

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Report of Audit

For the Fiscal Year Ended June 30, 2013

W GREENE & COMPANY, PLLC  
*Certified Public Accountants*



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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina as of June 30, 2013, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Topsail Beach, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposed of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013 on our consideration of Town of Topsail Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Topsail Beach's internal control over financial reporting and compliance.

*W Greene & Company PLLC*

August 30, 2013

## Management's Discussion and Analysis

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As management of the Town of Topsail Beach, we offer readers of the Town of Topsail Beach's financial statements this narrative overview and analysis of the financial activities of the Town of Topsail Beach for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

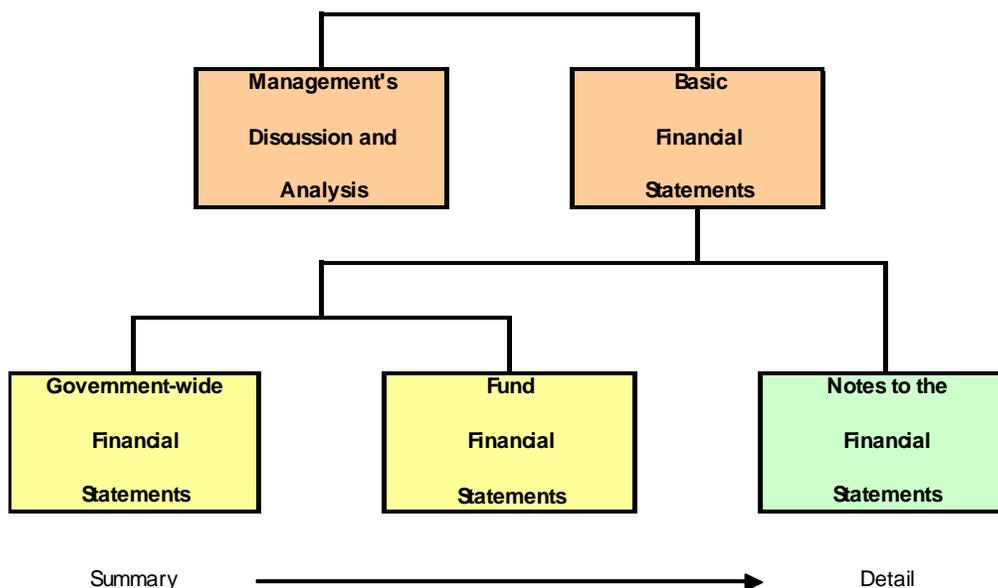
- The assets and deferred outflows of resources of the Town of Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,457,254 (net position).
- The government's total net position increased by \$1,085,849, primarily due to an increase in operating grants and contributions.
- As of the close of the current fiscal year, the Town of Topsail Beach's governmental funds reported combined ending fund balances of \$3,488,015, with a increase of \$654,808 in fund balance.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$986,084 or 22.28 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 the Town of Topsail Beach.

Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

The next statements (pages 22 through 31) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements, 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 three categories: 1) governmental activities; and 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as administration, streets and highways, and inspections. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Topsail Beach. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

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

### Fund Financial Statements

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

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 32 through 52 of this report.

## 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	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 3,561,647	\$ 3,003,007	\$ 1,567,295	\$ 1,228,826	\$ 5,128,942	\$ 4,231,833
Capital assets	4,827,503	4,466,780	6,032,953	2,955,805	10,860,456	7,422,585
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	<u>8,389,150</u>	<u>7,469,787</u>	<u>7,600,248</u>	<u>4,184,631</u>	<u>15,989,398</u>	<u>11,654,418</u>
Long-term liabilities outstanding	1,258,548	1,359,113	4,500,844	1,429,849	5,759,392	2,788,962
Other liabilities	297,151	311,397	475,074	182,013	772,225	493,410
Deferred inflows of resources	527	641	-	-	527	641
Total liabilities and deferred inflows of resources	<u>1,556,226</u>	<u>1,671,151</u>	<u>4,975,918</u>	<u>1,611,862</u>	<u>6,532,144</u>	<u>3,283,013</u>
Net position:						
Net investment in capital assets	3,444,705	3,016,306	1,267,539	1,438,126	4,712,244	4,454,432
Restricted	396,093	351,110	-	-	396,093	351,110
Unrestricted	2,992,126	2,431,220	1,356,791	1,134,643	4,348,917	3,565,863
Total net position	<u>\$ 6,832,924</u>	<u>\$ 5,798,636</u>	<u>\$ 2,624,330</u>	<u>\$ 2,572,769</u>	<u>\$ 9,457,254</u>	<u>\$ 8,371,405</u>

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 \$9,457,254 as of June 30, 2013. The Town's net position increased by \$1,085,849 for the fiscal year ended June 30, 2013. However, the largest portion (49%) 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 \$396,093 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$4,348,917 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.41%

## Management's Discussion and Analysis (Continued)

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

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 345,279	\$ 408,052	\$ 561,178	\$ 570,946	\$ 906,457	\$ 978,998
Operating grants and contributions	366,206	3,129,085	-	-	366,206	3,129,085
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	1,775,280	1,807,747	-	-	1,775,280	1,807,747
Other taxes	1,308,230	1,094,327	-	-	1,308,230	1,094,327
Other	104,644	70,247	20,413	10,050	125,057	80,297
Total revenues	<u>3,899,639</u>	<u>6,509,458</u>	<u>581,591</u>	<u>580,996</u>	<u>4,481,230</u>	<u>7,090,454</u>
Expenses:						
Governing body	68,128	73,295	-	-	68,128	73,295
Administration	399,065	314,853	-	-	399,065	314,853
Police	602,110	544,618	-	-	602,110	544,618
Fire	274,675	235,926	-	-	274,675	235,926
Inspections	22,759	21,012	-	-	22,759	21,012
Public Services	189,785	158,199	-	-	189,785	158,199
Powell Bill	54,768	97,076	-	-	54,768	97,076
Sanitation	269,936	255,124	-	-	269,936	255,124
Emergency Beach Renourishment	-	5,441	-	-	-	5,441
Beach Management and Tourism	292,940	229,712	-	-	292,940	229,712
Marina	43,241	46,863	-	-	43,241	46,863
Federal Beach Project	81,411	112,281	-	-	81,411	112,281
Beach/Inlet/Sound Maintenance	513,463	3,191,274	-	-	513,463	3,191,274
Interest on long-term debt	53,070	57,487	-	-	53,070	57,487
Water	-	-	530,030	708,883	530,030	708,883
Total expenses	<u>2,865,351</u>	<u>5,343,161</u>	<u>530,030</u>	<u>708,883</u>	<u>3,395,381</u>	<u>6,052,044</u>
Increase(Decrease) in net position before transfers	1,034,288	1,166,297	51,561	(127,887)	1,085,849	1,038,410
Transfers	-	-	-	-	-	-
Change in net position	<u>1,034,288</u>	<u>1,166,297</u>	<u>51,561</u>	<u>(127,887)</u>	<u>1,085,849</u>	<u>1,038,410</u>
Net position, July 1 (consolidated)	<u>5,798,636</u>	<u>4,632,339</u>	<u>2,572,769</u>	<u>2,700,656</u>	<u>8,371,405</u>	<u>7,332,995</u>
Net position, June 30	<u>\$ 6,832,924</u>	<u>\$ 5,798,636</u>	<u>\$ 2,624,330</u>	<u>\$ 2,572,769</u>	<u>\$ 9,457,254</u>	<u>\$ 8,371,405</u>

**Governmental activities.** Governmental activities increased the Town's net position by \$1,034,288 primarily due to decreased expenses in the general fund.

**Business-type activities.** Business-type activities increased the Town's net position by \$51,561 primarily due to decreased expenses in the water fund.

### Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Topsail Beach. At the end of the current fiscal year, Town of Topsail Beach's fund balance available in the General Fund was \$3,091,922, while total fund balance reached \$3,488,015. The Town currently has an available fund balance of 94.39 percent of total General Fund expenditures, while total fund balance represents 106.48 percent of the same amount.

At June 30, 2013, the governmental funds of Town of Topsail Beach reported a combined fund balance of \$3,488,015, with a net increase in fund balance of \$654,808. Included in this change in fund balance are increases in fund balance in the General Fund.

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

Revenues were less than the budgeted amounts primarily because the Town did not receive some of the unrestricted intergovernmental funds that were anticipated. Expenditures were held in check to comply with its budgetary requirements.

**Proprietary Funds.** The Town of Topsail Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Proprietary Fund at the end of the fiscal year amounted to \$1,356,791. The total change in net position for the Proprietary Fund was an increase of \$51,561.

## Management's Discussion and Analysis (Continued)

### 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, 2013, totals \$10,860,456 (net of accumulated depreciation). These assets include buildings, land, vehicles, infrastructure, and equipment.

Major capital asset transactions during the year include the following:

- Water tower

The Town of Topsail Beach's Capital Assets

Figure 4

(Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
	Land	\$ 3,951,452	\$ 3,450,003	\$ 1,303,353	\$ 1,303,353	\$ 5,254,805
Construction in Progress	-	-	-	-	-	-
Buildings	204,931	214,034	1,817	2,067	206,748	216,101
Infrastructure	354,909	370,899	-	-	354,909	370,899
Vehicles	254,137	363,692	-	-	254,137	363,692
Plant and Distribution Equipment	-	-	4,651,649	1,546,864	4,651,649	1,546,864
	62,074	68,152	76,134	103,522	138,208	171,674
<b>Total</b>	<b>\$ 4,827,503</b>	<b>\$ 4,466,780</b>	<b>\$ 6,032,953</b>	<b>\$ 2,955,806</b>	<b>\$ 10,860,456</b>	<b>\$ 7,422,586</b>

Additional information on the Town's capital assets can be found on page 43 in the Notes to the Financial Statements.

**Long-term Debt.** As of June 30, 2013, the Town of Topsail Beach had total debt outstanding of \$6,148,212. Of this, \$0- is debt backed by the full faith and credit of the Town of Topsail Beach.

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

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
	Installment purchases	\$ 1,382,798	\$ 306,723	\$ 4,765,414	\$ 1,517,680	\$ 6,148,212
Capital leases	-	1,143,750	-	-	-	1,143,750
<b>Total</b>	<b>\$ 1,382,798</b>	<b>\$ 1,450,473</b>	<b>\$ 4,765,414</b>	<b>\$ 1,517,680</b>	<b>\$ 6,148,212</b>	<b>\$ 2,968,153</b>

The Town of Topsail Beach's total debt increased by \$3,180,059 during the fiscal year.

## Management's Discussion and Analysis (Continued)

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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 \$49,937,580. The Town of Topsail Beach does not have any authorized but un-issued debt at June 30, 2013.

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

### **Economic Factors and Next Year's Budgets and Rates**

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

- Population growth
- New construction

### **Budget Highlights for the Fiscal Year Ending June 30, 2014**

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

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

### **Requests for Information**

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

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



*Basic Financial Statements*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Net Position

June 30, 2013

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,150,373	\$ 983,638	\$ 4,134,011
Receivables (net):			
Ad Valorem Taxes	13,506	-	13,506
Accommodations Taxes	131,842	-	131,842
Interest	1,675	-	1,675
Accounts	26,451	92,917	119,368
Due from Other Governments	237,800	490,740	728,540
Restricted Cash and Cash Equivalents	-	-	-
<b>Total Current Assets</b>	<b>3,561,647</b>	<b>1,567,295</b>	<b>5,128,942</b>
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	3,951,452	1,303,353	5,254,805
Other Capital Assets, Net of Depreciation	876,051	4,729,600	5,605,651
<b>Total Noncurrent Assets</b>	<b>4,827,503</b>	<b>6,032,953</b>	<b>10,860,456</b>
<b>Total Assets</b>	<b>\$ 8,389,150</b>	<b>\$ 7,600,248</b>	<b>\$ 15,989,398</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Net Position (Continued)

June 30, 2013

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable and			
Accrued Liabilities	\$ 55,924	\$ 128,214	\$ 184,138
Interest Payable	19,744	5,441	25,185
Customer Deposits	2,000	65,240	67,240
Current Portion of Long-Term Liabilities	219,483	276,179	495,662
<b>Total Current Liabilities</b>	<b>297,151</b>	<b>475,074</b>	<b>772,225</b>
Long-Term Liabilities:			
Due in More Than One year	1,258,548	4,500,844	5,759,392
<b>Total Liabilities</b>	<b>1,555,699</b>	<b>4,975,918</b>	<b>6,531,617</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Prepaid Taxes	527	-	527
<b>Total Deferred Inflows of Resources</b>	<b>527</b>	<b>-</b>	<b>527</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,444,705	1,267,539	4,712,244
Restricted for:			
Transportation	-	-	-
Stabilization by State Statute	396,093	-	396,093
Unrestricted	2,992,126	1,356,791	4,348,917
<b>Total Net Position</b>	<b>\$ 6,832,924</b>	<b>\$ 2,624,330</b>	<b>\$ 9,457,254</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Activities

For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
Governing Body	\$ 68,128	\$ -	\$ -	\$ -
Administration	399,065	7,996	222,035	-
Police	602,110	2,618	-	-
Fire	274,675	-	12,681	-
Inspections	22,759	28,314	-	-
Public Services	189,785	-	-	-
Powell Bill	54,768	-	16,084	-
Sanitation	269,936	254,045	111	-
Beach Management and Tourism	292,940	18,065	-	-
Marina	43,241	34,241	-	-
Federal Beach Project	81,411	-	-	-
Beach/Inlet/Sound Maintenance	513,463	-	115,295	-
Interest on long-term debt	53,070	-	-	-
<b>Total Governmental Activities</b>	<b>2,865,351</b>	<b>345,279</b>	<b>366,206</b>	<b>-</b>
<b>Total Primary Government</b>	<b>2,865,351</b>	<b>345,279</b>	<b>366,206</b>	<b>-</b>
<b>Business-Type Activities:</b>				
Water	530,030	561,178	-	-
<b>Total Business-Type Activities</b>	<b>\$ 530,030</b>	<b>\$ 561,178</b>	<b>\$ -</b>	<b>\$ -</b>

**General Revenues:**

Property Taxes, Levied for General Purpose

Other Taxes and Licenses

Investment Earnings

Miscellaneous

**Transfers**

**Total General Revenues and Transfers**

**Change in Net Position**

**Net Position - Beginning of Year**

**Net Position - End of Year**

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**Net (Expense) Revenue and Changes in Net Assets**

**Primary Government**

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	<b>Governmental Activities</b>	<b>Business-Type Activities</b>		<b>Totals</b>
\$	(68,128)	\$ -	\$	(68,128)
	(169,034)	-		(169,034)
	(599,492)	-		(599,492)
	(261,994)	-		(261,994)
	5,555	-		5,555
	(189,785)	-		(189,785)
	(38,684)	-		(38,684)
	(15,780)	-		(15,780)
	(274,875)	-		(274,875)
	(9,000)	-		(9,000)
	(81,411)	-		(81,411)
	(398,168)	-		(398,168)
	(53,070)	-		(53,070)
	<u>(2,153,866)</u>	-		<u>(2,153,866)</u>
	(2,153,866)	-		(2,153,866)
	-	31,148		31,148
	-	<u>31,148</u>		<u>31,148</u>
	1,775,280	-		1,775,280
	1,308,230	-		1,308,230
	6,120	4,906		11,026
	98,524	15,507		114,031
	-	-		-
	<u>3,188,154</u>	<u>20,413</u>		<u>3,208,567</u>
	1,034,288	51,561		1,085,849
	5,798,636	2,572,769		8,371,405
\$	<u>6,832,924</u>	<u>\$ 2,624,330</u>	\$	<u>9,457,254</u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet

Governmental Funds

June 30, 2013

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	General		Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	3,150,373	\$	3,150,373
Restricted Cash	-		-
Receivables (net):			
Ad Valorem Taxes	13,506		13,506
Accommodations Tax	131,842		131,842
Accounts	26,451		26,451
Due from Other Governments	237,800		237,800
<b>Total Assets</b>	<u>\$ 3,559,972</u>	<u>\$</u>	<u>3,559,972</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 55,924	\$	55,924
Deposits	2,000		2,000
<b>Total Liabilities</b>	<u>57,924</u>		<u>57,924</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Receivable	13,506		13,506
Prepaid Taxes	527		527
<b>Total Deferred Inflows of Resources</b>	<u>14,033</u>		<u>14,033</u>
<b>FUND BALANCES</b>			
Restricted			
Stabilization by State Statute	396,093		396,093
Streets	-		-
Committed			
Beach/Inlet/Sound Maintenance	2,105,838		2,105,838
Assigned			
Subsequent Year's Expenditures:	-		-
Unassigned	986,084		986,084
<b>Total Fund Balances</b>	<u>3,488,015</u>		<u>3,488,015</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 3,559,972</u>		

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet (Continued)

Governmental Funds

June 30, 2013

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Governmental Fund Balance	\$ 3,488,015
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical costs	\$ 6,236,289
Accumulated depreciation	<u>(1,408,786)</u>
	4,827,503
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>1,675</u>
	1,675
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	
Ad valorem taxes	13,506
Other taxes	<u>-</u>
	13,506
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Accrued interest payable	(19,744)
Installment purchases	(1,382,798)
Net pension obligation	(27,422)
Other postemployment benefits	(2,948)
Compensated absences	<u>(64,863)</u>
	(1,497,775)
<b>Net position of governmental activities.</b>	<u><u>\$ 6,832,924</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, 2013

	<u>Major Funds</u>	
	General Fund	Total Governmental Funds
<b>Revenues</b>		
Ad Valorem Taxes	\$ 1,806,162	\$ 1,806,162
Other Taxes and Licenses	789,679	789,679
Unrestricted Intergovernmental	526,547	526,547
Restricted Intergovernmental	366,206	366,206
Permits and Fees	83,238	83,238
Sales and Services	305,243	305,243
Investment Earnings	6,120	6,120
Miscellaneous	47,326	47,326
<b>Total Revenues</b>	<u>3,930,521</u>	<u>3,930,521</u>
<b>Expenditures</b>		
Current		
Governing Body	68,128	68,128
Administration	396,880	396,880
Police	572,218	572,218
Fire	183,139	183,139
Inspections	22,759	22,759
Public Services	183,424	183,424
Powell Bill	52,731	52,731
Marina	36,840	36,840
Sanitation	269,936	269,936
Beach Management and Tourism	283,334	283,334
Beach/Inlet/Sound Maintenance	513,463	513,463
Federal Beach Project	81,411	81,411
Debt Service		
Principal	1,217,675	1,217,675
Interest and Other charges	33,326	33,326
Capital Outlay		
Police	9,000	9,000
Beach Management and Tourism	501,449	501,449
<b>Total Expenditures</b>	<u>4,425,713</u>	<u>4,425,713</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(495,192)</u>	<u>(495,192)</u>
<b>Other Financing Sources (Uses)</b>		
Installment Loan Obligations Issued	1,150,000	1,150,000
<b>Total Other Financing Sources (Uses)</b>	<u>1,150,000</u>	<u>1,150,000</u>
<b>Net Change in Fund Balance</b>	654,808	654,808
<b>Fund Balance - Beginning of Year</b>	<u>2,833,207</u>	<u>2,833,207</u>
<b>Fund Balance - End of Year</b>	<u>\$ 3,488,015</u>	<u>\$ 3,488,015</u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)  
Governmental Funds  
For the Year Ended June 30, 2013

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

Net changes in fund balances - total governmental funds	\$	654,808
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	510,449	
Depreciation expense	<u>(149,726)</u>	360,723

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	(25,511)	
Interest earned on ad valorem taxes	<u>(5,371)</u>	(30,882)

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	(1,150,000)	
Debt retirement	<u>1,217,675</u>	67,675

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	(19,744)	
Compensated absences	(11,607)	
Net pension obligation	6,226	
Other postemployment benefits	<u>7,089</u>	(18,036)

Total changes in net position of governmental activities	\$	<u><u>1,034,288</u></u>
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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	<b>General Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Ad Valorem Taxes	\$ 1,781,839	1,815,032	1,806,162	\$ (8,870)
Other Taxes and Licenses	582,000	773,172	789,679	16,507
Unrestricted Intergovernmental	562,638	474,614	526,547	51,933
Restricted Intergovernmental	200,000	250,894	366,206	115,312
Permits and Fees	50,000	76,164	83,238	7,074
Sales and Services	262,513	316,013	305,243	(10,770)
Investment Earnings	-	4,372	6,120	1,748
Miscellaneous	-	41,516	47,326	5,810
<b>Total Revenues</b>	<b>3,438,990</b>	<b>3,751,777</b>	<b>3,930,521</b>	<b>178,744</b>
<b>Expenditures</b>				
Governing Body	76,052	68,128	68,128	-
Administration	418,243	396,881	396,880	1
Police	558,213	572,218	572,218	-
Fire	230,597	273,072	273,071	1
Inspections	11,250	23,934	22,759	1,175
Public Services	203,428	194,723	183,424	11,299
Powell Bill Funds	78,055	53,981	52,731	1,250
Marina	180,619	1,208,967	1,206,909	2,058
Sanitation	251,113	287,382	269,936	17,446
Beach Management and Tourism	238,505	807,563	784,783	22,780
Beach/Inlet/Sound Maintenance	1,125,415	1,518,517	513,463	1,005,054
Federal Beach Project	67,500	81,411	81,411	-
<b>Total Expenditures</b>	<b>3,438,990</b>	<b>5,486,777</b>	<b>4,425,713</b>	<b>1,061,064</b>
<b>Revenues Over (Under) Expenditures</b>	<b>-</b>	<b>(1,735,000)</b>	<b>(495,192)</b>	<b>1,239,808</b>
<b>Other Financing Sources (Uses)</b>				
Installment Loan Obligations Issued	-	1,150,000	1,150,000	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>1,150,000</b>	<b>1,150,000</b>	<b>-</b>
<b>Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>-</b>	<b>(585,000)</b>	<b>654,808</b>	<b>1,239,808</b>
<b>Appropriated Fund Balance</b>	<b>-</b>	<b>585,000</b>	<b>-</b>	<b>(585,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>654,808</b>	<b>\$ 654,808</b>
<b>Fund Balance - Beginning of Year</b>			<b>2,833,207</b>	
<b>Fund Balance - End of Year</b>			<b>3,488,015</b>	



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Fund Net Position  
Proprietary Fund  
June 30, 2013

	<u>Water Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 983,638
Accounts Receivable (net)	92,917
Due from Other Governments	490,740
<b>Total Current Assets</b>	<u>1,567,295</u>
<b>Noncurrent Assets</b>	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	1,303,353
Other Capital Assets, Net of Depreciation	4,729,600
<b>Total Noncurrent Assets</b>	<u>6,032,953</u>
<b>Total Assets</b>	<u>\$ 7,600,248</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable and Accrued Liabilities	\$ 128,214
Interest Payable	5,441
Customer Deposits	65,240
Installment Notes Payable	276,179
<b>Total Current Liabilities</b>	<u>475,074</u>
<b>Noncurrent Liabilities</b>	
Installment Notes Payable	4,489,235
Other Postemployment Benefits	982
Compensated Absences Payable	10,627
<b>Total Noncurrent Liabilities</b>	<u>4,500,844</u>
<b>Total Liabilities</b>	<u>4,975,918</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	1,267,539
Unrestricted	1,356,791
<b>Total Net Position</b>	<u>\$ 2,624,330</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, 2013

	<u>Water Fund</u>
<b>Operating Revenues</b>	
Water Charges	\$ 519,128
Water Taps	7,800
Impact Fees	34,250
Miscellaneous	498
<b>Total Operating Revenues</b>	<u>561,676</u>
<b>Operating Expenses</b>	
Water Operations	413,539
Depreciation	76,067
<b>Total Operating Expenses</b>	<u>489,606</u>
<b>Operating Income (Loss)</b>	<u>72,070</u>
<b>Nonoperating Revenues (Expenses)</b>	
Investment Earnings	4,906
Tower Lease	15,009
Interest Expense	(40,424)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(20,509)</u>
<b>Total Income (Loss) Before Transfers</b>	51,561
<b>Transfers from Other Funds</b>	<u>-</u>
<b>Change in Net Position</b>	51,561
<b>Total Net Position - Beginning of Year</b>	<u>2,572,769</u>
<b>Total Net Position - End of Year</b>	<u>\$ 2,624,330</u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

## Statement of Cash Flows

## Proprietary Fund

For the Year Ended June 30, 2013

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	<b>Water Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers and Users	\$ 633,431
Cash Paid for Goods and Services	(90,807)
Cash Paid to Employees for Services	(207,909)
Customer Deposits Received	1,770
Customer Deposits Returned	(5,713)
<b>Net Cash Provided(Used) by Operating Activities</b>	<u>330,772</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers in	-
<b>Net Cash Provided(Used) by Noncapital Financing Activities</b>	<u>-</u>
<b>Cash Flows from Capital Financing Activities</b>	
Acquisition of Capital Assets	(3,153,214)
Installment Loan Proceeds	2,858,173
Interest Paid on Installment Purchases	(34,983)
Principal Paid on Installment Purchases	(101,179)
<b>Net Cash Provided(Used) by Capital Financing Activities</b>	<u>(431,203)</u>
<b>Cash Flows from Investing Activities</b>	
Tower Lease Receipts	15,009
Interest on Investments	4,906
<b>Net Cash Provided(Used) by Investing Activities</b>	<u>19,915</u>
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	(80,516)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>1,064,154</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 983,638</u>

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Cash Flows (Continued)  
Proprietary Fund  
For the Year Ended June 30, 2013

	<u>Water Fund</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	\$ <u>72,070</u>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Depreciation	76,067
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	71,755
Increase (Decrease) in Accounts Payable and Accrued Liabilities	116,563
Increase (Decrease) in Customer Deposits	(3,943)
Increase (Decrease) in Other Postemployment Benefits	(2,180)
Increase (Decrease) in Compensated Absences Payable	<u>440</u>
Total Adjustments	<u>258,702</u>
<b>Net Cash Provided(Used) by Operating Activities</b>	<u><u>\$ 330,772</u></u>

## TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements

For the Year Ended June 30, 2013

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

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

#### B. Basis of Presentation

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

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

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

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

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.

The Town reports the following major enterprise fund:

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

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

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

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

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Pender County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Topsail Beach. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Pender County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Budgetary Data**

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

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

**1. Deposits and Investments**

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town 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.

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

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

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

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

**4. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012. As allowed by State Law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

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

**5. Allowances for Doubtful Accounts**

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

**6. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 are not recorded. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

**7. Deferred Outflows/Inflows of Resources**

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

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

**8. Long-Term Obligations**

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

**9. Compensated Absences**

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

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

**10. Net Position/Fund Balances**

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

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

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

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

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

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

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

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

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

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

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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**II. DETAIL NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits**

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

At June 30, 2013, the Town's deposits had a carrying amount of \$3,851,677 and a bank balance of \$4,189,960. 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, 2013, the Town of Topsail Beach had \$282,334 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

**3. Receivables - Allowances for Doubtful Accounts**

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2013 are net of the following allowances for doubtful accounts:

Fund	06/30/2013
General Fund:	
Taxes receivable	\$ 1,000
Total	\$ 1,000

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

**A. Assets (Continued)**

**3. Capital Assets**

**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 3,450,003	\$ 501,449	\$ -	\$ 3,951,452
Total capital assets not being depreciated	<u>3,450,003</u>	<u>501,449</u>	<u>-</u>	<u>3,951,452</u>
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	455,281	-	-	455,281
Equipment	266,846	9,000	-	275,846
Vehicles	1,104,571	-	-	1,104,571
Infrastructure	449,139	-	-	449,139
Total capital assets being depreciated	<u>2,275,837</u>	<u>-</u>	<u>-</u>	<u>2,284,837</u>
<b>Less accumulated depreciation for:</b>				
Buildings and Improvements	241,247	9,103	-	250,350
Equipment	198,694	15,078	-	213,772
Vehicles	740,879	109,555	-	850,434
Infrastructure	78,240	15,990	-	94,230
Total accumulated depreciation	<u>1,259,060</u>	<u>149,726</u>	<u>-</u>	<u>1,408,786</u>
Total capital assets being depreciated, net	<u>1,016,777</u>			<u>876,051</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 4,466,780</u>			<u>\$ 4,827,503</u>

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

Administration	\$ 3,229
Police	33,056
Fire	91,536
Inspection	-
Public Services	3,861
Beach Management and Tourism	9,606
Marina	6,401
Powell Bill	2,037
Total	<u>\$ 149,726</u>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

**A. Assets (Continued)**

**3. Capital Assets (Continued)**

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Water and Sewer Fund</i>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,303,353	\$ -	\$ -	\$ 1,303,353
Construction In Progress	-	-	-	-
Total capital assets not being depreciated	1,303,353	-	-	1,303,353
<b>Capital assets being depreciated:</b>				
Buildings	5,000	-	-	5,000
Equipment	195,104	-	-	195,104
Vehicles	59,289	-	-	59,289
Plant and distribution systems	2,421,447	3,153,214	-	5,574,661
Total capital assets being depreciated	2,680,840	3,153,214	-	5,834,054
<b>Less accumulated depreciation for:</b>				
Buildings	2,933	250	-	3,183
Equipment	91,582	27,388	-	118,970
Vehicles	59,289	-	-	59,289
Plant and distribution systems	874,583	48,429	-	923,012
Total accumulated depreciation	1,028,387	76,067	-	1,104,454
Total capital assets being depreciated, net	1,652,453			4,729,600
<b>Water and Sewer fund capital assets, net</b>	<b>\$ 2,955,806</b>			<b>\$ 6,032,953</b>

**B. Liabilities**

**1. Pension Plan Obligations**

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

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

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

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**a. Local Governmental Employees' Retirement System (Continued)**

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement is 6.74% of annual covered payroll. The contribution requirements of members and of the Town of Topsail Beach are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$50,458, \$36,325, and \$44,617, respectively. The contributions made by the Town equaled the required contributions for each year.

**b. Law Enforcement Officers Special Separation Allowance**

**1. Plan Description**

The Town of Topsail Beach administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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

Retirees receiving benefits	1
Active plan members	9
Total	10

A separate report was not issued for the plan.

**2. Summary of Significant Accounting Policies:**

*Basis of Accounting.* The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

**II. DETAIL NOTES ON ALL FUNDS (Continued)****B. Liabilities (Continued)****1. Pension Plan Obligations (Continued)****b. Law Enforcement Officers Special Separation Allowance (Continued)****3. Contributions**

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

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post employment benefit increases.

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

Annual required contribution	\$	9,641
Interest on net pension obligation		1,682
Adjustment to annual required contribution		<u>(2,094)</u>
Annual pension cost		9,229
Contributions made		<u>15,455</u>
Increase (decrease) in net pension obligation		(6,226)
Net pension obligation beginning of year		<u>33,648</u>
Net pension obligation end of year	\$	<u><u>27,422</u></u>

For Year Ended June 30	3 Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 6,303	245.20%	\$ 40,352
2012	8,751	176.61	33,648
2013	9,229	167.46	27,422

**4. Funded Status and Funding Progress**

As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$102,386. The covered payroll (annual payroll of active employees covered by the plan) was \$344,866, and the ratio of UAAL to the covered payroll was 29.69 percent.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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**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, 2013 were \$35,214, which consisted of \$24,406 from the Town and \$10,808 from the law enforcement officers.

**All Other Employees**

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

*Funding Policy.* The Town matches up to five percent of employees' wages. For the year ended June 30, 2013, total contributions to the plan equaled \$34,774, which consisted of \$18,996 from the Town and \$15,778 from the participating employees.

**d. Firemen's and Rescue Squad Workers' Pension Fund**

*Plan Description.* The State of North Carolina contributes, on behalf of the Town of Topsail Beach, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**d. Firemen’s and Rescue Squad Workers’ Pension Fund (Continued)**

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

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

**1. Healthcare Benefits**

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

Membership of the HCB Plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

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

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

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

**1. Healthcare Benefits (Continued)**

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

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

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

Annual required contribution	\$	12,798
Interest on net OPEB obligation		528
Adjustment to annual required contribution		(455)
Annual OPEB cost (expense)		<u>12,871</u>
Contributions made		<u>(22,140)</u>
Increase (decrease) in net OPEB obligation		(9,269)
Net OPEB obligation, beginning of year		<u>13,199</u>
Net OPEB obligation, end of year	\$	<u><u>3,930</u></u>

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

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 12,871	172.0%	\$ 3,930
2012	11,890	119.4	13,199
2011	11,890	37.3	15,505

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

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

**1. Healthcare Benefits (Continued)**

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

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

**2. Other Employment Benefits**

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

**B. Liabilities (Continued)**

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

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

	Unavailable Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ 527
Taxes receivable (General Fund)	13,506	-
Prepaid water billings (Water Fund)	-	-
Total	<u>\$ 13,506</u>	<u>\$ 527</u>

**4. Risk Management**

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

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

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

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

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

**B. Liabilities (Continued)**

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

At June 30, 2013, 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, but it is currently indebted to the state for \$1,416,500. Interest on the loan is at an annual rate of 2.305%.

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

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

In December 2012, the business type activity fund has chosen to finance purchases with installment payments from the North Carolina Department of Environmental and Natural Resources. The Town has not completed its water project as of June 30, 2013, but it is currently indebted to the state for \$3,348,914. Interest on the loan is at an annual rate of 0.00%.

Annual debt service payments of the installment purchases as of June 30, 2013, including \$378,560 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 219,483	\$ 32,685	\$ 276,179	\$ 32,650
2015	221,335	27,398	276,179	30,318
2016	223,231	22,065	276,179	27,986
2017	143,750	17,178	276,179	25,654
2018	143,750	13,743	276,179	23,322
2019-2023	431,249	20,613	1,380,895	81,626
2024-2028	-	-	1,279,716	23,322
2029-2033	-	-	723,908	-
<b>Total</b>	<b>\$ 1,382,798</b>	<b>\$ 133,682</b>	<b>\$ 4,765,414</b>	<b>\$ 244,878</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

**B. Liabilities (Continued)**

**6. Long-Term Obligations**

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

	Balance 07/01/12	Increases	Decreases	Balance 06/30/13	Current Portion of Balance
Governmental activities:					
Capitalized leases	\$ 1,143,750	\$ -	\$ (1,143,750)	\$ -	-
Installment notes	306,723	1,150,000	(73,925)	1,382,798	219,483
Compensated absences	53,256	21,990	(10,383)	64,863	-
Other postemployment benefits	10,037	-	(7,089)	2,948	-
Net pension obligation	<u>33,648</u>	<u>9,229</u>	<u>(15,455)</u>	<u>27,422</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 1,547,414</u>	<u>\$ 1,181,219</u>	<u>\$ (1,250,602)</u>	<u>\$ 1,478,031</u>	<u>\$ 219,483</u>
Business-type activities:					
Installment purchase	\$ 1,517,680	\$ 3,348,913	\$ (101,179)	\$ 4,765,414	\$ 276,179
Compensated absences	10,187	1,160	(720)	10,627	-
Other postemployment benefits	<u>3,162</u>	<u>-</u>	<u>(2,180)</u>	<u>982</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 1,531,029</u>	<u>\$ 3,350,073</u>	<u>\$ 104,079</u>	<u>\$ 4,777,023</u>	<u>\$ 276,179</u>

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

**C. Interfund Balances and Activity**

Transfers to/from other funds at June 30, 2013, consist of the following:

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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

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

For the fiscal year ended June 30, 2013, the Town of Topsail Beach has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$272 for the 1 employed fireman who perform firefighting duties for the town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by \$10 monthly contribution paid by each member, investment income, and a State appropriation.

**E. 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>	\$	3,488,015
Less:		
Stabilization by State Statute		396,093
Streets		-
Beach/Inlet/Sound Maintenance		2,105,838
Appropriated Fund Balance in 2014 budget		-
Remaining Fund Balance		986,084

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
-	\$ -	\$ -

**IV. 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.

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2013

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**V. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

*Required Supplementary*

*Financial Data*

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

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

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

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

Notes to the Required Schedules:

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

Valuation Date	12/31/2012
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Pay Closed
Remaining Amortization Period	18 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Projected Salary Increases	4.25 - 7.85%
Includes Inflation at	3.00%
Cost of Living Adjustments	N/A

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Other Postemployment Benefits

Required Supplementary Information

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
12/31/2009	\$ -	\$ 131,642	\$ 131,642	0.00%	\$ 752,687	17.5%

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Other Postemployment Benefits

Required Supplementary Information

Schedule of Employer Contributions

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



*Major Governmental Funds*

*General Fund*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
<b>Ad Valorem Taxes</b>			
Taxes		1,801,098	
Penalties and Interest		5,064	
<b>Total Ad Valorem Taxes</b>	<b>1,815,032</b>	<b>1,806,162</b>	<b>\$ (8,870)</b>
<b>Other Taxes and Licenses</b>			
Privilege Licenses		7,996	
Accommodations Tax		781,683	
<b>Total Other Taxes and Licenses</b>	<b>773,172</b>	<b>789,679</b>	<b>16,507</b>
<b>Unrestricted Intergovernmental</b>			
Local Option Sales Tax		454,805	
Utility Franchise Tax		35,357	
Telecommunications Tax		9,293	
Video Franchise Fee		18,992	
Beer and Wine Tax		8,100	
<b>Total Unrestricted Intergovernmental</b>	<b>474,614</b>	<b>526,547</b>	<b>51,933</b>
<b>Restricted Intergovernmental</b>			
Powell Bill Allocation		16,084	
Federal Grants		222,035	
State Grants		9,729	
On Behalf Payments - Fire		2,952	
Miscellaneous		115,295	
Solid Waste Disposal Tax		111	
<b>Total Restricted Intergovernmental</b>	<b>250,894</b>	<b>366,206</b>	<b>115,312</b>
<b>Permits and Fees</b>			
Building Permits		28,314	
Police Fines		2,316	
Court Fees		302	
CAMA Fees		20	
Beach Access Permits		18,045	
Boat Ramp/Slip Fees		34,241	
<b>Total Permits and Fees</b>	<b>76,164</b>	<b>83,238</b>	<b>7,074</b>
<b>Sales and Services</b>			
Solid Waste		254,045	
Rental Fees		51,198	
<b>Total Sales and Services</b>	<b>316,013</b>	<b>305,243</b>	<b>(10,770)</b>
<b>Investment Earnings</b>			
General		6,120	
<b>Total Investment Earnings</b>	<b>4,372</b>	<b>6,120</b>	<b>1,748</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)  
 Budget and Actual  
 For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
<b>Miscellaneous</b>			
Other		47,326	
<b>Total Miscellaneous</b>	41,516	47,326	5,810
<b>Total Revenues</b>	3,751,777	3,930,521	178,744
<b>Expenditures</b>			
<b>Governing Body</b>			
Salaries, Wages and Employee Benefits		11,454	
Other Expenditures		56,674	
<b>Total Governing Body</b>	68,128	68,128	-
<b>Administration</b>			
Salaries, Wages and Employee Benefits		268,977	
Other Expenditures		127,903	
<b>Total Administration</b>	396,881	396,880	1
<b>Police</b>			
Salaries, Wages and Employee Benefits		503,456	
Other Expenditures		68,762	
<b>Total Police</b>	572,218	572,218	-
<b>Fire</b>			
Salaries, Wages and Employee Benefits		145,934	
Other Expenditures		37,205	
Capital Outlay		9,000	
Debt - Interest		7,007	
Debt - Principal		73,925	
<b>Total Fire</b>	273,072	273,071	1
<b>Inspections</b>			
Salaries, Wages and Employee Benefits		63	
Other Expenditures		22,696	
<b>Total Planning and Zoning</b>	23,934	22,759	1,175
<b>Public Services</b>			
Salaries, Wages and Employee Benefits		138,949	
Other Expenditures		44,475	
<b>Total Public Services</b>	194,723	183,424	11,299
<b>Powell Bill</b>			
Other Expenditures		52,731	
<b>Total Powell Bill</b>	53,981	52,731	1,250

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)  
 Budget and Actual  
 For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
<b>Marina</b>			
Salaries, Wages and Employee Benefits		15,568	
Other Operating		21,272	
Debt - Interest		26,319	
Debt - Principal		1,143,750	
<b>Total Marina</b>	<u>1,208,967</u>	<u>1,206,909</u>	<u>2,058</u>
<b>Sanitation</b>			
Other Expenditures		269,936	
<b>Total Sanitation</b>	<u>287,382</u>	<u>269,936</u>	<u>17,446</u>
<b>Beach Management and Tourism</b>			
Salaries, Wages and Employee Benefits		38,329	
Other Expenditures		245,005	
Capital Outlay		501,449	
<b>Total Beach Management and Tourism</b>	<u>807,563</u>	<u>784,783</u>	<u>22,780</u>
<b>Beach/Inlet/Sound Maintenance</b>			
Other Expenditures		513,463	
<b>Total Beach/Inlet/Sound Maintenance</b>	<u>1,518,517</u>	<u>513,463</u>	<u>1,005,054</u>
<b>Federal Beach Project</b>			
Other Expenditures		81,411	
<b>Total Federal Beach Project</b>	<u>81,411</u>	<u>81,411</u>	<u>-</u>
<b>Total Expenditures</b>	<u>5,486,777</u>	<u>4,425,713</u>	<u>1,061,064</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(1,735,000)</u>	<u>(495,192)</u>	<u>1,239,808</u>
<b>Other Financing Sources (Uses)</b>			
Installment Loan Obligations Issued	1,150,000	1,150,000	-
<b>Total Other Financing Sources (Uses)</b>	<u>1,150,000</u>	<u>1,150,000</u>	<u>-</u>
<b>Fund Balance Appropriated</b>	<u>585,000</u>	<u>-</u>	<u>(585,000)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>654,808</u>	<u>\$ 654,808</u>
<b>Fund Balance - Beginning of Year</b>		<u>2,833,207</u>	
<b>Fund Balance - End of Year</b>		<u>\$ 3,488,015</u>	

*Enterprise Funds*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Water Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2013

	Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water Charges		\$ 519,128	
Water Taps		7,800	
Impact Fees		34,250	
Tower Lease		15,009	
Investment Earnings		4,906	
Miscellaneous		498	
<b>Total Revenues</b>	<b>\$ 582,212</b>	<b>581,591</b>	<b>\$ (621)</b>
<b>Expenditures</b>			
<b>Water and Sewer Operations</b>			
Salaries and Employee Benefits		207,909	
Repairs and Maintenance		51,124	
Other Expenditures		156,246	
Capital Outlay		3,153,214	
Debt Service			
Principal Retirement		101,179	
Interest Expense		34,983	
<b>Total Water Operations</b>	<b>4,082,212</b>	<b>3,704,655</b>	<b>377,557</b>
<b>Total Expenditures</b>	<b>4,082,212</b>	<b>3,704,655</b>	<b>377,557</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(3,500,000)</b>	<b>(3,123,064)</b>	<b>376,936</b>
<b>Other Financing Sources (Uses)</b>			
installment Loan Proceeds	3,500,000	3,348,913	(151,087)
<b>Total Other Financing Sources (Uses)</b>	<b>3,500,000</b>	<b>3,348,913</b>	<b>(151,087)</b>
<b>Appropriated Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>\$ -</b>	<b>\$ 225,849</b>	<b>\$ 225,849</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Water Fund  
 Schedule of Revenues and Expenditures (Continued)  
 Budget and Actual (Non-GAAP)  
 For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>			
Revenues and Other Sources Over Expenditures and Other Uses		\$ 225,849	
Reconciling Items:			
Depreciation Expense		(76,067)	
Accrued Interest Payable		(5,441)	
Compensated Absences Payable		(440)	
Other Postemployment Benefits Payable		2,180	
Installment Loan Proceeds		(3,348,913)	
Capital Outlay		3,153,214	
Principal Retirement		101,179	
Total Reconciling Items		<u>(174,288)</u>	
<b>Change in Net Position</b>		<u>\$ 51,561</u>	



*Other Schedules*

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TOWN OF TOPSAIL BEACH, NORTH CAROLINA  
 General Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2013

Fiscal Year	Uncollected Balance 7-1-12	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-13
2012-13	\$ -	\$ 1,806,251	\$ 1,795,671	\$ 10,580
2011-12	26,148	-	25,150	998
2010-11	8,333	-	8,021	312
2009-10	695	-	460	235
2008-09	401	11	-	412
2007-08	590	1,067	-	1,657
2006-07	828	-	722	106
2005-06	813	-	715	98
2004-05	2,902	-	2,849	53
2003-04	1,356	-	1,301	55
2002-03	951	-	951	-
	<u>\$ 43,017</u>	<u>\$ 1,807,329</u>	<u>\$ 1,835,840</u>	14,506

Less: Allowance for Uncollectible Accounts:  
 General Fund

1,000

Ad Valorem Taxes Receivable - Net

13,506

Reconciliation with Revenues

Ad Valorem Taxes - General Fund

1,806,162

Reconciling Items:

Interest and Penalties Collected

(5,064)

Taxes Released

33,791

Taxes Written Off

951

Total Collections and Credits

\$ 1,835,840

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Analysis of Current Tax Levy  
 Town-Wide Levy  
 June 30, 2013

	Town-Wide		Total Levy		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate Per \$100	Amount of Levy		
<b>Original Levy:</b>					
Property Taxed at					
Current Year's Rate	\$ 620,786,355	0.2925	\$ 1,815,798	\$ 1,798,906	\$ 16,892
Penalties	-		495	495	-
	<u>620,786,355</u>		<u>1,816,293</u>	<u>1,799,401</u>	<u>16,892</u>
<b>Discoveries:</b>					
Current Year Taxes	-	0.2925	-	-	-
Penalties	-		-	-	-
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Abatements:</b>					
Property Taxes -					
Current Year's Rate	(3,433,402)	0.2925	\$ (10,042)	(9,418)	(624)
<b>Total Property Valuations</b>	<u>\$ 624,219,757</u>				
<b>Net Levy</b>			1,806,251	1,789,983	16,268
<b>Uncollected Taxes at June 30, 2013</b>			10,580	8,767	1,813
<b>Current Year's Taxes Collected</b>			<u>\$ 1,795,671</u>	<u>\$ 1,781,216</u>	<u>\$ 14,455</u>
<b>Current Levy Collection Percentage</b>			<u>99.41%</u>	<u>99.51%</u>	<u>88.86%</u>



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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with  
*Government Auditing Standards***

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Town of Topsail Beach's basic financial statements, and have issued our report thereon dated August 30, 2013.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Topsail Beach's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*W Greene & Company PLLC*

August 30, 2013

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**Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance;  
In accordance with OMB Circular A-133;  
and the State Single Audit Implementation Act**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Topsail Beach, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Topsail Beach's major federal programs for the year ended June 30, 2013. The Town of Topsail Beach's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town of Topsail Beach's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Topsail Beach's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the Town of Topsail Beach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

Management of the Town of Topsail Beach is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Topsail Beach's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*W Greene & Company PLLC*

August 30, 2013

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2013

**SECTION I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes  X  No

Noncompliance material to financial statements noted \_\_\_\_\_ Yes  X  No

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes  X  No

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the Section 510(a) of Circular A-133 \_\_\_\_\_ Yes  X  No

Identification of major federal programs:

<u>CFDA#</u>	<u>Program Name</u>
66.468	Drinking Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B Program \$  300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes  X  No

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2013

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<b>SECTION II. FINANCIAL STATEMENT FINDINGS</b>
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*None Reported.*

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2013

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<b>SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS</b>
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*None Reported.*

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Corrective Action Plan

For the Fiscal Year Ended June 30, 2013

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<b>SECTION II. FINANCIAL STATEMENT FINDINGS</b>
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*None Reported.*

<b>SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS</b>
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*None Reported.*

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2013

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*None Reported.*

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2013

Grantor Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantors Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
<b>Federal Awards:</b>					
<u>U.S. Environmental Protection Agency</u>					
<i>Passed thru N.C. Department of Environment and Natural Resources</i>					
Drinking Water State Revolving Fund	66.458	-	\$ 3,348,913	\$ -	-
<u>U.S. Department of Homeland Security</u>					
<i>Passed thru N.C. Department of Public Safety Division of Emergency Management</i>					
Public Assistance Grants	97.036	-	222,035	-	-
<b>Total Federal Awards</b>			3,570,948	-	-
<b>State Awards:</b>					
<u>N.C. Department of Transportation</u>					
Non-State System Street-Aid Allocation (Powell Bill)					
	-	DOT-4	-	16,084	-
<u>N.C. Department of Insurance</u>					
Volunteer Fire Department Fund					
	-	-	-	9,729	-
<b>Total State Awards</b>			-	25,813	-
<b>Total Federal and State Awards</b>			\$ 3,570,948	\$ 25,813	\$ -

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Notes to Schedule of Expenditures of Federal and State Financial Awards  
For the Year Ended June 30, 2013

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**I. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Town of Topsail Beach, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.