

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

Net changes in fund balances - total governmental funds \$ 1,335,481

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	194,900	
Contributed Assets	-	
Depreciation expense	(83,878)	111,022

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		57,515
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		9,511

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	17,624	
Interest earned on ad valorem taxes	1,765	19,389

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	(100,000)	
Debt retirement	143,750	43,750

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	3,255	
Compensated absences	(1,364)	
Pension Expense	(52,323)	
Other postemployment benefits	(786)	(51,218)

Total changes in net position of governmental activities \$ 1,525,450

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, 2017

	General Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Ad Valorem Taxes	\$ 1,195,500	\$ 1,195,500	1,206,604	\$ 11,104
Other Taxes and Licenses	140,000	140,000	147,248	7,248
Unrestricted Intergovernmental	525,000	540,000	575,703	35,703
Restricted Intergovernmental	242,000	296,391	64,361	(232,030)
Permits and Fees	127,295	111,620	149,505	37,885
Sales and Services	368,000	368,000	376,562	8,562
Investment Earnings	12,495	12,498	17,005	4,507
Miscellaneous	40,500	40,500	30,260	(10,240)
Total Revenues	2,650,790	2,704,509	2,567,248	(137,261)
Expenditures				
Governing Body	76,719	165,414	154,546	10,868
Administration	436,500	468,945	424,935	44,010
Police	735,550	740,598	707,596	33,002
Fire	580,460	703,949	411,391	292,558
Inspections	34,450	34,450	25,868	8,582
Public Services	195,391	197,637	166,581	31,056
Powell Bill Funds	17,000	17,000	4,547	12,453
Marina	208,120	221,620	216,458	5,162
Sanitation	281,500	285,806	284,382	1,424
Beach Management and Tourism	200,050	230,040	183,205	46,835
Federal Beach Project	1,050	13,000	12,500	500
Total Expenditures	2,766,790	3,078,459	2,592,009	486,450
Revenues Over (Under) Expenditures	(116,000)	(373,950)	(24,761)	349,189
Other Financing Sources (Uses)				
Transfers From Other Funds	116,000	127,950	127,950	-
Transfers To Other Funds	-	(500,000)	(500,000)	-
Installment Purchase Obligations Issued	-	100,000	100,000	-
Total Other Financing Sources (Uses)	116,000	(272,050)	(272,050)	-
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	(646,000)	(296,811)	349,189
Appropriated Fund Balance		646,000	-	(646,000)
Net Change in Fund Balance	\$ -	\$ -	(296,811)	\$ (296,811)
Fund Balance - Beginning of Year			2,494,938	
Fund Balance - End of Year			\$ 2,198,127	

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, 2017

Fund Balance - End of Year \$ 2,198,127

A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:

Transfer to General Fund	(116,000)
Transfer to Water Fund	(20,000)
Transfer from General Fund	500,000
Transfer from Water Fund	-
Fund Balance - Beginning	<u>242,096</u>
	<u>606,096</u>

Fund Balance - End of Year (Consolidated) \$ 2,804,223

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Fund Net Position
Proprietary Fund
June 30, 2017

	<u>Water Fund</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 1,757,172
Accounts Receivable (net)	207,800
Total Current Assets	<u>1,964,972</u>
Noncurrent Assets	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	1,303,353
Other Capital Assets, Net of Depreciation	4,499,516
Total Capital Assets	<u>5,802,869</u>
Total Noncurrent Assets	<u>5,802,869</u>
Total Assets	<u><u>7,767,841</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferrals	34,687
Total Deferred Outflows of Resources	<u><u>\$ 34,687</u></u>

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Fund Net Position
Proprietary Fund
June 30, 2017

	<u>Water Fund</u>
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ 3,881
Interest Payable	2,138
Customer Deposits	78,830
Installment Notes Payable	276,179
Total Current Liabilities	<u>361,028</u>
Noncurrent Liabilities	
Installment Notes Payable	3,535,608
Other Postemployment Benefits	3,231
Net Pension Liability	38,362
Compensated Absences Payable	11,536
Total Noncurrent Liabilities	<u>3,588,737</u>
Total Liabilities	<u><u>3,949,765</u></u>
DEFERRED INFLOWS OF RESOURCES	
Pension Deferrals	3,522
Total Deferred Inflows of Resources	<u>3,522</u>
NET POSITION	
Net Investment in Capital Assets Unrestricted	1,991,082
	<u>1,858,159</u>
Total Net Position	<u><u>\$ 3,849,241</u></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, 2017

	Water Fund
Operating Revenues	
Water Charges	\$ 828,774
Water Taps	10,626
Impact Fees	82,000
Miscellaneous	-
Total Operating Revenues	<u>921,400</u>
Operating Expenses	
Water Operations	444,573
Depreciation	146,775
Total Operating Expenses	<u>591,348</u>
Operating Income (Loss)	<u>330,052</u>
Nonoperating Revenues (Expenses)	
Investment Earnings	1,869
Interest Expense	(22,741)
Total Nonoperating Revenues (Expenses)	<u>(20,872)</u>
Total Income (Loss) Before Transfers	309,180
Transfers from Other Funds	<u>20,000</u>
Change in Net Position	<u>329,180</u>
Total Net Position - Beginning of Year	<u>3,520,061</u>
Total Net Position - End of Year	<u>\$ 3,849,241</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

	Water Fund
Cash Flows from Operating Activities	
Cash Received from Customers and Users	\$ 899,922
Cash Paid for Goods and Services	(241,152)
Cash Paid to Employees for Services	(208,703)
Customer Deposits Received	5,110
Customer Deposits Returned	(1,150)
Net Cash Provided(Used) by Operating Activities	<u>454,027</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	20,000
Net Cash Provided(Used) by Noncapital Financing Activities	<u>20,000</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(5,158)
Installment Loan Proceeds	-
Interest Paid on Installment Purchases	(25,655)
Principal Paid on Installment Purchases	(276,178)
Net Cash Provided(Used) by Capital and Related Financing Activities	<u>(306,991)</u>
Cash Flows from Investing Activities	
Interest on Investments	1,869
Net Cash Provided(Used) by Investing Activities	<u>1,869</u>
Net Increase(Decrease) in Cash and Cash Equivalents	168,905
Cash and Cash Equivalents - Beginning of Year	<u>1,588,267</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,757,172</u>

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended June 30, 2017

	<u>Water Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 330,052
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	146,775
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(21,478)
(Increase) Decrease in Pension Deferrals - Deferred Outflows of Resources	(24,463)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(3,995)
Increase (Decrease) in Customer Deposits	3,960
Increase (Decrease) in Net Pension Liability	26,334
Increase (Decrease) in Pension Deferrals - Deferred Inflows of Resources	(3,600)
Increase (Decrease) in Other Postemployment Benefits	786
Increase (Decrease) in Compensated Absences Payable	(344)
Total Adjustments	<u>123,975</u>
Net Cash Provided(Used) by Operating Activities	<u>\$ 454,027</u>

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements

For the Year Ended June 30, 2017

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 non-major funds.

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

The Town reports the following major governmental funds:

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Beach, Inlet, and Sound Capital Project Fund. This fund is used to account for projects to improve and maintain the Town's beach, inlet and sound.

The Town reports the following major enterprise fund:

Water Fund. This fund is used to account for the Town's water 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. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from 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 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.

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 in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Topsail Beach because the tax is levied by Pender County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then 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. 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.

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 Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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 value 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 136-41.4.

Town of Topsail Beach Restricted Cash

Governmental Activities	
General Fund	
Streets	\$ 20,061
Total governmental activities	<u>20,061</u>
 Total Restricted Cash	 <u>\$ 20,061</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 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016.

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. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meets this criterion, contributions made to the pension plan in the 2017 fiscal year and pension deferrals. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category - property taxes receivable and pension deferrals.

9. 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.

10. 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.

11. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11. Net Position/Fund Balances (Continued)

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.

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

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

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 (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

Committed for Future Capital Expenditures – portion of fund balance assigned by the Board for future capital outlay items.

Assigned Fund Balance – portion of fund balance that Town of 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11. Net Position/Fund Balances (Continued)

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.

12. Defined Benefit Cost-Sharing Plans

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

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

1. Deposits (Continued)

At June 30, 2017, the Town's deposits had a carrying amount of \$6,889,986 and a bank balance of \$7,097,795. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

2. Investments

At June 30, 2017, the Town of Topsail Beach had \$571,381 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts:

Fund	06/30/2017
General Fund:	
Taxes receivable	\$ 4,000
Total	\$ 4,000

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,951,452	\$ -	\$ -	\$ 3,951,452
Construction in Progress	185,884	-	185,884	-
Total capital assets not being depreciated	4,137,336	-	185,884	3,951,452
Capital assets being depreciated:				
Buildings and Improvements	768,039	185,884	-	953,923
Equipment	365,373	-	-	365,373
Vehicles	1,194,223	175,701	-	1,369,924
Infrastructure	492,315	19,199	-	511,514
Total capital assets being depreciated	2,819,950	380,784	-	3,200,734
Less accumulated depreciation for:				
Buildings and Improvements	282,968	13,249	-	296,217
Equipment	269,295	17,806	-	287,101
Vehicles	1,130,668	34,250	-	1,164,918
Infrastructure	142,990	18,573	-	161,563
Total accumulated depreciation	1,825,921	83,878	-	1,909,799
Total capital assets being depreciated, net	994,029			1,290,935
Governmental activity capital assets, net	\$ 5,131,365			\$ 5,242,387

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

Administration	\$ 2,691
Police	19,115
Fire	24,993
Public Services	3,946
Sanitation	856
Beach Management and Tourism	23,839
Marina	6,401
Powell Bill	2,037
Total	<u>\$ 83,878</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water Fund</i>				
Capital assets not being depreciated:				
Land	\$ 1,303,353	\$ -	\$ -	\$ 1,303,353
Construction In Progress	-	-	-	-
Total capital assets not being depreciated	1,303,353	-	-	1,303,353
Capital assets being depreciated:				
Buildings	5,000	-	-	5,000
Equipment	218,687	5,158	-	223,845
Vehicles	89,013	-	-	89,013
Plant and distribution systems	5,826,567	-	-	5,826,567
Total capital assets being depreciated	6,139,267	5,158	-	6,144,425
Less accumulated depreciation for:				
Buildings	3,933	250	-	4,183
Equipment	194,856	7,015	-	201,871
Vehicles	60,775	5,945	-	66,720
Plant and distribution systems	1,238,570	133,565	-	1,372,135
Total accumulated depreciation	1,498,134	146,775	-	1,644,909
Total capital assets being depreciated, net	4,641,133			4,499,516
Water fund capital assets, net	\$ 5,944,486			\$ 5,802,869

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Topsail Beach employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Topsail Beach's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.41% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Topsail Beach were \$67,645 for the year ended June 30, 2017.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

At June 30, 2017 the Town reported a liability of \$256,167 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.01207%, which was a decrease of 0.00288% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$63,954. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,813	\$ 8,976
Changes of assumptions	17,545	-
Net difference between projected and actual earnings on pension plan investments	141,628	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	14,541
Town contributions subsequent to the measurement date	67,645	-
Total	<u>\$ 231,631</u>	<u>\$ 23,517</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

\$67,645 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2018	\$	19,018
2019		19,052
2020		64,222
2021		38,177
2022		-
Thereafter		-
	<u>\$</u>	<u>140,469</u>

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

Inflation	3.0 percent
Salary Increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment Rate of Return	7.25 percent, net of pension plan investment expense, including inflation

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

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

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

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

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 608,001	\$ 256,167	\$ (37,713)

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

Retirees receiving benefits	1
Active plan members	<u>8</u>
Total	<u><u>9</u></u>

2. Summary of Significant Accounting Policies:

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount Rate	3.71 percent

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

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$15,455 as benefits came due for the reporting period.

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

At June 30, 2017, the Town reported a total pension liability of \$64,306. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$10,270.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	1,720
Town benefit payments and plan administrative expense subsequent to the measurement date	9,511	-
Total	<u>\$ 9,511</u>	<u>\$ 1,720</u>

\$9,511 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 338
2019	338
2020	338
2021	338
2022	338
Thereafter	30
	<u>\$ 1,720</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions (Continued)

\$9,511 paid as benefits came due and \$-0- of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86%) or 1-percentage-point higher (4.86%) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total Pension Liability	\$ 71,658	\$ 64,306	\$ 57,663

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance**

	2017
Beginning balance	\$ 71,211
Service Cost	8,342
Interest on the total pension liability	2,266
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(2,058)
Benefit payments	(15,455)
Other changes	-
Ending balance of the total pension liability	\$ 64,306

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

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

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, 2017 were \$27,858, which consisted of \$18,929 from the Town and \$8,929 from the law enforcement officers. No amounts were forfeited.

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, 2017, total contributions to the plan equaled \$49,508, which consisted of \$20,309 from the Town and \$29,199 from the participating employees.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. 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, 2016, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	1	1
Active plan members	10	7
Total	<u>11</u>	<u>8</u>

Funding Policy. By Town resolution, the Town pays 90% of the 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 annual required contribution (ARC) rate is 2.38% of annual covered payroll. For the current year the Town contributed \$14,902 or 1.85% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town’s contributions totaled \$17,680 in fiscal year 2017. Contributions made by employees were 10% of the individual’s premium and 100% of dependent coverage including spouse. 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)

d. 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	\$	19,220
Interest on net OPEB obligation		192
Adjustment to annual required contribution		(160)
Annual OPEB cost (expense)		19,252
Contributions made		17,680
Increase (decrease) in net OPEB obligation		1,572
Net OPEB obligation, beginning of year		4,796
Net OPEB obligation, end of year	\$	6,368

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 19,252	91.8%	\$ 6,368
2016	\$ 19,221	77.5%	\$ 4,796
2015	\$ 19,267	142.5%	\$ 477

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

1. Healthcare Benefits (Continued)

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$180,548. The covered payroll (annual payroll of active employees covered by the plan) was \$807,123, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 22.4 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.

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a medical cost trend increase of 7.75 percent to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

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.

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Contributions to Pension Plan in Current Fiscal Year	\$	67,645
Benefit payments made and administrative expenses for LEOSSA		9,511
Differences between expected and actual experience		4,813
Changes of assumptions		17,545
Net difference between projected and actual		141,628
Changes in proportion and differences between employer contributions and proportionate share of contributions		-
Charge on refunding		-
Total	\$	<u>241,142</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

3. Deferred Outflows and Inflows of Resources (Continued)

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

	Statement of Net Position	General Fund Balance Sheet	Beach, Inlet, and Sound Capital Project Fund Balance Sheet
Prepaid taxes (General Fund)	\$ -	\$ -	-
Taxes receivable	-	22,838	12,297
Changes in assumptions	1,720	-	-
Differences between expected and actual experience	8,976	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,541	-	-
Total	\$ 25,237	\$ 22,838	12,297

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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

4. Risk Management (Continued)

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. 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, 2017, the Town did not have any litigation pending.

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. \$1,416,500 Installment agreement with interest at an annual rate of 2.305%. The outstanding principal balance at June 30, 2017 was \$1,011,787.

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. The outstanding principal balance at June 30, 2017 was \$575,000.

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. \$3,500,000 installment agreement with interest at an annual rate of 0.00%. The outstanding principal balance at June 30, 2017 was \$2,800,000.

In January 2017, the Town entered into a \$100,000 installment agreement for the purchase of a Pumper Truck. The financing contract requires principal payments annually beginning in January 2018 with an interest rate of 2.65 percent. The outstanding principal balance at June 30, 2017 was \$100,000.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations (Continued)

a. Installment Purchases (Continued)

Annual debt service payments of the installment purchases as of June 30, 2017, including \$170,714 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 162,718	\$ 16,393	\$ 276,179	\$ 23,322
2019	163,220	12,454	276,179	20,990
2020	163,736	8,503	276,179	18,657
2021	164,266	4,537	276,179	16,325
2022	21,060	558	276,179	13,993
2023-2027	-	-	1,380,892	34,982
2028-2032	-	-	875,000	-
2033-2037	-	-	175,000	-
Total	\$ 675,000	\$ 42,445	\$ 3,811,787	\$ 128,269

b. Changes in Long-Term Liabilities

	Balance			Current	
	07/01/16	Increases	Decreases	Balance 06/30/17	Portion of Balance
Governmental activities:					
Installment notes	\$ 718,750	\$ 100,000	\$ (143,750)	\$ 675,000	\$ 162,718
Compensated absences	67,381	1,364	-	68,745	-
Other postemployment benefits	2,351	9,626	(8,840)	3,137	-
Net pension liability (LGERS)	55,067	162,738	-	217,805	-
Total pension liability (LEO)	71,211	-	(6,905)	64,306	-
Governmental activity long-term liabilities	\$ 914,760	\$ 273,728	\$ (159,495)	\$ 1,028,993	\$ 162,718

Business-type activities:					
Installment purchase	\$ 4,087,965	\$ -	\$ (276,178)	\$ 3,811,787	\$ 276,179
Compensated absences	11,880	-	(344)	11,536	-
Other postemployment benefits	2,445	9,626	(8,840)	3,231	-
Net pension liability (LGERS)	12,028	26,334	-	38,362	-
Business-type activity long-term liabilities	\$ 4,114,318	\$ 35,960	\$ (285,362)	\$ 3,864,916	\$ 276,179

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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2017, consist of the following:

From the General Fund to the Capital Reserve Fund	\$ 500,000
From the Capital Reserve Fund to the General Fund	116,000
From the Capital Reserve Fund to the Water Fund	20,000
From the Beach, Inlet, and Sound Capital Project Fund to the General Fund	11,950
Total	<u>\$ 647,950</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.

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-Type</u>
Capital Assets	\$ 5,242,387	\$ 5,802,869
less: long-term debt	675,000	3,811,787
add: unexpended debt proceeds		
Net investment in capital asset	<u>\$ 4,567,387</u>	<u>\$ 1,991,082</u>

E. 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>	\$ 2,804,223
Less:	
Prepays	-
Stabilization by State Statute	218,267
Streets	20,061
Beach/Inlet/Sound Maintenance	-
Future Capital Expenditures	606,096
Appropriated Fund Balance in 2018 budget	-
Remaining Fund Balance	<u>\$ 1,959,799</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
-	\$ -	\$ -

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 25, 2017, the date on which the financial statements were available to be issued. The Town believes there have been no significant subsequent events.

V. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$51,784.

*Required Supplementary
Financial Data*



TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Other Postemployment Benefits

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
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%
12/31/2015	-	180,548	180,548	0.00%	807,123	22.4%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 11,890	37.3%
2012	11,890	119.4%
2013	12,871	172.0%
2014	16,922	25.6%
2015	19,267	142.5%
2016	19,220	77.5%
2017	19,252	91.8%

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Proportionate Share of Net Pension Liability (Asset)
 Required Supplementary Information
 Last Four Fiscal Years*

Local Government Employees' Retirement System

	2017	2016	2015	2014
Topsail Beach's proportion of the net pension liability (asset) (%)	0.01207%	0.01495%	0.01473%	0.01560%
Topsail Beach's proportion of the net pension liability (asset) (\$)	\$ 256,167	\$ 67,095	\$ (86,870)	\$ 188,040
Topsail Beach's covered-employee payroll	\$ 823,179	\$ 848,594	\$ 822,768	\$ 802,375
Topsail Beach's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.12%	7.91%	(10.56%)	23.44%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

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

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

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Town of Topsail Beach's Contributions

Required Supplementary Information

Last Four Fiscal Years

Local Government Employees' Retirement System

	2017	2016	2015	2014
Contractually required contribution	\$ 67,645	\$ 57,033	\$ 58,634	\$ 33,960
Contributions in relation to the contractually required contribution	67,645	57,033	58,634	33,960
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Topsail Beach's covered employee payroll	\$ 887,888	\$ 823,179	\$ 848,594	\$ 822,768
Contributions as a percentage of covered-employee payroll	7.62%	6.93%	6.91%	4.13%

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Schedule of Changes in Total Pension Liability
 Law Enforcement Officers' Special Separation Allowance
 June 30, 2017

	<u>2017</u>
Beginning balance	\$ 71,211
Service Cost	8,342
Interest on the total pension liability	2,266
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(2,058)
Benefit payments	(15,455)
Other changes	-
Ending balance of the total pension liability	<u>\$ 64,306</u>

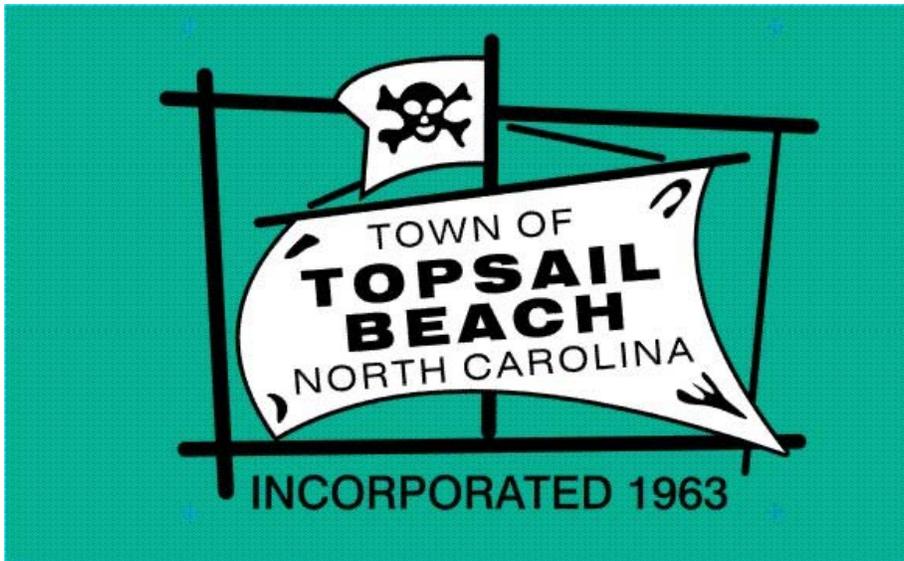
The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2017

	<u>2017</u>
Total pension liability	\$ 64,306
Covered payroll	373,557
Total pension liability as a percentage of covered payroll	17.21%

Notes to the schedules:

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



Major Governmental Funds

General Fund

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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 1,200,184	
Penalties and Interest		6,420	
Total Ad Valorem Taxes	\$ 1,195,500	1,206,604	\$ 11,104
Other Taxes and Licenses			
Accommodations Tax		147,248	
Total Other Taxes and Licenses	140,000	147,248	7,248
Unrestricted Intergovernmental			
Local Option Sales Tax		427,962	
Utility Sales Tax		104,160	
Telecommunications Tax		7,258	
Video Franchise Fee		20,081	
Beer and Wine Tax		16,242	
Total Unrestricted Intergovernmental	540,000	575,703	35,703
Restricted Intergovernmental			
Powell Bill Allocation		16,537	
Solid Waste Disposal Tax		197	
State Grants		28,990	
FEMA - Hurricane Matthew		18,637	
Total Restricted Intergovernmental	296,391	64,361	(232,030)
Permits and Fees			
Building Permits		60,551	
Police Fines		12,992	
Court Fees		349	
Beach Access Permits		26,420	
Boat Ramp/Slip Fees		49,193	
Total Permits and Fees	111,620	149,505	37,885
Sales and Services			
Solid Waste		302,596	
Rental Fees		73,966	
Total Sales and Services	368,000	376,562	8,562
Investment Earnings			
General		17,005	
Total Investment Earnings	12,498	17,005	4,507

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Miscellaneous			
Sale of Assets		6,340	
Donations		2,645	
Other		21,275	
Total Miscellaneous	40,500	30,260	(10,240)
Total Revenues	2,704,509	2,567,248	(137,261)
Expenditures			
Governing Body			
Salaries, Wages and Employee Benefits		19,339	
Other Expenditures		135,207	
Total Governing Body	165,414	154,546	10,868
Administration			
Salaries, Wages and Employee Benefits		270,541	
Other Expenditures		154,394	
Total Administration	468,945	424,935	44,010
Police			
Salaries, Wages and Employee Benefits		599,588	
Other Expenditures		74,447	
Capital Outlay		33,561	
Total Police	740,598	707,596	33,002
Fire			
Salaries, Wages and Employee Benefits		214,187	
Other Expenditures		55,064	
Capital Outlay		142,140	
Total Fire	703,949	411,391	292,558
Inspections			
Salaries, Wages and Employee Benefits		13,551	
Other Expenditures		12,317	
Total Planning and Zoning	34,450	25,868	8,582
Public Services			
Salaries, Wages and Employee Benefits		140,196	
Other Expenditures		26,385	
Total Public Services	197,637	166,581	31,056
Powell Bill			
Other Expenditures		4,547	
Total Powell Bill	17,000	4,547	12,453

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Marina			
Salaries, Wages and Employee Benefits		9,721	
Other Operating		45,809	
Debt - Interest		17,178	
Debt - Principal		143,750	
Total Marina	<u>221,620</u>	<u>216,458</u>	<u>5,162</u>
Sanitation			
Other Expenditures		284,382	
Total Sanitation	<u>285,806</u>	<u>284,382</u>	<u>1,424</u>
Beach Management and Tourism			
Salaries, Wages and Employee Benefits		31,850	
Other Expenditures		132,156	
Capital Outlay		19,199	
Total Beach Management and Tourism	<u>230,040</u>	<u>183,205</u>	<u>46,835</u>
Federal Beach Project			
Other Expenditures		12,500	
Total Federal Beach Project	<u>13,000</u>	<u>12,500</u>	<u>500</u>
Total Expenditures	<u>3,078,459</u>	<u>2,592,009</u>	<u>486,450</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(373,950)</u>	<u>(24,761)</u>	<u>349,189</u>
Other Financing Sources (Uses)			
Transfers In:			
Capital Reserve Fund	116,000	116,000	-
Beach, Inlet, and Sound Capital Project Fund	11,950	11,950	-
Transfers Out:			
Capital Reserve Fund	(500,000)	(500,000)	-
Installment Purchase Obligations Issued	100,000	100,000	-
Total Other Financing Sources (Uses)	<u>(272,050)</u>	<u>(272,050)</u>	<u>-</u>
Fund Balance Appropriated	<u>646,000</u>	<u>-</u>	<u>(646,000)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(296,811)</u>	<u>\$ (296,811)</u>
Fund Balance - Beginning of Year		<u>2,494,938</u>	
Fund Balance - End of Year		<u>\$ 2,198,127</u>	

Special Revenue Funds
Consolidated With General Fund

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

Nonmajor Special Revenue Fund - Capital Reserve Fund

For the Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Miscellaneous			
Other	\$ -	\$ -	\$ -
	<hr/>		
Other Financing Sources			
Transfers in:			
General Fund		500,000	
Water Fund		-	
Transfers out:			
General Fund		(116,000)	
Water Fund		(20,000)	
Total Other Financing Sources	<hr/> -	<hr/> 364,000	<hr/> -
	<hr/>		
Appropriated Fund Balance	-	-	-
	<hr/>		
Net Change in Fund Balance	<u>\$ -</u>	<u>364,000</u>	<u>\$ -</u>
	<hr/>		
Fund Balance - Beginning of Year		<u>242,096</u>	
	<hr/>		
Fund Balance - End of Year		<u>\$ 606,096</u>	

Major Governmental Funds

Capital Project Funds

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Major Capital Project Fund - Beach, Inlet, and Sound Capital Project Fund
For the Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 745,174	
Penalties and Interest		1,826	
Total Ad Valorem Taxes	\$ 731,200	747,000	\$ 15,800
Other Taxes and Licenses			
Accommodations Tax		874,049	
Total Other Taxes and Licenses	840,000	874,049	34,049
Restricted Intergovernmental			
Grants		-	
Total Restricted Intergovernmental	-	-	-
Investment Earnings			
General		11,713	
Total Investment Earnings	5,500	11,713	6,213
Total Revenues	1,576,700	1,632,762	56,062
Expenditures			
Beach/Inlet/Sound Maintenance			
Other Operating Expenditures		352,520	
Total Administration	468,800	352,520	116,280
Total Expenditures	468,800	352,520	116,280
Excess (Deficiency) of Revenues Over Expenditures	1,107,900	1,280,242	172,342
Other Financing Sources			
Transfers in:			
General Fund	-	-	-
Transfers out:			
General Fund	(11,950)	(11,950)	-
Total Other Financing Sources	(11,950)	(11,950)	-
Appropriated Fund Balance	(1,095,950)	-	1,095,950
Net Change in Fund Balance	\$ -	1,268,292	\$ 1,268,292
Fund Balance - Beginning of Year		1,958,165	
Fund Balance - End of Year		\$ 3,226,457	

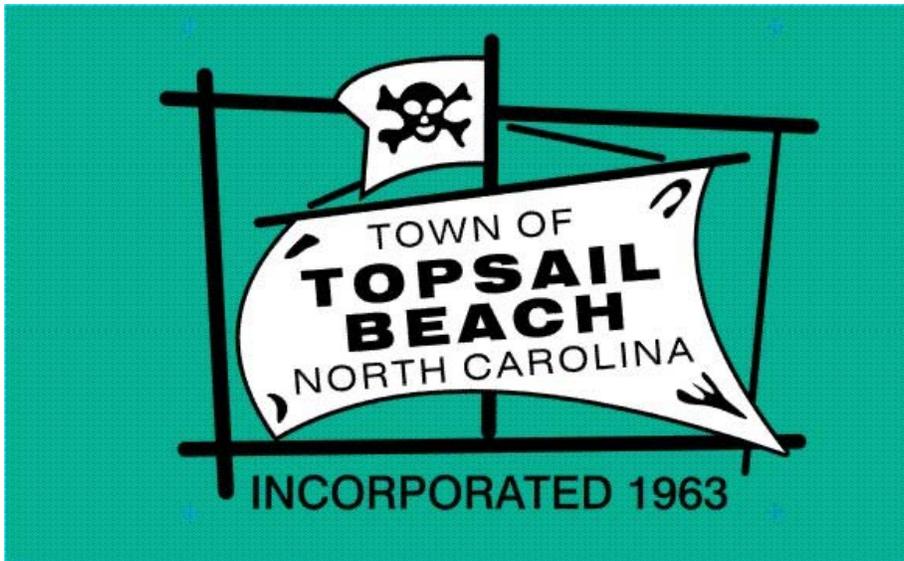
Enterprise Funds

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Water Fund
 Schedule of Revenues and Expenditures
 Budget and Actual (Non-GAAP)
 For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues			
Water Charges		\$ 828,774	
Water Taps		10,626	
Impact Fees		82,000	
Investment Earnings		1,869	
Miscellaneous		-	
Total Revenues	\$ 860,916	923,269	\$ 62,353
Expenditures			
Water and Sewer Operations			
Salaries and Employee Benefits		208,703	
Repairs and Maintenance		73,616	
Other Expenditures		163,541	
Capital Outlay		5,158	
Debt Service			
Principal Retirement		276,178	
Interest Expense		25,655	
Total Water Operations	880,916	752,851	128,065
Total Expenditures	880,916	752,851	128,065
Revenues Over (Under) Expenditures	(20,000)	170,418	190,418
Other Financing Sources (Uses)			
Transfers in:			
Capital Reserve Fund	20,000	20,000	-
Total Other Financing Sources (Uses)	20,000	20,000	-
Appropriated Fund Balance	-	-	-
Revenues and Other Sources Over Expenditures and Other Uses	\$ -	\$ 190,418	\$ 190,418

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 Water Fund
 Schedule of Revenues and Expenditures (Continued)
 Budget and Actual (Non-GAAP)
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and Other Sources Over Expenditures and Other Uses		\$ 190,418	
Reconciling Items:			
Depreciation Expense		(146,775)	
Deferred Outflows of Resources - Pensions		24,463	
Net Pension Liability		(26,334)	
Deferred Inflows of Resources - Pensions		3,600	
Accrued Interest Payable		2,914	
Compensated Absences Payable		344	
Other Postemployment Benefits Payable		(786)	
Capital Outlay		5,158	
Principal Retirement		276,178	
Total Reconciling Items		<u>138,762</u>	
Change in Net Position		<u>\$ 329,180</u>	



Other Schedules

TOWN OF TOPSAIL BEACH, NORTH CAROLINA
 General Fund and Beach, Inlet, and Sound Capital Project Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2017

Fiscal Year	Uncollected Balance 7-1-16	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-17
2016-17	\$ -	\$ 1,965,088	\$ 1,937,464	\$ 27,624
2015-16	9,875	-	6,601	3,274
2014-15	4,372	-	1,293	3,079
2013-14	3,130	-	-	3,130
2012-13	501	-	-	501
2011-12	852	-	-	852
2010-11	259	-	-	259
2009-10	124	-	-	124
2008-09	137	-	-	137
2007-08	155	-	-	155
2006-07	106	-	106	-
	\$ 19,511	\$ 1,965,088	\$ 1,945,464	39,135

Less: Allowance for Uncollectible Accounts:

General Fund and Beach, Inlet, and Sound Capital Project Fund 4,000

Ad Valorem Taxes Receivable - Net \$ 35,135

Reconciliation with Revenues

Ad Valorem Taxes - General Fund \$ 1,206,604
 Ad Valorem Taxes - Beach, Inlet, and Sound Capital Project Fund 747,000

Interest and Penalties Collected (8,246)

Taxes Released -

Taxes Written Off 106

Total Collections and Credits \$ 1,945,464

TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2017

	Town-Wide		Total Levy		
	Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property Taxed at					
Current Year's Rate	\$ 626,542,886	0.3125	\$ 1,957,946	\$ 1,938,033	\$ 19,913
Penalties	-		1,865	1,802	63
	<u>626,542,886</u>		<u>1,959,811</u>	<u>1,939,835</u>	<u>19,976</u>
Discoveries:					
Current Year Taxes	2,444,467	0.3125	7,639	7,639	-
Penalties	-		2,220	2,220	-
	<u>2,444,467</u>		<u>9,859</u>	<u>9,859</u>	<u>-</u>
Abatements:					
Property Taxes -					
Current Year's Rate	(1,466,240)	0.3125	\$ (4,582)	(4,582)	-
Total Property Valuations	<u>\$ 630,453,593</u>				
Net Levy			1,965,088	1,945,112	19,976
Uncollected Taxes at June 30, 2017			<u>27,624</u>	<u>27,624</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,937,464</u>	<u>\$ 1,917,488</u>	<u>\$ 19,976</u>
Current Levy Collection Percentage			<u>98.59%</u>	<u>98.58%</u>	<u>100.00%</u>

