

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Report of Audit

For the Fiscal Year Ended June 30, 2018



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*Financial Section*

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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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina as of June 30, 2018, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Supplementary and Other Information*

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

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

**Other Reporting Required by *Government Auditing Standard***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2018 on our consideration of the 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 the Town of Topsail Beach's internal control over financial reporting and compliance.

*W Greene PLLC*

Whiteville, North Carolina  
September 7, 2018



## Management's Discussion and Analysis

As management of the Town of Topsail Beach, we offer readers of the Town of Topsail Beach's financial statements this narrative overview and analysis of the financial activities of Town of Topsail Beach for the fiscal year ended June 30, 2018. 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

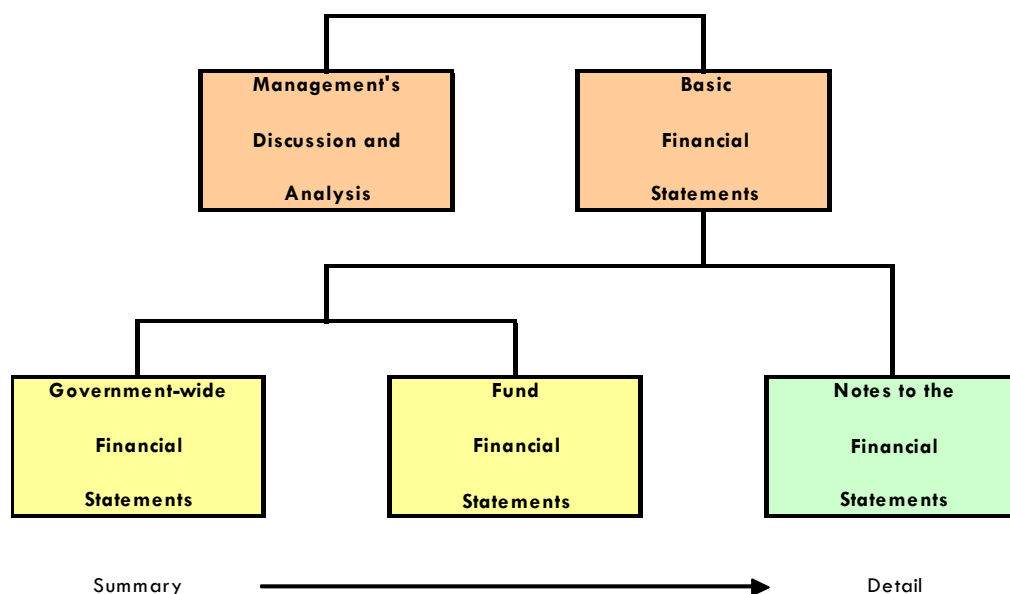
- The assets and deferred outflows of resources of the Town of Topsail Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$16,069,665 (net position).
- The government's total net position increased by \$1,998,705.
- As of the close of the current fiscal year, the Town of Topsail Beach's governmental funds reported combined ending fund balances of \$7,628,089, with an increase of \$1,597,409 in comparison with the prior year.
- Of the \$7,628,089 ending fund balance, \$2,781,793 is part of the total fund balance for the General Fund. The remaining \$4,846,296 has been designated to the Beach, Inlet, and Sound Fund (BIS) by the Town.
- At the end of the current fiscal year, fund balance available for the General Fund was \$2,567,222, or 93.93 percent of total general fund expenditures for the fiscal year.

### Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



## Management's Discussion and Analysis (Continued)

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### Basic Financial Statements

The first two statements (pages 20 through 23) 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 24 through 35) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

### Government-wide Financial Statements

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

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

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

The government-wide financial statements are on pages 20 through 23 of this report.

### Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Topsail Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Topsail Beach can be divided into two categories: governmental funds and proprietary funds.

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

## Management's Discussion and Analysis (Continued)

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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 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 36 through 66 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Topsail Beach's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 68 of this report.

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

## Management's Discussion and Analysis (Continued)

### Government-Wide Financial Analysis

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

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 7,833,635	\$ 6,085,932	\$ 2,131,335	\$ 1,964,972	\$ 9,964,970	\$ 8,050,904
Capital assets	5,235,167	5,242,387	5,657,367	5,802,869	10,892,534	11,045,256
Deferred outflows of resources	173,875	206,455	31,237	34,687	205,112	241,142
Total assets and deferred outflows of resources	13,242,677	11,534,774	7,819,939	7,802,528	21,062,616	19,337,302
Long-term liabilities outstanding	876,992	866,275	3,340,479	3,588,737	4,217,471	4,455,012
Other liabilities	356,702	188,867	381,307	361,028	738,009	549,895
Deferred inflows of resources	32,165	21,715	5,306	3,522	37,471	25,237
Total liabilities and deferred inflows of resources	1,265,859	1,076,857	3,727,092	3,953,287	4,992,951	5,030,144
Net position:						
Net investment in capital assets	4,722,885	4,567,387	2,121,759	1,991,082	6,844,644	6,558,469
Restricted	249,942	238,328	-	-	249,942	238,328
Unrestricted	7,003,991	5,652,202	1,971,088	1,858,159	8,975,079	7,510,361
Total net position	11,976,818	10,457,917	4,092,847	3,849,241	16,069,665	14,307,158

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 \$16,069,665 as of June 30, 2018. The Town's net position increased by \$1,998,705 for the fiscal year ended June 30, 2018. However, a large portion (42.59%) 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 \$249,942 represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$8,975,079 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 99.73%
- Increased collections of several state-shared revenues and local accommodation taxes.
- Continued oversight of expenditures.

**Management's Discussion and Analysis (Continued)**
**The Town of Topsail Beach's Changes in Net Position**
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 537,085	\$ 526,067	\$ 949,324	\$ 921,400	\$ 1,486,409	\$ 1,447,467
Operating grants and contributions	435,571	64,361	-	-	435,571	64,361
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	1,991,051	1,972,993	-	-	1,991,051	1,972,993
Other taxes	1,686,039	1,597,000	-	-	1,686,039	1,597,000
Other	90,003	58,978	3,049	1,869	93,052	60,847
<b>Total revenues</b>	<b>4,739,749</b>	<b>4,219,399</b>	<b>952,373</b>	<b>923,269</b>	<b>5,692,122</b>	<b>5,142,668</b>
<b>Expenses:</b>						
Governing Body	119,569	154,546	-	-	119,569	154,546
Administration	442,983	432,863	-	-	442,983	432,863
Police	796,282	672,198	-	-	796,282	672,198
Fire	342,869	295,605	-	-	342,869	295,605
Inspections	59,605	25,868	-	-	59,605	25,868
Public Services	296,328	172,328	-	-	296,328	172,328
Powell Bill	9,169	6,584	-	-	9,169	6,584
Sanitation	291,845	285,238	-	-	291,845	285,238
Beach Management Tourism	186,221	187,845	-	-	186,221	187,845
Marina	24,982	61,931	-	-	24,982	61,931
Federal Beach Project	-	12,500	-	-	-	12,500
Beach/Inlet/Sound Maintenance	408,692	352,520	-	-	408,692	352,520
Interest on Long-term Debt	13,751	13,923	-	-	13,751	13,923
Water	-	-	701,121	614,089	701,121	614,089
<b>Total expenses</b>	<b>2,992,296</b>	<b>2,673,949</b>	<b>701,121</b>	<b>614,089</b>	<b>3,693,417</b>	<b>3,288,038</b>
Increase(Decrease) in net position before transfers	1,747,453	1,545,450	251,252	309,180	1,998,705	1,854,630
Transfers	(20,000)	(20,000)	20,000	20,000	-	-
<b>Change in net position</b>	<b>1,727,453</b>	<b>1,525,450</b>	<b>271,252</b>	<b>329,180</b>	<b>1,998,705</b>	<b>1,854,630</b>
Net position, July 1	10,457,917	8,984,251	3,849,241	3,520,061	14,307,158	12,504,312
Restatement	(208,552)	(51,784)	(27,646)	-	(236,198)	(51,784)
Net position, July 1, restated	10,249,365	8,932,467	3,821,595	3,520,061	14,070,960	12,452,528
Net position, June 30	\$ 11,976,818	\$ 10,457,917	\$ 4,092,847	\$ 3,849,241	\$ 16,069,665	\$ 14,307,158

**Governmental activities.** Governmental activities increased the Town's net position by \$1,727,453 primarily due to increases in property tax revenue and increased revenues from unrestricted intergovernmental revenues and other taxes and fees.

**Business-type activities:** Business-type activities increased the Town of Topsail Beach's net position by \$271,252.

## Management's Discussion and Analysis (Continued)

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### Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Topsail Beach. At the end of the current fiscal year, the Town of Topsail Beach's fund balance available in the General Fund was \$2,567,222 while total fund balance reached \$2,781,793. The Town currently has an available fund balance of 93.93% of general fund expenditures, while total fund balance represents 101.78% of that same amount.

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

Revenues were more than the budgeted amounts primarily because of an increase in intergovernmental revenues as well as sales and service income. Total expenditures were less than budgeted.

**Proprietary Funds.** The Town of Topsail Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary fund at the end of the fiscal year amounted to \$1,971,088. The total change in net position for the proprietary fund was an increase of \$271,252.

### 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, 2018, totals \$10,892,534 (net of accumulated depreciation). These assets include buildings, land, and equipment.

Major capital asset transactions during the year include the following:

- Equipment for the general fund of \$16,275
- Vehicles for police department in the general fund of \$60,647

## Management's Discussion and Analysis (Continued)

### The Town of Topsail Beach's Capital Assets

Figure 4

(Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 3,951,452	\$ 3,951,452	\$ 1,303,353	\$ 1,303,353	\$ 5,254,805	\$ 5,254,805
Construction in Progress	-	-	-	-	-	-
Buildings	706,837	657,706	567	817	707,404	658,523
Infrastructure	332,534	349,951	-	-	332,534	349,951
Vehicles	205,014	205,006	16,348	22,293	221,362	227,299
Plant and Distribution	-	-	4,320,873	4,454,432	4,320,873	4,454,432
Equipment	39,330	78,272	16,226	21,974	55,556	100,246
<b>Total</b>	<b>\$ 5,235,167</b>	<b>\$ 5,242,387</b>	<b>\$ 5,657,367</b>	<b>\$ 5,802,869</b>	<b>\$ 10,892,534</b>	<b>\$ 11,045,256</b>

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

**Long-term Debt.** As of June 30, 2018, Town of Topsail Beach had total long-term debt outstanding of \$4,656,870. Of this, \$- is debt backed by the full faith and credit of Town of Topsail Beach.

### The Town of Topsail Beach's Outstanding Liabilities

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment purchases	\$ 512,282	\$ 675,000	\$ 3,535,608	\$ 3,811,787	\$ 4,047,890	\$ 4,486,787
Compensated absences	78,473	68,745	13,879	11,536	92,352	80,281
Other postemployment benefits	199,045	211,689	31,689	30,877	230,734	242,566
Pension related debt (LRS)	172,899	217,805	35,482	38,362	208,381	256,167
Pension related debt (LEO)	77,513	64,306	-	-	77,513	64,306
<b>Total</b>	<b>\$ 1,040,212</b>	<b>\$ 1,237,545</b>	<b>\$ 3,616,658</b>	<b>\$ 3,892,562</b>	<b>\$ 4,656,870</b>	<b>\$ 5,130,107</b>

The Town of Topsail Beach's total debt decreased by \$473,237 during the fiscal year. North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Topsail Beach is \$50,858,812. The Town of Topsail Beach does not have any authorized but un-issued debt at June 30, 2018.

## Management’s Discussion and Analysis (Continued)

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Additional information regarding Town of Topsail Beach’s long-term debt can be found beginning on page 63 in the Notes to the Financial Statements.

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

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

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

### Budget Highlights for the Fiscal Year Ending June 30, 2019

The recommended General Operating Budget for FY 2019 is a balanced budget totaling \$28,571,406 for the General Fund, Restricted Funds and the Utility Enterprise Funds. This compares to \$29,430,333 (as amended) in FY 2018. In both years, over \$24 million was designated for our next Storm Damage Reduction Project budgeted in the BIS Fund. The project has carried over from FY 2018 as much of the project was held over to this new fiscal year. A closer look at the breakdown of the budget by fund shows the following:

	<u>FY 2018</u>	<u>Proposed FY 2019</u>
General Fund	\$3,716,060	\$2,988,155
BIS Fund	\$24,807,100	\$24,578,895
Utility Fund	\$907,173	\$1,004,356

This proposed budget recommends leaving the tax rate level at \$0.3125 per \$100 valuation. The General Fund tax rate would remain at \$0.1925 per \$100 valuation, while the BIS Fund would remain at \$0.12 per \$100 valuation. The combined tax rate for Topsail Beach of \$0.3125 is still in line with similar coastal communities in the area, and in many cases considerably lower. This budget does propose a change in the Recycling Fee currently charged to support the community Recycling Center. Currently a fee of \$1.00 per month is charged to each residential property. This budget increases this by \$2.00, totaling \$3.00 per month for each housing unit. The average household will experience a \$24.00 annual increase in the fee, but it will generate over \$30,000 in revenue to help offset the cost of recycling.

This year’s estimated revenues are relatively consistent with previous years. In general, revenues can be divided into five major categories: Property Tax, Fees and Other Taxes, Unrestricted Intergovernmental Revenues, Restricted Funds and Capital Reserve Funds. The revenues are categorized by type and designated as restricted or unrestricted funds. Unrestricted funds can be used for any service provided by the Town, while restricted funds are earmarked for specific purposes. Much of the revenue estimates are consistent with the current budget, however there is one significant change proposed in this budget. Currently the Town charges \$1/month per household for recycling. This helps to cover a portion of the cost of our Recycling Center. In FY 17 we generated nearly \$17,000 in revenue, but had over \$46,000 in expenses. This plan includes a \$2/month increase in the recycling fee. This will allow the Town to generate an additional \$34,000 while costing each individual property an increase of \$24/year.

Below are highlights for both revenues and expenses for this budget. More detailed explanations can be found later in this document.



## PROPERTY TAX

Property Tax includes Ad Valorem Tax, DMV Tax, and Interest – Ad Valorem Taxes.

- ❖ According to the Pender County Tax Assessor's Office, the total assessed value for property in Topsail Beach for FY 2019 is \$630,610,269. This represents real and personal property and motor vehicle tax. This compares to \$627,558,003 for FY 2018, or roughly 0.48% increase.
  
- ❖ Each penny on the tax rate is worth \$63,061.

## OTHER TAXES AND FEES

Included in this category is Topsail Accommodations Tax, Tower Lease, Solid Waste Fees (including Recycling), and Fees and Receipts (Several of the departments charge various fees for services, rentals, or other activities. These include, but are not limited to zoning and building permit fees, temporary permits, compliance permits, and similar items. These fees are designed to cover much of the costs incurred for the provision of related services).

- ❖ Accommodations tax (both for Topsail Beach and Pender County) are anticipated to increase by 4.5% over last year for a total amount of \$860,000. Of this amount, \$215,000 is allocated to the General Fund. (The rest is for the BIS Fund).

## UNRESTRICTED INTERGOVERNMENTAL REVENUES

These are largely state-shared revenues and include Utilities Franchise Tax, Alcohol Beverage Tax, Local Sales Tax, and County Option 4 Tax

- ❖ According to State Revenue sources, the distribution of Utilities Franchise Fees at the state level is expected to be relatively stable over the next year. It should be noted however that the funds are impacted by the weather. Mild winters and summers can cause a decrease in revenues.
  
- ❖ Sales tax figures (both Local Option Sales Tax and County Option 4) are projected to increase by \$55,000 in this budget.

## RESTRICTED REVENUES

In particular these include Powell Bill Funds and Fire Grants. The Powell Bill Funds are provided through the state to be used for work on town-maintained roads only. Powell Bill funds shall be expended primarily for the purposes of resurfacing streets within the corporate limits of the municipality but may also be used for maintaining, repairing, constructing, reconstructing or widening of any street or public thoroughfare within the municipal limits or for planning, construction, and maintenance of bikeways, greenways or sidewalks. Fire Grant funding is available for use to smaller fire departments to help pay for equipment needs and similar functions.

## CAPITAL RESERVE FUNDS

In FY 2017 the Town established a policy to fund the Capital Reserve Fund which is designed to plan for larger one-time capital needs in the future. This proposed budget includes approximately \$329,100 transferred from the Capital Reserve Fund to meet this year's needs.

## BEACH INLET AND SOUND (BIS) FUND

The projected BIS Fund budget revenues of \$24,578,895 for FY 2019 include approximately \$13.8 million from the NC Shallow Draft Navigation Channel Maintenance and Aquatic Weed Fund and \$9.2 million from FEMA as a result of Hurricane Matthew.

Much of the operational expenses have not changed significantly over the previous year. The proposed budget shows health care costs remaining stable. The data also includes an increase to the salary line item for potential merit increases. This budget includes two new positions (Planning and Public Works)

## Management's Discussion and Analysis (Continued)

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and additional Capital Items. For the most part, the budget tries to hold the line on most of the operational costs, such as departmental supplies, maintenance and repair needs, staff development, and vehicle operations. Department heads were charged with the task of keeping operational costs as close to previous years as possible, and to identify potential cost reductions. Any increased costs within individual departments are generally related to larger capital needs. Detailed line item expenses are shown in the budget by department later in this document. Funds are appropriated at adequate levels in order to maintain or improve the quality and the level of service that has been provided historically. The major expenditures by function are shown as follows:

### GENERAL FUND / CAPITAL FUND

- ❖ Administration (includes Town Board, Administration, and Inspections/Planning)
- ❖ Police
- ❖ Fire
- ❖ Public Works
- ❖ Solid Waste
- ❖ Bush Marina
- ❖ Beach Management
- ❖ BIS

### ENTERPRISE FUNDS

- ❖ Utility

Public Safety accounts for approximately 39.6% of the operating and capital budget within the General Fund. Much of the larger expense is in capital as the Town provides for vehicles and equipment necessary for the provision of services. Personnel costs are also a significant portion of the operational costs as both police and fire provide for protection to our citizens and businesses. Administration accounts for the next largest percentage of annual cost at 23.5%.

The FY 2019 budget reflects the priorities of the Town Board of Commissioners and staff as we move forward. The Board and staff are committed to providing a high level of service to our residents, property owners, and visitors while maintaining a strong sense of fiscal responsibility. We cannot always control the environment surrounding us, but we can plan to address our needs with the best interests of our community in mind at all times. As a resort community we face unique challenges, particularly during the tourist season. We are committed to provide excellent core services like police and fire, public works and sanitation services, clean water, and safe access while maintaining strong amenities such as Town Center Park and Bush Marina. We are committed to preserving and protecting our beaches through our Storm Damage Reduction Plan and Beach Nourishment so that our homes and property are protected while providing the best recreational beaches possible. We must continue to be vigilant in our efforts and dedicated to the overall goal of providing a safe, affordable, and attractive place for our citizens and our businesses while managing the growth in Topsail Beach.

### Requests for Information

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

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

## *Basic Financial Statements*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Net Position

June 30, 2018

	<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	\$ 7,430,879	\$ 1,920,516	\$ 9,351,395
Receivables (net):			
Ad Valorem Taxes	16,204	-	16,204
Accommodations Taxes	175,238	-	175,238
Interest	3,805	-	3,805
Accounts	28,883	210,819	239,702
Due from Other Governments	143,255	-	143,255
Restricted Cash and Cash Equivalents	35,371	-	35,371
<b>Total Current Assets</b>	<b>7,833,635</b>	<b>2,131,335</b>	<b>9,964,970</b>
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	3,981,242	1,303,353	5,284,595
Other Capital Assets, Net of Depreciation	1,253,925	4,354,014	5,607,939
<b>Total Noncurrent Assets</b>	<b>5,235,167</b>	<b>5,657,367</b>	<b>10,892,534</b>
<b>Total Assets</b>	<b>13,068,802</b>	<b>7,788,702</b>	<b>20,857,504</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Deferrals	157,963	31,237	189,200
OPEB Deferrals	15,912	-	15,912
<b>Total Deferred Outflows of Resources</b>	<b>\$ 173,875</b>	<b>\$ 31,237</b>	<b>\$ 205,112</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Net Position (Continued)

June 30, 2018

	<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	\$ 185,537	\$ 21,499	\$ 207,036
Interest Payable	7,945	1,749	9,694
Customer Deposits	-	81,880	81,880
Current Portion of Long-Term Liabilities	163,220	276,179	439,399
<b>Total Current Liabilities</b>	<b>356,702</b>	<b>381,307</b>	<b>738,009</b>
Long-Term Liabilities:			
Net Pension Liability	172,899	35,482	208,381
Total Pension Liability	77,513	-	77,513
Total OPEB Liability	199,045	31,689	230,734
Due in More Than One year	427,535	3,273,308	3,700,843
<b>Total Liabilities</b>	<b>1,233,694</b>	<b>3,721,786</b>	<b>4,955,480</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Deferrals	15,868	2,712	18,580
OPEB Deferrals	16,297	2,594	18,891
<b>Total Deferred Inflows of Resources</b>	<b>32,165</b>	<b>5,306</b>	<b>37,471</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	4,722,885	2,121,759	6,844,644
Restricted for:			
Transportation	35,371	-	35,371
Stabilization by State Statute	214,571	-	214,571
Unrestricted	7,003,991	1,971,088	8,975,079
<b>Total Net Position</b>	<b>\$ 11,976,818</b>	<b>\$ 4,092,847</b>	<b>\$ 16,069,665</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Activities

For the Year Ended June 30, 2018

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	\$ 119,569	\$ -	\$ -	\$ -
Administration	442,983	81,009	-	-
Police	796,282	4,238	-	-
Fire	342,869	-	6,808	-
Inspections	59,605	61,949	-	-
Public Services	296,328	-	412,064	-
Powell Bill	9,169	-	16,630	-
Sanitation	291,845	308,728	69	-
Beach Management and Tourism	186,221	26,400	-	-
Marina	24,982	54,761	-	-
Federal Beach Project	-	-	-	-
Beach/Inlet/Sound Maintenance	408,692	-	-	-
Interest on long-term debt	13,751	-	-	-
<b>Total Governmental Activities</b>	<b>2,992,296</b>	<b>537,085</b>	<b>435,571</b>	<b>-</b>
<b>Business-Type Activities:</b>				
Water	701,121	949,324	-	-
<b>Total Business-Type Activities</b>	<b>701,121</b>	<b>949,324</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>3,693,417</b>	<b>1,486,409</b>	<b>435,571</b>	<b>-</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Statement of Activities (Continued)

For the Year Ended June 30, 2018

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>			
<b>Functions/Programs</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
Governing Body	\$ (119,569)	\$ -	\$ (119,569)
Administration	(361,974)	-	(361,974)
Police	(792,044)	-	(792,044)
Fire	(336,061)	-	(336,061)
Inspections	2,344	-	2,344
Public Services	115,736	-	115,736
Powell Bill	7,461	-	7,461
Sanitation	16,952	-	16,952
Beach Management and Tourism	(159,821)	-	(159,821)
Marina	29,779	-	29,779
Federal Beach Project	-	-	-
Beach/Inlet/Sound Maintenance	(408,692)	-	(408,692)
Interest on long-term debt	(13,751)	-	(13,751)
<b>Total Governmental Activities</b>	<b>(2,019,640)</b>	<b>-</b>	<b>(2,019,640)</b>
<b>Business-Type Activities:</b>			
Water	-	248,203	248,203
<b>Total Business-Type Activities</b>	<b>-</b>	<b>248,203</b>	<b>248,203</b>
<b>Total Primary Government</b>	<b>(2,019,640)</b>	<b>248,203</b>	<b>(1,771,437)</b>
<b>General Revenues:</b>			
Property Taxes, Levied for General Purpose	1,991,051	-	1,991,051
Other Taxes and Licenses	1,686,039	-	1,686,039
Investment Earnings	76,558	3,049	79,607
Miscellaneous	13,445	-	13,445
<b>Transfers</b>	<b>(20,000)</b>	<b>20,000</b>	<b>-</b>
<b>Total General Revenues and Transfers</b>	<b>3,747,093</b>	<b>23,049</b>	<b>3,770,142</b>
<b>Change in Net Position</b>	<b>1,727,453</b>	<b>271,252</b>	<b>1,998,705</b>
<b>Net Position - Beginning of Year</b>	<b>10,457,917</b>	<b>3,849,241</b>	<b>14,307,158</b>
<b>Restatement</b>	<b>(208,552)</b>	<b>(27,646)</b>	<b>(236,198)</b>
<b>Net Position - Beginning of Year, Restated</b>	<b>10,249,365</b>	<b>3,821,595</b>	<b>14,070,960</b>
<b>Net Position - End of Year</b>	<b>\$ 11,976,818</b>	<b>\$ 4,092,847</b>	<b>\$ 16,069,665</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet

Governmental Funds

June 30, 2018

	<u>Major Funds</u>		
	General Fund	Beach, Inlet, and Sound Capital Project Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,615,188	\$ 4,815,691	\$ 7,430,879
Restricted Cash	35,371	-	35,371
Receivables (net):			
Ad Valorem Taxes	10,533	5,671	16,204
Accommodations Tax	42,836	132,402	175,238
Accounts	28,883	-	28,883
Due from Other Governments	142,852	403	143,255
<b>Total Assets</b>	<u>\$ 2,875,663</u>	<u>\$ 4,954,167</u>	<u>\$ 7,829,830</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 83,337	\$ 102,200	\$ 185,537
<b>Total Liabilities</b>	<u>83,337</u>	<u>102,200</u>	<u>185,537</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes Receivable	10,533	5,671	16,204
<b>Total Deferred Inflows of Resources</b>	<u>10,533</u>	<u>5,671</u>	<u>16,204</u>
<b>FUND BALANCES</b>			
Restricted			
Stabilization by State Statute	214,571	-	214,571
Streets	35,371	-	35,371
Committed			
Beach/Inlet/Sound Maintenance	-	4,846,296	4,846,296
Future Capital Expenditures	1,069,211	-	1,069,211
Assigned			
Subsequent Year's Expenditures:	-	-	-
Unassigned	1,462,640	-	1,462,640
<b>Total Fund Balances</b>	<u>2,781,793</u>	<u>4,846,296</u>	<u>7,628,089</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 2,875,663</u>	<u>\$ 4,954,167</u>	



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Balance Sheet (Continued)

Governmental Funds

June 30, 2018

		<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total Governmental Fund Balance		\$ 7,628,089
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical costs	\$ 7,258,898	
Accumulated depreciation	<u>(2,023,731)</u>	5,235,167
Deferred outflows of resources related to pensions are not reported in the funds		
		157,963
Deferred outflows of resources related to OPEB are not reported in the funds		
		-
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>3,805</u>	3,805
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
Ad valorem taxes	16,204	
Other taxes	<u>-</u>	16,204
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(7,945)	
Installment purchases	(512,282)	
Total pension liability	(77,513)	
Net pension liability	(172,899)	
OPEB liability	(199,045)	
Compensated absences	<u>(78,473)</u>	(1,048,157)
Deferred inflows of resources related to pensions are not reported in the funds		
		<u>(16,253)</u>
<b>Net position of governmental activities.</b>		<u><u>\$ 11,976,818</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, 2018

	<b>Major Funds</b>		
	<b>General Fund</b>	<b>Beach, Inlet, and Sound Capital Project Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Ad Valorem Taxes	\$ 1,263,450	\$ 747,182	\$ 2,010,632
Other Taxes and Licenses	234,978	844,655	1,079,633
Unrestricted Intergovernmental	606,406	-	606,406
Restricted Intergovernmental	16,699	418,872	435,571
Permits and Fees	147,348	-	147,348
Sales and Services	389,737	-	389,737
Investment Earnings	58,736	17,822	76,558
Miscellaneous	13,445	-	13,445
<b>Total Revenues</b>	<b>2,730,799</b>	<b>2,028,531</b>	<b>4,759,330</b>
<b>Expenditures</b>			
Current			
Governing Body	119,569	-	119,569
Administration	443,497	-	443,497
Police	756,087	-	756,087
Fire	302,786	-	302,786
Inspections	59,605	-	59,605
Public Services	293,087	-	293,087
Powell Bill	7,132	-	7,132
Marina	17,581	-	17,581
Sanitation	289,980	-	289,980
Beach Management and Tourism	158,182	-	158,182
Beach/Inlet/Sound Maintenance	-	408,692	408,692
Federal Beach Project	-	-	-
Debt Service			
Principal	162,718	-	162,718
Interest and Other charges	16,293	-	16,293
Capital Outlay			
Police	76,922	-	76,922
Administration	29,790	-	29,790
Beach Management and Tourism	-	-	-
<b>Total Expenditures</b>	<b>2,733,229</b>	<b>408,692</b>	<b>3,141,921</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(2,430)</b>	<b>1,619,839</b>	<b>1,617,409</b>
<b>Other Financing Sources (Uses)</b>			
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(20,000)	-	(20,000)
Installment Purchase Obligations Issued	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(20,000)</b>	<b>-</b>	<b>(20,000)</b>
<b>Net Change in Fund Balance</b>	<b>(22,430)</b>	<b>1,619,839</b>	<b>1,597,409</b>
<b>Fund Balance - Beginning of Year</b>	<b>2,804,223</b>	<b>3,226,457</b>	<b>6,030,680</b>
<b>Fund Balance - End of Year</b>	<b>\$ 2,781,793</b>	<b>\$ 4,846,296</b>	<b>\$ 7,628,089</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)  
Governmental Funds  
For the Year Ended June 30, 2018

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

Net changes in fund balances - total governmental funds \$ 1,597,409

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	106,712	
Contributed Assets	-	
Depreciation expense	(113,932)	(7,220)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		64,253
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		-
OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities		15,912

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	(18,931)	
Interest earned on ad valorem taxes	(19,581)	(38,512)

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

Debt issuance	-	
Debt retirement	162,718	162,718

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	2,542	
Compensated absences	(9,728)	
Pension Expense	(72,180)	
OPEB plan expense	12,259	(67,107)

Total changes in net position of governmental activities \$ 1,727,453

**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, 2018**

	<b>General Fund</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	
<b>Revenues</b>				
Ad Valorem Taxes	\$ 1,206,000	\$ 1,221,000	1,263,450	\$ 42,450
Other Taxes and Licenses	205,000	205,000	234,978	29,978
Unrestricted Intergovernmental	521,000	556,000	606,406	50,406
Restricted Intergovernmental	16,500	16,675	16,699	24
Permits and Fees	125,000	135,000	147,348	12,348
Sales and Services	489,175	374,000	389,737	15,737
Investment Earnings	40,000	40,000	58,736	18,736
Miscellaneous	36,500	36,500	13,445	(23,055)
<b>Total Revenues</b>	<b>2,639,175</b>	<b>2,584,175</b>	<b>2,730,799</b>	<b>146,624</b>
<b>Expenditures</b>				
Governing Body	78,320	133,320	119,569	13,751
Administration	443,150	488,149	473,287	14,862
Police	857,350	857,350	833,009	24,341
Fire	374,950	349,950	324,404	25,546
Inspections	68,450	68,452	59,605	8,847
Public Services	306,600	316,600	293,087	23,513
Powell Bill Funds	16,500	31,500	7,132	24,368
Marina	197,050	197,050	174,974	22,076
Sanitation	285,000	290,092	289,980	112
Beach Management and Tourism	187,690	182,597	158,182	24,415
Federal Beach Project	1,000	1,000	-	1,000
<b>Total Expenditures</b>	<b>2,816,060</b>	<b>2,916,060</b>	<b>2,733,229</b>	<b>182,831</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(176,885)</b>	<b>(331,885)</b>	<b>(2,430)</b>	<b>329,455</b>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	176,885	316,885	316,885	-
Transfers To Other Funds	-	(800,000)	(800,000)	-
Installment Purchase Obligations Issued	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>176,885</b>	<b>(483,115)</b>	<b>(483,115)</b>	<b>-</b>
<b>Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>-</b>	<b>(815,000)</b>	<b>(485,545)</b>	<b>329,455</b>
<b>Appropriated Fund Balance</b>	<b>-</b>	<b>815,000</b>	<b>-</b>	<b>(815,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(485,545)</b>	<b>\$ (485,545)</b>
<b>Fund Balance - Beginning of Year</b>			<b>2,198,127</b>	
<b>Fund Balance - End of Year</b>			<b>\$ 1,712,582</b>	

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

**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, 2018

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**Fund Balance - End of Year** \$ 1,712,582

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

Transfer to General Fund	(316,885)
Transfer to Water Fund	(20,000)
Transfer from General Fund	800,000
Transfer from Water Fund	-
Fund Balance - Beginning	<u>606,096</u>
	<u>1,069,211</u>

**Fund Balance - End of Year (Consolidated)** \$ 2,781,793

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Fund Net Position  
Proprietary Fund  
June 30, 2018

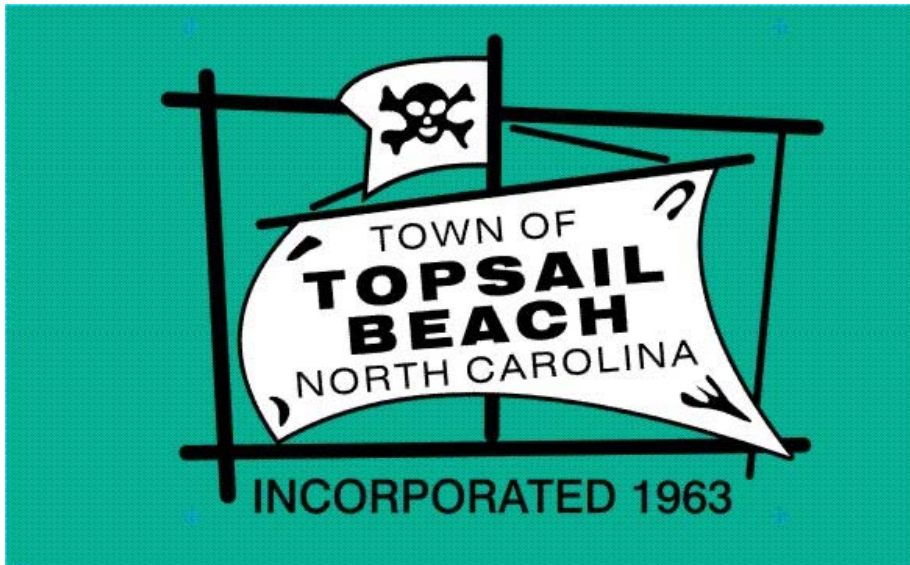
	<u>Water Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 1,920,516
Accounts Receivable (net)	210,819
<b>Total Current Assets</b>	<u>2,131,335</u>
<b>Noncurrent Assets</b>	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	1,303,353
Other Capital Assets, Net of Depreciation	4,354,014
Total Capital Assets	<u>5,657,367</u>
<b>Total Noncurrent Assets</b>	<u>5,657,367</u>
<b>Total Assets</b>	<u><u>7,788,702</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension Deferrals	31,237
OPEB Deferrals	-
<b>Total Deferred Outflows of Resources</b>	<u><u>\$ 31,237</u></u>

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Fund Net Position  
Proprietary Fund  
June 30, 2018

	<u>Water Fund</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable and Accrued Liabilities	\$ 21,499
Interest Payable	1,749
Customer Deposits	81,880
Installment Notes Payable	276,179
<b>Total Current Liabilities</b>	<u>381,307</u>
<b>Noncurrent Liabilities</b>	
Installment Notes Payable	3,259,429
Net Pension Liability	35,482
Total OPEB Liability	31,689
Compensated Absences Payable	13,879
<b>Total Noncurrent Liabilities</b>	<u>3,340,479</u>
<b>Total Liabilities</b>	<u>3,721,786</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension Deferrals	2,712
OPEB Deferrals	2,594
<b>Total Deferred Inflows of Resources</b>	<u>5,306</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	2,121,759
Unrestricted	1,971,088
<b>Total Net Position</b>	<u>\$ 4,092,847</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, 2018

	<u>Water Fund</u>
<b>Operating Revenues</b>	
Water Charges	\$ 820,937
Water Taps	20,082
Impact Fees	108,305
Miscellaneous	-
<b>Total Operating Revenues</b>	<u>949,324</u>
<b>Operating Expenses</b>	
Water Operations	532,686
Depreciation	145,502
<b>Total Operating Expenses</b>	<u>678,188</u>
<b>Operating Income (Loss)</b>	<u>271,136</u>
<b>Nonoperating Revenues (Expenses)</b>	
Investment Earnings	3,049
Interest Expense	(22,933)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(19,884)</u>
<b>Total Income (Loss) Before Transfers</b>	251,252
Transfers from Other Funds	<u>20,000</u>
<b>Change in Net Position</b>	<u>271,252</u>
<b>Total Net Position - Previously Reported</b>	3,849,241
<b>Total Net Position - Beginning, Restated</b>	<u>3,821,595</u>
<b>Total Net Position - End of Year</b>	<u>\$ 4,092,847</u>

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2018

	<u>Water Fund</u>
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers and Users	\$ 946,305
Cash Paid for Goods and Services	(260,790)
Cash Paid to Employees for Services	(249,158)
Customer Deposits Received	5,245
Customer Deposits Returned	(2,195)
<b>Net Cash Provided(Used) by Operating Activities</b>	<u>439,407</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers in	20,000
<b>Net Cash Provided(Used) by Noncapital Financing Activities</b>	<u>20,000</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	-
Installment Loan Proceeds	-
Interest Paid on Installment Purchases	(22,933)
Principal Paid on Installment Purchases	(276,179)
<b>Net Cash Provided(Used) by Capital and Related Financing Activities</b>	<u>(299,112)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	3,049
<b>Net Cash Provided(Used) by Investing Activities</b>	<u>3,049</u>
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	163,344
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>1,757,172</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 1,920,516</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, 2018

	<u>Water Fund</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	\$ 271,136
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Depreciation	145,502
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(3,019)
(Increase) Decrease in Pension Deferrals - Deferred Outflows of Resources	3,450
(Increase) Decrease in OPEB Deferrals - Deferred Outflows of Resources	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	17,229
Increase (Decrease) in Customer Deposits	3,050
Increase (Decrease) in Net Pension Liability	(2,880)
Increase (Decrease) in OPEB Liability	31,689
Increase (Decrease) in Pension Deferrals - Deferred Inflows of Resources	(810)
Increase (Decrease) in OPEB Deferrals - Deferred Inflows of Resources	2,594
Increase (Decrease) in Other Postemployment Benefits	(30,877)
Increase (Decrease) in Compensated Absences Payable	2,343
Total Adjustments	<u>168,271</u>
<b>Net Cash Provided(Used) by Operating Activities</b>	<u>\$ 439,407</u>

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

## TOWN OF TOPSAIL BEACH, NORTH CAROLINA

Notes to the Financial Statements

For the Year Ended June 30, 2018

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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 non-major funds.

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

The Town reports the following major governmental funds:

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

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

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

**D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

**1. Deposits and Investments**

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

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

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

**1. Deposits and Investments**

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

Powell bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S.136-41.1 through 136-41.4.

**Town of Topsail Beach Restricted Cash**

Governmental Activities	
General Fund	
Streets	\$ 35,371
Total governmental activities	<u>35,371</u>
Total Restricted Cash	<u>\$ 35,371</u>

**4. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2017.

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

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

**5. Allowances for Doubtful Accounts**

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

**6. Prepaid Items**

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

**7. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 are not recorded. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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



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

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

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2018 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category -property taxes receivable and pension deferrals.

**9. Long-Term Obligations**

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

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

**10. Compensated Absences**

The vacation policy of the Town provides for the accumulation of up to thirty (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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**12. Defined Benefit Cost-Sharing Plans**

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

**II. DETAIL NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits**

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

At June 30, 2018, the Town's deposits had a carrying amount of \$5,421,075 and a bank balance of \$5,443,761. 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, 2018, the Town of Topsail Beach had \$3,965,691 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

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

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2018 are net of the following allowances for doubtful accounts:

Fund	06/30/2018
General Fund:	
Taxes receivable	\$ 2,000
Total	\$ 2,000

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 3,951,452	\$ 29,790	\$ -	\$ 3,981,242
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	3,951,452	29,790	-	3,981,242
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	953,923	-	-	953,923
Equipment	365,373	16,275	-	381,648
Vehicles	1,369,924	60,647	-	1,430,571
Infrastructure	511,514	-	-	511,514
Total capital assets being depreciated	3,200,734	76,922	-	3,277,656
<b>Less accumulated depreciation for:</b>				
Buildings and Improvements	296,217	24,059	-	320,276
Equipment	287,101	11,817	-	298,918
Vehicles	1,164,918	60,639	-	1,225,557
Infrastructure	161,563	17,417	-	178,980
Total accumulated depreciation	1,909,799	113,932	-	2,023,731
Total capital assets being depreciated, net	1,290,935			1,253,925
<b>Governmental activity capital assets, net</b>	<b>\$ 5,242,387</b>			<b>\$ 5,235,167</b>

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

Administration	\$ 2,691
Police	31,647
Fire	37,912
Public Services	2,132
Sanitation	1,865
Beach Management and Tourism	28,247
Marina	7,401
Powell Bill	2,037
Total	<u>\$ 113,932</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Water 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	223,845	-	-	223,845
Vehicles	89,013	-	-	89,013
Plant and distribution systems	5,826,567	-	-	5,826,567
Total capital assets being depreciated	6,144,425	-	-	6,144,425
<b>Less accumulated depreciation for:</b>				
Buildings	4,183	250	-	4,433
Equipment	201,871	5,748	-	207,619
Vehicles	66,720	5,945	-	72,665
Plant and distribution systems	1,372,135	133,559	-	1,505,694
Total accumulated depreciation	1,644,909	145,502	-	1,790,411
Total capital assets being depreciated, net	4,499,516			4,354,014
<b>Water fund capital assets, net</b>	<b>\$ 5,802,869</b>			<b>\$ 5,657,367</b>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Topsail Beach employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Topsail Beach's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.61% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Topsail Beach were \$77,439 for the year ended June 30, 2018.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

At June 30, 2018 the Town reported a liability of \$208,381 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.01364%, which was a decrease of 0.00157% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$69,122. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,005	\$ 5,899
Changes of assumptions	29,760	-
Net difference between projected and actual earnings on pension plan investments	50,595	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	13,649	10,026
Town contributions subsequent to the measurement date	77,439	-
Total	<u>\$ 183,448</u>	<u>\$ 15,925</u>



II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

\$77,439 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2019	\$	9,998
2020		60,849
2021		31,353
2022		(12,116)
2023		-
Thereafter		-
	<u>\$</u>	<u>90,084</u>

**Actuarial Assumptions.** The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment Rate of Return	7.20 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

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

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

**Discount rate.** The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate.** The following presents the Town's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Town's proportionate share of the net pension liability (asset)	\$ 625,566	\$ 208,381	\$ (139,836)

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

The Town of Topsail Beach administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

Retirees receiving benefits	0
Active plan members	8
Total	<u>8</u>

2. Summary of Significant Accounting Policies:

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary Increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount Rate	3.16 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$-0- as benefits came due for the reporting period.

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

At June 30, 2018, the Town reported a total pension liability of \$77,513. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$10,768.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,273
Changes of assumptions	5,752	1,382
Town benefit payments and plan administrative expense subsequent to the measurement date	-	-
Total	<u>\$ 5,752</u>	<u>\$ 2,655</u>

\$-0- reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$ 455
2020	455
2021	455
2022	455
2023	763
Thereafter	514
	<u>\$ 3,097</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions (Continued)

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

*Sensitivity of the Town's total pension liability to changes in the discount rate.* The following presents the Town's total pension liability calculated using the discount rate of 3.16 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16%) or 1-percentage-point higher (4.16%) than the current rate:

	1% Decrease (2.16%)	Discount Rate (3.16%)	1% Increase (4.16%)
Total Pension Liability	\$ 86,380	\$ 77,513	\$ 69,483

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

	<b>2018</b>
Beginning balance	\$ 64,306
Service Cost	7,877
Interest on the total pension liability	2,436
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(1,498)
Changes of assumptions or other inputs	6,770
Benefit payments	(2,378)
Other changes	-
Ending balance of the total pension liability	\$ 77,513

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Contributions (Continued)

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 69,122	\$ 10,768	\$ 79,890
Pension Liability	208,381	77,513	285,894
Proportionate share of the net pension liability	0.01364%	n/a	
Deferred Outflows of Resources			
Differences between expected and actual experience	12,005	-	12,005
Changes of assumptions	29,760	5,752	35,512
Net difference between projected and actual earnings on plan investments	50,595	-	50,595
Changes in proportion and differences between contributions and proportionate share of contributions	13,649	-	13,649
Benefit payments and administrative costs paid subsequent to the measurement date	77,439	-	77,439
Deferred Inflows of Resources			
Differences between expected and actual experience	5,899	1,273	7,172
Changes of assumptions	-	1,382	1,382
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	10,026	-	10,026

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, 2018 were \$27,149, which consisted of \$20,512 from the Town and \$6,637 from the law enforcement officers. No amounts were forfeited.

**All Other Employees**

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

*Funding Policy.* The Town matches up to five percent of employees' wages. For the year ended June 30, 2018, total contributions to the plan equaled \$58,365, which consisted of \$23,295 from the Town and \$35,070 from the participating employees.



II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post Employment Benefits (OPEB)

1. Healthcare Benefits

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

Membership of the HCB Plan consisted of the following at December 31, 2017, the date of the latest actuarial valuation:

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

**Total OPEB Liability**

The Town’s total OPEB liability of \$230,734 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs.* The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 percent, average, including inflation
Discount rate	3.56 percent
Healthcare cost trend rates	7.50 percent, Pre-Medicare

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post Employment Benefits (OPEB)

1. Healthcare Benefits (Continued)

Changes in the Total OPEB Liability

	Total OPEB Liability	
<b>Balance at July 1, 2017</b>	\$	242,566
<b>Changes for the year</b>		
Service Cost		20,565
Interest		7,036
Changes of benefit terms		-
Differences between expected and actual experience		(7,897)
Changes of assumptions or other inputs		(13,797)
Benefit payments		(17,739)
<b>Net Changes</b>		<b>(11,832)</b>
<b>Balance at June 30, 2018</b>	\$	<b>230,734</b>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.17% to 3.18%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.18 percent) or 1-percentage-point higher (4.18 percent) than the current discount rate:

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB Liability	\$ 256,551	\$ 230,734	\$ 208,024

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post Employment Benefits (OPEB)

1. Healthcare Benefits (Continued)

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.*  
The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare costs trend rates:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 197,407	\$ 230,734	\$ 272,116

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the Town recognized OPEB expense of \$24,798. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 6,877
Changes of assumptions	-	12,014
Benefit payments and administrative costs made subsequent to the measurement date	15,912	-
Total	<u>\$ 15,912</u>	<u>\$ 18,891</u>

\$15,912 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Other Post Employment Benefits (OPEB)

1. Healthcare Benefits (Continued)

Year Ended June 30:		
2019	\$	(2,803)
2020		(2,803)
2021		(2,803)
2022		(2,803)
2023		(2,803)
Thereafter		(4,876)
	<u>\$</u>	<u>(18,891)</u>

2. Other Employment Benefits

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

3. Deferred Outflows and Inflows of Resources

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

Contributions to Pension Plan in Current Fiscal Year	\$ 77,439
Benefit payments and administrative expenses for LEOSA made subsequent to measurement date	-
Benefit payments and administrative expenses for OPEB made subsequent to measurement date	15,912
Differences between expected and actual experience	12,005
Changes of assumptions	35,512
Net difference between projected and actual	50,595
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,649
Charge on refunding	-
Total	\$ 205,112

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

	Statement of Net Position	General Fund Balance Sheet	Beach, Inlet, and Sound Capital Project Fund Balance Sheet
Prepaid taxes (General Fund)	\$ -	\$ -	-
Taxes receivable	-	10,533	5,671
Changes in assumptions	13,396	-	-
Differences between expected and actual experience	14,049	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,026	-	-
Total	\$ 37,471	\$ 10,533	5,671

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

### B. Liabilities (Continued)

#### 4. Risk Management

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

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

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

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

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

At June 30, 2018, the Town did not have any litigation pending.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations

a. Installment Purchases

In October 2005, the business type activity fund has chosen to finance purchases with installment payments from the State Clean Water Grant Fund. The Town has completed its water project as of June 30, 2013. \$1,416,500 Installment agreement with interest at an annual rate of 2.305%. The outstanding principal balance at June 30, 2018 was \$910,608.

In October 2012, the Town entered into a \$1,150,000 installment agreement for the refinance of the capital lease that was executed in May 2007 for the acquisition of the Bush Marina property. The financing contract requires principal payments beginning in October 2013 with an interest rate of 2.39 percent. The outstanding principal balance at June 30, 2018 was \$431,250.

In December 2012, the business type activity fund has chosen to finance purchases with installment payments from the North Carolina Department of Environmental and Natural Resources. The Town has completed its water project as of June 30, 2014. \$3,500,000 installment agreement with interest at an annual rate of 0.00%. The outstanding principal balance at June 30, 2018 was \$2,625,000.

In January 2017, the Town entered into a \$100,000 installment agreement for the purchase of a Pumper Truck. The financing contract requires principal payments annually beginning in January 2018 with an interest rate of 2.65 percent. The outstanding principal balance at June 30, 2018 was \$81,032.

Annual debt service payments of the installment purchases as of June 30, 2018, including \$131,000 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 163,220	\$ 12,454	\$ 276,179	\$ 20,990
2020	163,736	8,503	276,179	18,657
2021	164,266	4,537	276,179	16,325
2022	21,060	558	276,179	13,993
2023	-	-	276,179	11,661
2024-2028	-	-	1,279,713	23,322
2029-2033	-	-	875,000	-
2034-2038	-	-	-	-
Total	\$ 512,282	\$ 26,052	\$ 3,535,608	\$ 104,948

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations

b. Changes in Long-Term Liabilities

	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment notes	\$ 675,000	\$ -	\$ (162,718)	\$ 512,282	\$ 163,220
Compensated absences	68,745	9,728	-	78,473	-
Total OPEB liability	211,689	-	(12,644)	199,045	-
Net pension liability (LGERS)	217,805	-	(44,906)	172,899	-
Total pension liability (LEO)	64,306	13,207	-	77,513	-
Governmental activity long-term liabilities	\$ <u>1,237,545</u>	\$ <u>22,935</u>	\$ <u>(220,268)</u>	\$ <u>1,040,212</u>	\$ <u>163,220</u>
Business-type activities:					
Installment purchase	\$ 3,811,787	\$ -	\$ (276,179)	\$ 3,535,608	\$ 276,179
Compensated absences	11,536	2,343	-	13,879	-
Total OPEB liability	30,877	812	-	31,689	-
Net pension liability (LGERS)	38,362	-	(2,880)	35,482	-
Business-type activity long-term liabilities	\$ <u>3,892,562</u>	\$ <u>3,155</u>	\$ <u>(279,059)</u>	\$ <u>3,616,658</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.



II. DETAIL NOTES ON ALL FUNDS (Continued)

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2018, consist of the following:

From the General Fund to the Capital Reserve Fund	\$ 800,000
From the Capital Reserve Fund to the General Fund	316,885
From the Capital Reserve Fund to the Water Fund	20,000
Total	<u>\$ 1,136,885</u>

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

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-Type</u>
Capital Assets	\$ 5,235,167	\$ 5,657,367
less: long-term debt	512,282	3,535,608
add: unexpended debt proceeds		
Net investment in capital asset	<u>\$ 4,722,885</u>	<u>\$ 2,121,759</u>

E. Fund Balance

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

<i>Total fund balance – General Fund</i>	\$ 2,781,793
Less:	
Prepays	-
Stabilization by State Statute	214,571
Streets	35,371
Beach/Inlet/Sound Maintenance	-
Future Capital Expenditures	1,069,211
Appropriated Fund Balance in 2019 budget	-
Remaining Fund Balance	<u>\$ 1,462,640</u>

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

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

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

### III. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

#### Federal and State Assisted Programs

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

### IV. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 7, 2018, the date on which the financial statements were available to be issued. The Town believes there have been no significant subsequent events.

### V. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending December 31, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for governmental activities decreased \$208,552 and \$27,646 for the business-type activities.

*Required Supplementary*

*Financial Data*

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

**Local Government Employees' Retirement System**

	2018	2017	2016	2015	2014
Topsail Beach's proportion of the net pension liability (asset) (%)	0.01364%	0.01207%	0.01495%	0.01473%	0.01560%
Topsail Beach's proportion of the net pension liability (asset) (\$)	\$ 208,381	\$ 256,167	\$ 67,095	\$ (86,870)	\$ 188,040
Topsail Beach's covered-employee payroll	\$ 887,888	\$ 823,179	\$ 848,594	\$ 822,768	\$ 802,375
Topsail Beach's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	23.47%	31.12%	7.91%	(10.56%)	23.44%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Town of Topsail Beach's Contributions  
Required Supplementary Information  
Last Five Fiscal Years

**Local Government Employees' Retirement System**

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 77,439	\$ 67,645	\$ 57,033	\$ 58,634	\$ 33,960
Contributions in relation to the contractually required contribution	77,439	67,645	57,033	58,634	33,960
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Topsail Beach's covered employee payroll	\$ 982,142	\$ 887,888	\$ 823,179	\$ 848,594	\$ 822,768
Contributions as a percentage of covered-employee payroll	7.88%	7.62%	6.93%	6.91%	4.13%

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Schedule of Changes in Total Pension Liability  
 Law Enforcement Officers' Special Separation Allowance  
 June 30, 2018

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	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 64,306	\$ 71,211
Service Cost	7,877	8,342
Interest on the total pension liability	2,436	2,266
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(1,498)	-
Changes of assumptions or other inputs	6,770	(2,058)
Benefit payments	(2,378)	(15,455)
Other changes	-	-
Ending balance of the total pension liability	<u>\$ 77,513</u>	<u>\$ 64,306</u>

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

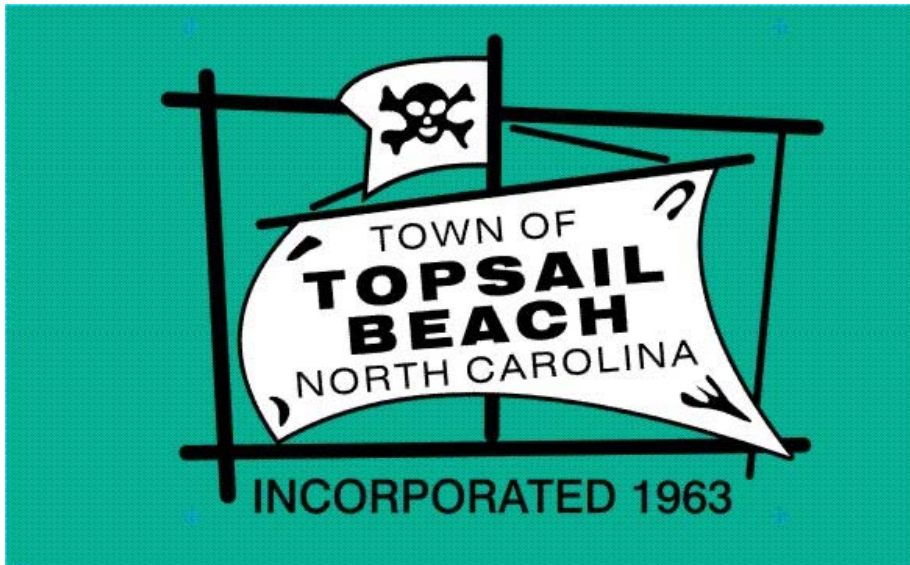
**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Schedule of Total Pension Liability as a Percentage of Covered Payroll  
Law Enforcement Officers' Special Separation Allowance  
June 30, 2018

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	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 77,513	\$ 64,306
Covered payroll	392,725	373,557
Total pension liability as a percentage of covered payroll	19.74%	17.21%

Notes to the schedules:

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





**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Schedule of Changes in the Total OPEB Liability and Related Ratios  
 June 30, 2018

<u>Total OPEB Liability</u>	<u>2018</u>
Service Cost	\$ 20,565
Interest	7,036
Changes of benefit terms	-
Differences between expect and actual experience	(7,897)
Changes of assumptions	(13,797)
Benefit payments	<u>(17,739)</u>
<b>Net changes in Total OPEB Liability</b>	<b>(11,832)</b>
<b>Total OPEB Liability - Beginning</b>	<b>242,566</b>
<b>Total OPEB Liability - Ending</b>	<b><u>\$ 230,734</u></b>
<b>Covered Payroll</b>	<b>\$ 870,090</b>
<b>Total OPEB Liability as a percentage of covered payroll</b>	<b>26.52%</b>

**Notes to Schedule**

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.18%



*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 Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
<b>Ad Valorem Taxes</b>			
Taxes		\$ 1,260,169	
Penalties and Interest		3,281	
<b>Total Ad Valorem Taxes</b>	<b>\$ 1,221,000</b>	<b>1,263,450</b>	<b>\$ 42,450</b>
<b>Other Taxes and Licenses</b>			
Accommodations Tax		234,978	
<b>Total Other Taxes and Licenses</b>	<b>205,000</b>	<b>234,978</b>	<b>29,978</b>
<b>Unrestricted Intergovernmental</b>			
Local Option Sales Tax		450,828	
Utility Sales Tax		113,948	
Telecommunications Sales Tax		-	
Video Franchise Fee		26,413	
Beer and Wine Tax		15,217	
<b>Total Unrestricted Intergovernmental</b>	<b>556,000</b>	<b>606,406</b>	<b>50,406</b>
<b>Restricted Intergovernmental</b>			
Powell Bill Allocation		16,630	
Solid Waste Disposal Tax		69	
<b>Total Restricted Intergovernmental</b>	<b>16,675</b>	<b>16,699</b>	<b>24</b>
<b>Permits and Fees</b>			
Building Permits		62,049	
Police Fines		3,920	
Court Fees		318	
Beach Access Permits		26,300	
Boat Ramp/Slip Fees		54,761	
<b>Total Permits and Fees</b>	<b>135,000</b>	<b>147,348</b>	<b>12,348</b>
<b>Sales and Services</b>			
Solid Waste		308,728	
Rental Fees		81,009	
<b>Total Sales and Services</b>	<b>374,000</b>	<b>389,737</b>	<b>15,737</b>
<b>Investment Earnings</b>			
General		58,736	
<b>Total Investment Earnings</b>	<b>40,000</b>	<b>58,736</b>	<b>18,736</b>

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

General Fund

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

Budget and Actual

For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
<b>Miscellaneous</b>			
Sale of Assets		5,020	
Other		8,425	
<b>Total Miscellaneous</b>	36,500	13,445	(23,055)
<b>Total Revenues</b>	2,584,175	2,730,799	146,624
<b>Expenditures</b>			
<b>Governing Body</b>			
Salaries, Wages and Employee Benefits		19,915	
Other Expenditures		99,654	
<b>Total Governing Body</b>	133,320	119,569	13,751
<b>Administration</b>			
Salaries, Wages and Employee Benefits		242,177	
Other Expenditures		201,320	
Capital Outlay		29,790	
<b>Total Administration</b>	488,149	473,287	14,862
<b>Police</b>			
Salaries, Wages and Employee Benefits		668,396	
Other Expenditures		87,691	
Capital Outlay		76,922	
<b>Total Police</b>	857,350	833,009	24,341
<b>Fire</b>			
Salaries, Wages and Employee Benefits		216,275	
Other Expenditures		86,511	
Debt - Interest		2,650	
Debt - Principal		18,968	
<b>Total Fire</b>	349,950	324,404	25,546
<b>Inspections</b>			
Salaries, Wages and Employee Benefits		15,303	
Other Expenditures		44,302	
<b>Total Planning and Zoning</b>	68,452	59,605	8,847
<b>Public Services</b>			
Salaries, Wages and Employee Benefits		147,956	
Other Expenditures		145,131	
<b>Total Public Services</b>	316,600	293,087	23,513
<b>Powell Bill</b>			
Other Expenditures		7,132	
<b>Total Powell Bill</b>	31,500	7,132	24,368

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

General Fund

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

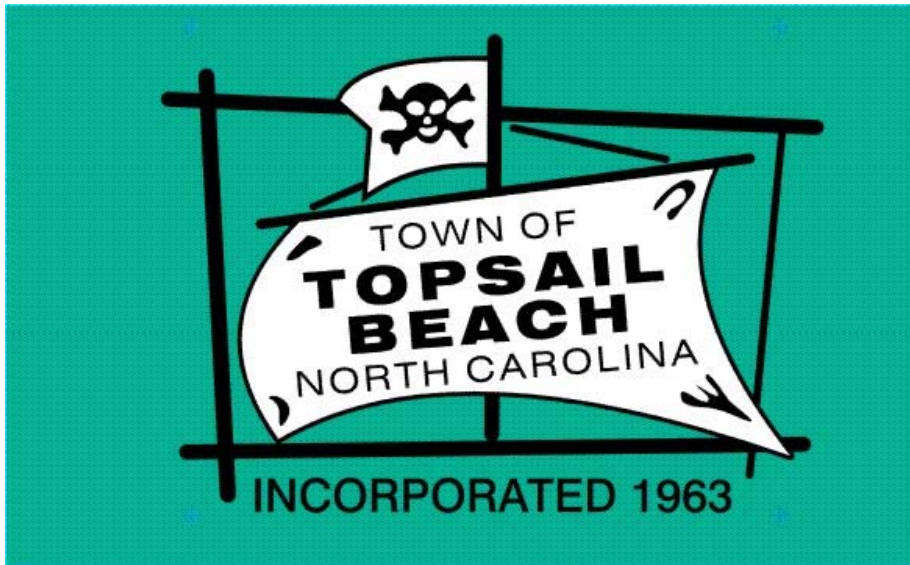
Budget and Actual

For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
<b>Marina</b>			
Salaries, Wages and Employee Benefits		11,649	
Other Operating		5,932	
Debt - Interest		13,643	
Debt - Principal		143,750	
<b>Total Marina</b>	197,050	174,974	22,076
<b>Sanitation</b>			
Other Expenditures		289,980	
<b>Total Sanitation</b>	290,092	289,980	112
<b>Beach Management and Tourism</b>			
Salaries, Wages and Employee Benefits		38,864	
Other Expenditures		119,318	
Capital Outlay		-	
<b>Total Beach Management and Tourism</b>	182,597	158,182	24,415
<b>Federal Beach Project</b>			
Other Expenditures		-	
<b>Total Federal Beach Project</b>	1,000	-	1,000
<b>Total Expenditures</b>	2,916,060	2,733,229	182,831
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(331,885)	(2,430)	329,455
<b>Other Financing Sources (Uses)</b>			
Transfers In:			
Capital Reserve Fund	316,885	316,885	-
Beach, Inlet, and Sound Capital Project Fund	-	-	-
Transfers Out:			
Capital Reserve Fund	(800,000)	(800,000)	-
Installment Purchase Obligations Issued	-	-	-
<b>Total Other Financing Sources (Uses)</b>	(483,115)	(483,115)	-
<b>Fund Balance Appropriated</b>	815,000	-	(815,000)
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>(485,545)</u>	<u>\$ (485,545)</u>
<b>Fund Balance - Beginning of Year</b>		<u>2,198,127</u>	
<b>Fund Balance - End of Year</b>		<u>\$ 1,712,582</u>	

*Special Revenue Funds*  
*Consolidated With General Fund*

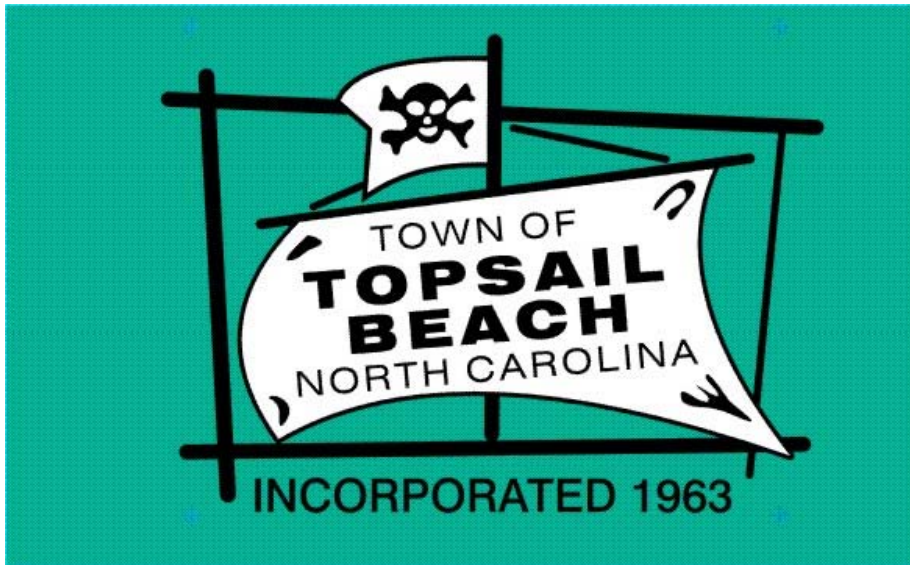
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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 Nonmajor Special Revenue Fund - Capital Reserve Fund  
 For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
<b>Miscellaneous</b>			
Other	\$ -	\$ -	\$ -
<b>Other Financing Sources</b>			
Transfers in:			
General Fund		800,000	
Water Fund		-	
Transfers out:			
General Fund		(316,885)	
Water Fund		(20,000)	
<b>Total Other Financing Sources</b>	-	463,115	463,115
<b>Appropriated Fund Balance</b>	-	-	-
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	463,115	<u>\$ 463,115</u>
<b>Fund Balance - Beginning of Year</b>		<u>606,096</u>	
<b>Fund Balance - End of Year</b>		<u>\$ 1,069,211</u>	



*Major Governmental Funds*

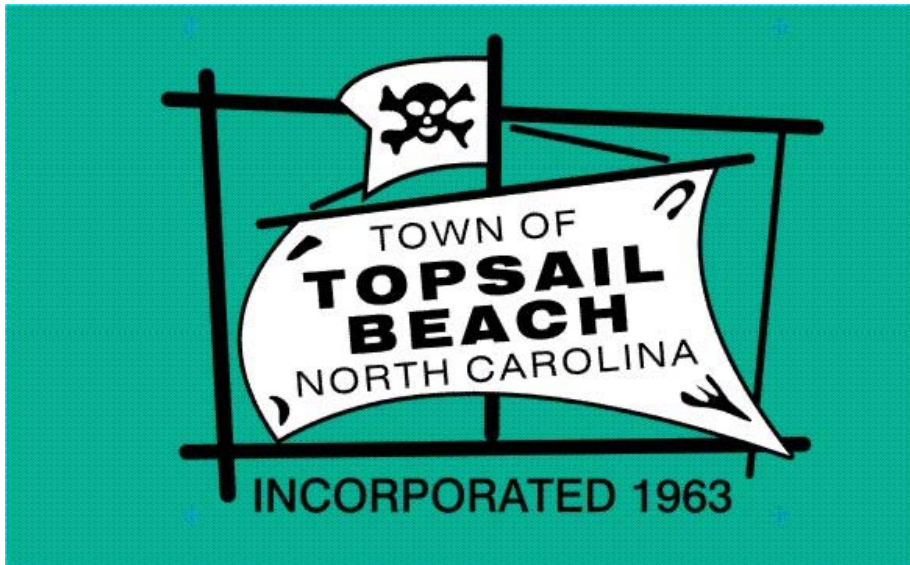
*Capital Project Funds*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Major Capital Project Fund - Beach, Inlet, and Sound Capital Project Fund  
For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
<b>Ad Valorem Taxes</b>			
Taxes		\$ 747,182	
Penalties and Interest		-	
<b>Total Ad Valorem Taxes</b>	<b>\$ 735,879</b>	<b>747,182</b>	<b>\$ 11,303</b>
<b>Other Taxes and Licenses</b>			
Accommodations Tax		844,655	
<b>Total Other Taxes and Licenses</b>	<b>795,000</b>	<b>844,655</b>	<b>49,655</b>
<b>Restricted Intergovernmental</b>			
Federal Grants		412,064	
State Grants		6,808	
<b>Total Restricted Intergovernmental</b>	<b>23,271,221</b>	<b>418,872</b>	<b>(22,852,349)</b>
<b>Investment Earnings</b>			
General		17,822	
<b>Total Investment Earnings</b>	<b>5,000</b>	<b>17,822</b>	<b>12,822</b>
<b>Total Revenues</b>	<b>24,807,100</b>	<b>2,028,531</b>	<b>(22,778,569)</b>
<b>Expenditures</b>			
<b>Beach/Inlet/Sound Maintenance</b>			
Other Operating Expenditures		408,692	
<b>Total Administration</b>	<b>24,807,100</b>	<b>408,692</b>	<b>24,398,408</b>
<b>Total Expenditures</b>	<b>24,807,100</b>	<b>408,692</b>	<b>24,398,408</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>-</b>	<b>1,619,839</b>	<b>1,619,839</b>
<b>Other Financing Sources</b>			
Transfers in:			
General Fund	-	-	-
Transfers out:			
General Fund	-	-	-
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Appropriated Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>1,619,839</b>	<b>\$ 1,619,839</b>
<b>Fund Balance - Beginning of Year</b>		<b>3,226,457</b>	
<b>Fund Balance - End of Year</b>		<b>\$ 4,846,296</b>	



*Enterprise Funds*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Water Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

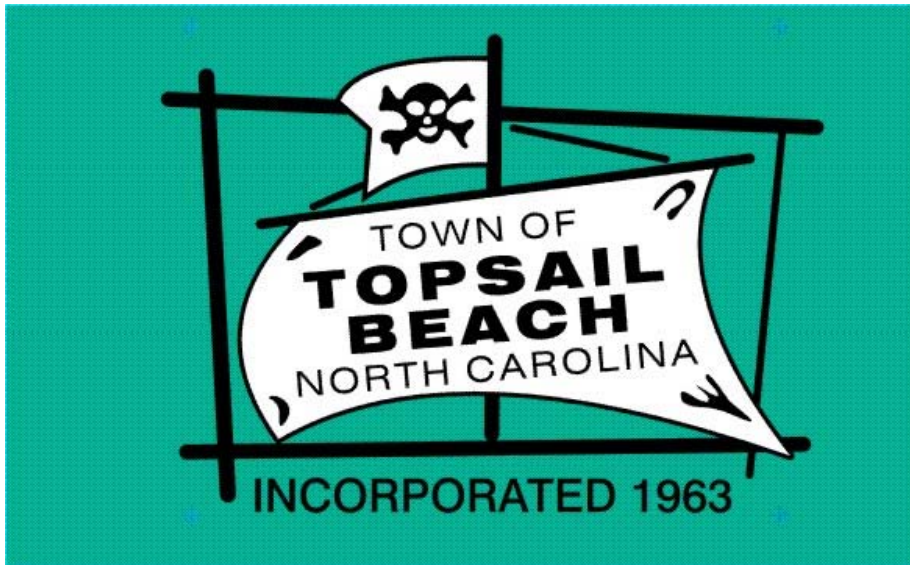
For the Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water Charges		\$ 820,937	
Water Taps		20,082	
Impact Fees		108,305	
Investment Earnings		3,049	
Miscellaneous		-	
<b>Total Revenues</b>	<b>\$ 887,174</b>	<b>952,373</b>	<b>\$ 65,199</b>
<b>Expenditures</b>			
<b>Water and Sewer Operations</b>			
Salaries and Employee Benefits		283,616	
Repairs and Maintenance		74,210	
Other Expenditures		169,351	
Capital Outlay		-	
Debt Service			
Principal Retirement		276,179	
Interest Expense		23,322	
<b>Total Water Operations</b>	<b>907,174</b>	<b>826,678</b>	<b>80,496</b>
<b>Total Expenditures</b>	<b>907,174</b>	<b>826,678</b>	<b>80,496</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(20,000)</b>	<b>125,695</b>	<b>145,695</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in:			
Capital Reserve Fund	20,000	20,000	-
<b>Total Other Financing Sources (Uses)</b>	<b>20,000</b>	<b>20,000</b>	<b>-</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>\$ 145,695</b>	<b>\$ 145,695</b>



**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 Water Fund  
 Schedule of Revenues and Expenditures (Continued)  
 Budget and Actual (Non-GAAP)  
 For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<b>Variance Positive (Negative)</b>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>			
Revenues and Other Sources Over Expenditures and Other Uses		\$ 145,695	
Reconciling Items:			
Depreciation Expense		(145,502)	
Deferred Outflows of Resources - Pensions		(3,450)	
Net Pension Liability		2,880	
Deferred Inflows of Resources - Pensions		810	
Deferred Outflows of Resources - OPEB		-	
OPEB Liability		(31,689)	
Deferred Inflows of Resources - OPEB		(2,594)	
Accrued OPEB Liability		30,877	
Accrued Interest Payable		389	
Compensated Absences Payable		(2,343)	
Principal Retirement		276,179	
Total Reconciling Items		<u>125,557</u>	
<b>Change in Net Position</b>		<u>\$ 271,252</u>	



*Other Schedules*

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**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
 General Fund and Beach, Inlet, and Sound Capital Project Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2018

Fiscal Year	Uncollected Balance 7-1-17	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-18
2017-18	\$ -	\$ 1,986,577	\$ 1,981,224	\$ 5,353
2016-17	27,624	-	24,196	3,428
2015-16	3,274	-	-	3,274
2014-15	3,079	-	-	3,079
2013-14	3,130	-	1,616	1,514
2012-13	501	-	317	184
2011-12	852	-	-	852
2010-11	259	-	-	259
2009-10	124	-	-	124
2008-09	137	-	-	137
2007-08	155	-	155	-
	<u>\$ 39,135</u>	<u>\$ 1,986,577</u>	<u>\$ 2,007,508</u>	<u>18,204</u>

Less: Allowance for Uncollectible Accounts:

General Fund and Beach, Inlet, and Sound Capital Project Fund	2,000
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Ad Valorem Taxes Receivable - Net	\$ 16,204
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Reconciliation with Revenues

Ad Valorem Taxes - General Fund	\$ 1,263,450
Ad Valorem Taxes - Beach, Inlet, and Sound Capital Project Fund	747,182

Interest and Penalties Collected	(3,281)
Taxes Released	2
Taxes Written Off	155
	155

Total Collections and Credits	\$ 2,007,508
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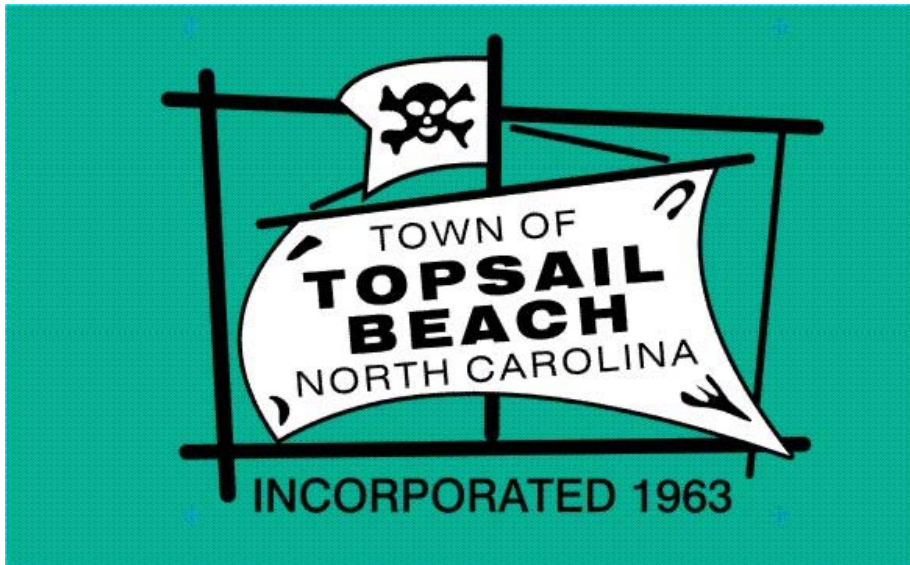
**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2018

	Town-Wide		Total Levy		
	Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property Taxed at					
Current Year's Rate	\$ 636,757,275	0.3125	\$ 1,989,465	\$ 1,968,761	\$ 20,704
Penalties	-		321	211	110
	<u>636,757,275</u>		<u>1,989,786</u>	<u>1,968,972</u>	<u>20,814</u>
<b>Discoveries:</b>					
Current Year Taxes	-	0.3125	-	-	-
Penalties	-		-	-	-
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Abatements:</b>					
Property Taxes -					
Current Year's Rate	(1,022,128)	0.3125	\$ (3,209)	(3,209)	-
	<u>(1,022,128)</u>		<u>(3,209)</u>	<u>(3,209)</u>	<u>-</u>
<b>Total Property Valuations</b>	<u>\$ 635,735,147</u>				
<b>Net Levy</b>			1,986,577	1,965,763	20,814
<b>Uncollected Taxes at June 30, 2018</b>			5,353	5,353	-
<b>Current Year's Taxes Collected</b>			<u>\$ 1,981,224</u>	<u>\$ 1,960,410</u>	<u>\$ 20,814</u>
<b>Current Levy Collection Percentage</b>			<u>99.73%</u>	<u>99.73%</u>	<u>100.00%</u>



*Compliance Section*

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

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsail Beach, North Carolina, as of and for the year ended June 30, 2018, 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 September 7, 2018.

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

***W Greene PLLC***

Whiteville, North Carolina  
September 7, 2018

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Schedule of Findings and Responses

For the Fiscal Year Ended June 30, 2018

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

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes        X   No

Significant deficiency(s)

\_\_\_\_\_ Yes        X   None Reported

Noncompliance material to financial statements noted

\_\_\_\_\_ Yes        X   No

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**  
Schedule of Findings and Responses (Continued)  
For the Fiscal Year Ended June 30, 2018

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



Corrective Action Plan  
For the Fiscal Year Ended June 30, 2018

**SECTION II. FINANCIAL STATEMENT FINDINGS**

*None Reported.*

**TOWN OF TOPSAIL BEACH, NORTH CAROLINA**

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2018

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

