

TOWN OF CAROLINA BEACH, NORTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Town Council Members

Dan Wilcox, Mayor
LeAnn Pierce, Mayor Pro Tem
Tom Bridges
Gary Doetsch
Steve Shuttleworth

Administrative and Financial Staff

Debbie Hall, Finance Director

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Table of Contents

June 30, 2016

	<u>Page No.</u>
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	4-11
<i>Basic Financial Statements</i>	
Government-Wide Financial Statements:	
Statement of Net Position (Exhibit 1)	12
Statement of Activities (Exhibit 2).....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet (Exhibit 3).....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position - Governmental Funds (Exhibit 4).....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit 5).....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities (Exhibit 6).....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual - General Fund (Exhibit 7)	18
Proprietary Fund:	
Statement of Fund Net Position (Exhibit 8).....	19
Statement of Revenues, Expenses, and Changes in Net Fund Position (Exhibit 9).....	20
Statement of Cash Flows (Exhibit 10)	21-22
Notes to Financial Statements	23-46
Required Supplementary Financial Data:	
Law Enforcement Officers’ Special Separation Allowance – Schedule of Funding Progress (Exhibit 11).....	47
Other Post-Employment Benefits - Schedule of Funding Progress (Exhibit 12)	48
Other Post-Employment Benefits - Schedule of Employer Contributions (Exhibit 12)	48
Local Government Employee’s Retirement System (Exhibit 13).....	49
<i>Individual Fund Statements and Schedules</i>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual General Fund (Schedule 1)	50-54
Combining Balance Sheet – Nonmajor Governmental Funds (Schedule 2).....	55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Schedule 3).....	56
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Grant Fund Project (Schedule 4)	57

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Fire Station Renovation (Schedule 5).....	58
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual MOTSU Project Fund (Schedule 6)	59
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Annie Drive Paving and Drainage Fund (Schedule 7).....	60
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Operations Center Fund (Schedule 8)	61
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Boardwalk Improvement Fund (Schedule 9)	62
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Island Greenway Improvement Fund (Schedule 10)	63
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP) - Utility Fund (Schedule 11).....	64-66
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP) – Water Project (Schedule 12).....	67
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP) – Stormwater Improvement (Schedule 13)	68
Other Schedules	
Schedule of Ad Valorem Taxes Receivable (Schedule 1).....	69
Analysis of Current Year Levy (Schedule 2)	70
Other Reporting	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	71-72

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Town of Carolina 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 Carolina Beach, North Carolina (the "Town"), as of and for the year ended June 30, 2016, 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 an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the basic 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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Carolina Beach, North Carolina as of June 30, 2016, 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 Management's Discussion and Analysis on pages 4 through 11; the Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress on page 47; and the Other Post-Employment Benefits - Schedule of Funding Progress and Schedule of Employer Contributions on page 48, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on page 49, 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 an opinion on the financial statements that collectively comprise the basic financial statements of Town of Carolina Beach, North Carolina. The budgetary schedules and other schedules, as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules and other schedules are the responsibility of management and were derived from and relate 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. In our opinion, based on our audit and the procedures performed as described above, the 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 Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016 on our consideration of the Town of Carolina Beach, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and on the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 21, 2016

Management's Discussion and Analysis

As management of the Town of Carolina Beach, North Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

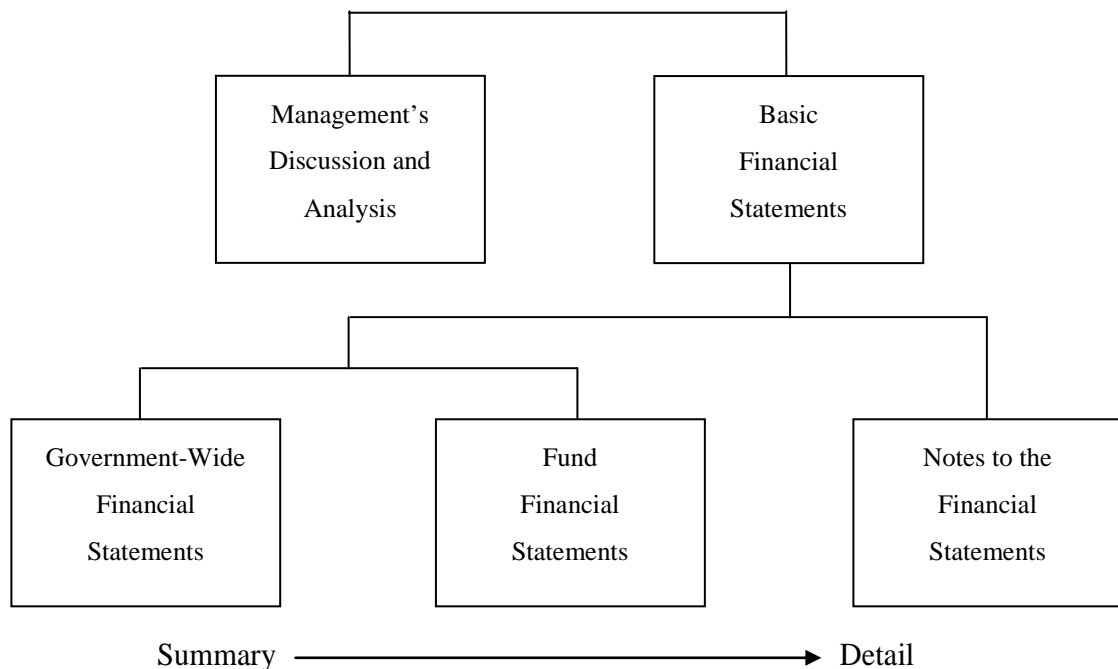
- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$41,000,000 (net position).
- The government's total net position decreased by approximately \$1,000,000.
- As of the close of the current fiscal year, the Town's total governmental funds reported combined ending fund balances of approximately \$8,600,000 with a net change of approximately (\$1,400,000) in fund balance. Approximately 20% of this total amount or \$1,700,000 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$5,200,000, or 38% 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 the Town of Carolina Beach, North Carolina's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Carolina Beach, North Carolina.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) 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 (Exhibits 3 through 10) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes to the financial statements. The notes 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 they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; and 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, community planning and development, and general administration. Property taxes, other taxes, grants, and contributions finance most of these activities. The business-type activities consist of water and sewer services which are provided by the Town at a charge to the customer. The final category is the component unit. The Town does not have a component unit.

The government-wide financial statements are on Exhibits 1 and 2 of the basic financial statements.

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 Carolina 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 can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called

modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Carolina 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 Fund - The Town of Carolina Beach, North Carolina has two kinds of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Carolina Beach, North Carolina uses enterprise funds to account for its water and sewer operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements - The information reported in the notes to the financial statements provides additional disclosure necessary to have a complete understanding of the data provided in the government-wide and fund financial statements.

Other Financial Information - In addition to the basic financial statements and accompanying notes, the report presents certain required supplementary information for the Law Enforcement Officers' Special Separation Allowance and Other Post-Employment Benefits. Required supplementary information follows the notes to the financial statements.

Government-Wide Financial Analysis
Town of Carolina Beach, North Carolina's Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 10,037,403	\$ 12,235,060	\$ 24,051,060	\$ 7,468,539	\$ 34,088,463	\$ 19,703,599
Capital assets	22,640,378	20,924,033	28,964,955	25,883,010	51,605,333	46,807,043
Deferred outflows of resources	303,841	246,271	93,857	76,073	397,698	322,344
Total assets	<u>32,981,622</u>	<u>33,405,364</u>	<u>53,109,872</u>	<u>33,427,622</u>	<u>86,091,494</u>	<u>66,832,986</u>
Liabilities:						
Long-term liabilities	8,311,696	7,787,323	35,277,954	13,063,912	43,589,650	20,851,235
Other liabilities	748,308	938,896	531,136	1,888,465	1,279,444	2,827,361
Deferred inflows of resources	166,594	853,911	51,460	263,773	218,054	1,117,684
Total liabilities	<u>9,226,598</u>	<u>9,580,130</u>	<u>35,860,550</u>	<u>15,216,150</u>	<u>45,087,148</u>	<u>24,796,280</u>
Net Position:						
Net invested in capital assets	17,085,531	14,378,750	13,894,836	11,241,999	30,980,367	25,620,749
Restricted	1,749,282	1,584,825	-	-	1,749,282	1,584,825
Unrestricted	4,920,211	7,861,659	3,354,486	6,969,473	8,274,697	14,831,132
Total net position	<u>\$ 23,755,024</u>	<u>\$ 23,825,234</u>	<u>\$ 17,249,322</u>	<u>\$ 18,211,472</u>	<u>\$ 41,004,346</u>	<u>\$ 42,036,706</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Carolina Beach exceeded liabilities by \$41,004,346 as of June 30, 2016. The Town's net position decreased by \$1,032,360 for the fiscal year ended June 30, 2016. A large portion, \$30,980,367, 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 Carolina Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the Town of Carolina Beach, North Carolina's 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 Carolina Beach's net position, \$1,749,282, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,274,697 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.93%.
- Continued growth in tax base.

Town of Carolina Beach, North Carolina's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 4,076,342	\$ 4,329,931	\$ 6,047,607	\$ 5,908,948	\$ 10,123,949	\$ 10,238,879
Operating grants	187,368	247,881	-	-	187,368	247,881
Capital grants	31,577	595,651	-	-	31,577	595,651
General revenues:						
Property taxes	3,959,096	3,917,035	-	-	3,959,096	3,917,035
Other taxes	2,856,214	2,983,834	-	-	2,856,214	2,983,834
Other revenues	133,966	(1,077,564)	7,119	1,074,973	141,085	(2,591)
Total revenues	<u>11,244,563</u>	<u>10,996,768</u>	<u>6,054,726</u>	<u>6,983,921</u>	<u>17,299,289</u>	<u>17,980,689</u>
Expenses:						
General government	4,242,786	4,134,577	-	-	4,242,786	4,134,577
Public safety	3,263,601	3,121,711	-	-	3,263,601	3,121,711
Transportation	90,332	145,413	-	-	90,332	145,413
Environmental protection	2,978,532	2,875,862	-	-	2,978,532	2,875,862
Fleet	220,653	235,564	-	-	220,653	235,564
Economic development	-	-	-	-	-	-
Cultural and recreation	-	-	-	-	-	-
Cultural and recreation	550,261	517,978	-	-	550,261	517,978
Non departmental	417,064	396,429	-	-	417,064	396,429
Interest on long-term debt	151,543	104,756	-	-	151,543	104,756
Utility operations	-	-	6,416,877	4,896,557	6,416,877	4,896,557
Total expenses	<u>11,914,772</u>	<u>11,532,290</u>	<u>6,416,877</u>	<u>4,896,557</u>	<u>18,331,649</u>	<u>16,428,847</u>
Increase (decrease) in net position before transfers	(670,209)	(535,522)	(362,151)	2,087,364	(1,032,360)	1,551,842
Transfers/Special items	<u>599,999</u>	<u>2,007,004</u>	<u>(599,999)</u>	<u>(2,007,004)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(70,210)	1,471,482	(962,150)	80,360	(1,032,360)	1,551,842
Net position, July 1,	<u>23,825,234</u>	<u>22,353,752</u>	<u>18,211,472</u>	<u>18,131,112</u>	<u>42,036,706</u>	<u>40,484,864</u>
Net position, June 30,	<u>\$ 23,755,024</u>	<u>\$ 23,825,234</u>	<u>\$ 17,249,322</u>	<u>\$ 18,211,472</u>	<u>\$ 41,004,346</u>	<u>\$ 42,036,706</u>

Governmental Activities - Governmental activities decreased the Town's net position by \$70,210. The key element of this decrease was maintaining expenditures as compared with prior year's amount.

Business-Type Activities - Business-type activities decreased the Town of Carolina Beach's net position by \$962,150. The key element of this decrease was maintaining expenditures as compared with prior year's amount.

Financial Analysis of the Town's Funds

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

Governmental Funds - The Town's annual balance budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of the North Carolina General Statutes. The General Fund is the most significant fund budgeted. The focus of the Town'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's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Carolina Beach, North Carolina. At the end of the current fiscal year, fund balance available in the General Fund was \$5,211,536, while the total fund balance reached \$8,010,818. The Town currently has an available fund balance of 38% of General Fund expenditures, while total fund balance represents 59% of the same amount.

At June 30, 2016, the governmental funds of the Town of Carolina Beach reported a combined fund balance of \$8,633,200 with a net decrease of \$1,367,460.

General Fund Budgetary Highlights - The Town's annual budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of the North Carolina General Statutes. The General Fund is the most significant fund budgeted. 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.

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year amounted to \$3,354,486. The total change in net position for the utility fund was a decrease of \$962,150 in the enterprise funds. During 2016, the Town issued \$26.85 million in revenue bonds that will be used to finance several utility fund capital projects and refinance debt or reimburse the Town for several past capital project expenditures. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$51,605,333 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Purchase of new fire engine
- Construction of an operations center
- Completion of the fire department expansion
- Boardwalk improvement continuation
- Major sewer project continuation
- Paving of Annie Drive

**Town of Carolina Beach, North Carolina's Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
	Land	\$ 6,805,526	\$ 6,805,526	\$ 355,957	\$ 355,957	\$ 7,161,483
Construction in progress	2,546,751	3,092,154	9,258,638	8,931,402	11,805,389	12,023,556
Buildings/Plant	6,111,615	4,269,466	18,327,440	16,010,564	24,439,055	20,280,030
Infrastructure	4,753,804	4,748,236	-	-	4,753,804	4,748,236
Equipment	1,104,827	1,067,049	245,704	110,529	1,350,531	1,177,578
Vehicles and motorized equipment	1,317,855	941,602	777,216	474,558	2,095,071	1,416,160
Total	<u>\$ 22,640,378</u>	<u>\$ 20,924,033</u>	<u>\$ 28,964,955</u>	<u>\$ 25,883,010</u>	<u>\$ 51,605,333</u>	<u>\$ 46,807,043</u>

Additional information of the Town's capital assets can be found in the Notes of the basic financial statements.

**Town of Carolina Beach, North Carolina's Outstanding Debt
Long-Term Debt
Figure 5**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
	General obligation bonds	\$ -	\$ -	\$ 26,850,000	\$ -	\$ 26,850,000
Revolving loans	-	-	1,510,072	1,664,300	1,510,072	1,664,300
Installment debt	6,020,939	6,037,283	1,561,119	10,991,860	7,582,058	17,029,143
Total	<u>\$ 6,020,939</u>	<u>\$ 6,037,283</u>	<u>\$ 29,921,191</u>	<u>\$ 12,656,160</u>	<u>\$ 35,942,130</u>	<u>\$ 18,693,443</u>

Long-Term Debt - As of June 30, 2016, the Town had total debt outstanding of \$35,942,130.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. At June 30, 2016, the Town of Carolina Beach had a legal debt margin of approximately \$134,493,840.

Additional information regarding the Town's long-term debt can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

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

- Planned construction of a major grocery store chain with gas station.
- Continued growth Room Occupancy Tax.
- Continued increase in building and planning permits.
- Construction of a major hotel in downtown business district neared completion.
- New property leases for additional Municipal Parking Lots.

Other Post-Employment Benefits

The Town has reported the annual cost and future obligations and commitments for other post-employment benefits (OPEB) in accordance with the requirements of Governmental Accounting Standards Board Statement No. 45. Information is provided in Note 2.B. and Schedule A-2.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities - The Town Council approved \$14.1 million annual budget for fiscal year 2017 and established a tax rate at 23.5 cents per \$100 of assessed valuation. The Town Council has provided for the following projects for this fiscal year through the Capital Improvement Program and appropriations in the annual budget as follows:

- Approximately \$135,000 in Public Safety Technology Improvements
- Dedicated \$350,000 to Storm Damage Reduction
- Approximately \$162,000 in new Police Vehicles
- Approximately \$91,000 in new Fire Rescue Boat and Fire Investigation Unit

Business-Type Activities - There are many water/sewer projects anticipated for the 2017 budget year funded by \$26,850 million in revenue bonds sold on June 30, 2016. Phase B Infrastructure Project consists of replacement of water, sewer, force main, raw water, stormwater and street infrastructure in the area bordered by Raleigh to the North, Woody Hewitt/Canal in the East, Atlanta and Clarendon to the South and 5th Street to the West. The Town will implement two major Waste Water Treatment Plant improvements which consist of repair and replacement of the discharge pipe to the Cape Fear River and rehabilitation of an established equalization basin. Stormwater improvements funded by the bonds include - dredging of the Carolina Beach Lake, installation of a 16" force main from the lake to Hennikker's ditch and a 16" discharge pipe installed under US 421 to allow the lake to be pumped into the Atlantic Ocean.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Carolina Beach, 1121 North Lake Park Boulevard, Carolina Beach, NC 28428. You can also call (910) 458-8216, visit our website www.townofcarolinabeach.org or send an email to debbie.hall@carolinabeach.org for more information.

BASIC FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 6,878,226	\$ 3,510,408	\$ 10,388,634
Taxes receivables, net	158,567	-	158,567
Accounts receivable, net	944,821	907,314	1,852,135
Due from other governments	833,128	-	833,128
Cash and cash equivalents - restricted	1,222,661	19,633,338	20,855,999
Total current assets	10,037,403	24,051,060	34,088,463
Non Current Assets:			
Capital assets:			
Land and construction in progress	9,352,277	9,614,595	18,966,872
Other capital assets, net of depreciation	13,288,101	19,350,360	32,638,461
Total capital assets	22,640,378	28,964,955	51,605,333
Total assets	32,677,781	53,016,015	85,693,796
Deferred Outflows of Resources			
Contributions to pension plan in current fiscal year	303,841	93,857	397,698
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	748,308	441,304	1,189,612
Utility deposit	-	89,832	89,832
Long-term liabilities due within one year	748,490	1,171,423	1,919,913
Total current liabilities	1,496,798	1,702,559	3,199,357
Long-term liabilities:			
Due in more than one year	7,563,206	34,106,531	41,669,737
Total liabilities	9,060,004	35,809,090	44,869,094
Deferred Inflows of Resources			
Pension deferrals	166,594	51,460	218,054
Net Position			
Net investment in capital assets	17,085,531	13,894,836	30,980,367
Restricted for:			
Stabilization by State Statute	962,621	-	962,621
Streets - Powell Bill	756,569	-	756,569
Grant funds	30,092	-	30,092
Unrestricted	4,920,211	3,354,486	8,274,697
Total net position	\$ 23,755,024	\$ 17,249,322	\$ 41,004,346

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,242,786	\$ 385,613	\$ -	\$ 17,367
Transportation	90,332	-	187,368	14,210
Public safety	3,263,601	8,696	-	-
Environmental protection	2,978,532	1,458,802	-	-
Fleet	220,653	-	-	-
Cultural and recreation	550,261	2,223,231	-	-
Non-departmental	417,064	-	-	-
Interest on long-term debt	151,543	-	-	-
Total governmental activities	<u>11,914,772</u>	<u>4,076,342</u>	<u>187,368</u>	<u>31,577</u>
Business-type activities:				
Utility fund	6,416,877	6,047,607	-	-
Total business-type activities	<u>6,416,877</u>	<u>6,047,607</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 18,331,649</u>	<u>\$ 10,123,949</u>	<u>\$ 187,368</u>	<u>\$ 31,577</u>

General Revenues:

Taxes:

Ad valorem taxes

Local option sales tax

Other taxes, licenses and fees

Investment earnings, unrestricted

Miscellaneous

Transfers

Total general revenues, excluding transfers and special items

Change in net position

Net position - beginning

Net position - ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,839,806)	\$ -	\$ (3,839,806)
111,246	-	111,246
(3,254,905)	-	(3,254,905)
(1,519,730)	-	(1,519,730)
(220,653)	-	(220,653)
1,672,970	-	1,672,970
(417,064)	-	(417,064)
(151,543)	-	(151,543)
<u>(7,619,485)</u>	<u>-</u>	<u>(7,619,485)</u>
-	(369,270)	(369,270)
-	(369,270)	(369,270)
<u>(7,619,485)</u>	<u>(369,270)</u>	<u>(7,988,755)</u>
3,959,096	-	3,959,096
771,928	-	771,928
2,084,286	-	2,084,286
25,969	2,114	28,083
107,997	5,005	113,002
599,999	(599,999)	-
<u>7,549,275</u>	<u>(592,880)</u>	<u>6,956,395</u>
(70,210)	(962,150)	(1,032,360)
<u>23,825,234</u>	<u>18,211,472</u>	<u>42,036,706</u>
<u>\$ 23,755,024</u>	<u>\$ 17,249,322</u>	<u>\$ 41,004,346</u>

Balance Sheet

Governmental Funds

June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 6,369,025	\$ 509,201	\$ 6,878,226
Taxes receivables, net	158,567	-	158,567
Accounts receivable, net	944,821	-	944,821
Due from other governments	685,962	147,166	833,128
Due from other funds	33,232	-	33,232
Restricted cash and cash equivalents	1,222,661	-	1,222,661
Total assets	<u>\$ 9,414,268</u>	<u>\$ 656,367</u>	<u>\$ 10,070,635</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 715,635	\$ 753	\$ 716,388
Due to other funds	-	33,232	33,232
Total liabilities	<u>715,635</u>	<u>33,985</u>	<u>749,620</u>
Deferred Inflow of Resources			
	<u>687,815</u>	<u>-</u>	<u>687,815</u>
	<u>687,815</u>	<u>-</u>	<u>687,815</u>
Fund Balances			
Restricted for:			
Stabilization by State Statute	962,621	-	962,621
Streets - Powell Bill	756,569	-	756,569
Grant funds	30,092	-	30,092
Assigned:			
Capital projects	-	622,382	622,382
Storm damage prevention	1,050,000	-	1,050,000
Unassigned	5,211,536	-	5,211,536
Total fund balances	<u>8,010,818</u>	<u>622,382</u>	<u>8,633,200</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,414,268</u>	<u>\$ 656,367</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
Governmental Funds
June 30, 2016

Exhibit 4

Amounts reported for governmental activities in the statement of net position
(Exhibit 1) are different because:

Total fund balance		\$ 8,633,200
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Gross capital assets	31,565,761	
Less: accumulated depreciation	<u>8,925,383</u>	22,640,378
Other assets utilized in the following period and therefore not reported in the fund:		
Contributions for pension plans	<u>303,841</u>	303,841
Earned revenues considered deferred inflows of resources for fund statements		687,815
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds:		
Installment purchases	(6,020,939)	
Other post-employment benefits	(1,515,771)	
LGERS pension	(310,237)	
Law enforcement officers' pension	<u>(45,278)</u>	(7,892,225)
Other liabilities payable or deferred until the following period and therefore are not reported in the funds:		
Compensated absences	(419,471)	
Accrued interest	(31,920)	
Pension deferrals	<u>(166,594)</u>	<u>(617,985)</u>
Net position of governmental activities		<u>\$ 23,755,024</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016

Exhibit 5

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 3,960,536	\$ -	\$ 3,960,536
Other taxes and licenses	49,078	-	49,078
Unrestricted intergovernmental	2,807,136	-	2,807,136
Restricted intergovernmental	205,523	235,483	441,006
Permits and fees	467,276	-	467,276
Sales and services	3,682,033	-	3,682,033
Investment earnings	25,969	-	25,969
Miscellaneous	109,108	17,367	126,475
Total revenues	<u>11,306,659</u>	<u>252,850</u>	<u>11,559,509</u>
Expenditures:			
Current:			
General government	3,854,867	373,655	4,228,522
Transportation	84,893	-	84,893
Public safety	3,861,628	282,976	4,144,604
Environmental protection	3,461,957	195,157	3,657,114
Fleet	207,365	-	207,365
Cultural and recreation	615,229	-	615,229
Non-departmental	417,064	-	417,064
Debt service:			
Principal	879,394	-	879,394
Interest	155,833	-	155,833
Total expenditures	<u>13,538,230</u>	<u>851,788</u>	<u>14,390,018</u>
Revenues over (under) expenditures	<u>(2,231,571)</u>	<u>(598,938)</u>	<u>(2,830,509)</u>
Other Financing Sources (Uses):			
Transfers from (to) other funds	(16,976)	616,975	599,999
Long-term debt issued	863,050	-	863,050
Total other financing sources	<u>846,074</u>	<u>616,975</u>	<u>1,463,049</u>
Net change in fund balances	<u>(1,385,497)</u>	<u>18,037</u>	<u>(1,367,460)</u>
Fund balances, beginning	<u>9,396,315</u>	<u>604,345</u>	<u>10,000,660</u>
Fund balances, ending	<u>\$ 8,010,818</u>	<u>\$ 622,382</u>	<u>\$ 8,633,200</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of the Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2016

Exhibit 6

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

Net change in fund balances - total governmental funds \$ (1,367,460)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation was less than capital outlays and loss on disposal in the current period. 1,716,345

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities (43,590)

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

New long-term debt issued (863,050)
Principal payments on long-term debt 879,394

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

Compensated absences (65,235)
Pension expense 130,809
Net obligation for law enforcement officers and other postemployment benefits (165,245)
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual) 4,290

Revenues in the Statement of Activities that do not provide current financial resources and are not reported as revenues in the funds. (296,468)

Total changes in net position of governmental activities \$ (70,210)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Annual Budget and Actual - General Fund
Year Ended June 30, 2016

Exhibit 7

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Ad valorem taxes	\$ 3,945,060	\$ 3,945,060	\$ 3,960,536	\$ 15,476
Other taxes and licenses	38,800	38,800	49,078	10,278
Unrestricted intergovernmental	2,716,240	2,716,240	2,807,136	90,896
Restricted intergovernmental	186,660	186,660	205,523	18,863
Permits and fees	322,185	322,185	467,276	145,091
Sales and services	3,522,635	3,522,635	3,682,033	159,398
Investment earnings	3,700	3,700	25,969	22,269
Miscellaneous	8,000	8,000	109,108	101,108
Total revenues	<u>10,743,280</u>	<u>10,743,280</u>	<u>11,306,659</u>	<u>563,379</u>
Expenditures				
Current:				
General government	3,964,973	4,414,798	3,854,867	559,931
Transportation	228,000	289,252	84,893	204,359
Public safety	3,521,720	4,077,734	3,861,628	216,106
Fleet maintenance	288,915	229,121	207,365	21,756
Environmental protection	2,698,740	3,478,441	3,461,957	16,484
Cultural and recreation	607,994	623,477	615,229	8,248
Non-departmental	413,345	431,811	417,064	14,747
Debt service:				
Principal	879,394	879,394	879,394	-
Interest	269,965	155,833	155,833	-
Total expenditures	<u>12,873,046</u>	<u>14,579,861</u>	<u>13,538,230</u>	<u>1,041,631</u>
Revenues over (under) expenditures	<u>(2,129,766)</u>	<u>(3,836,581)</u>	<u>(2,231,571)</u>	<u>1,605,010</u>
Other Financing Sources (Uses)				
Transfers from (to) other funds	600,000	(101,220)	(16,976)	84,244
Long-term debt issued	-	863,050	863,050	-
Total other financing sources (uses)	<u>600,000</u>	<u>761,830</u>	<u>846,074</u>	<u>84,244</u>
Fund balance appropriated	<u>1,529,766</u>	<u>3,074,751</u>	<u>-</u>	<u>(3,074,751)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(1,385,497)</u>	<u>\$ (1,385,497)</u>
Fund balances, beginning			<u>9,396,315</u>	
Fund balances, ending			<u>\$ 8,010,818</u>	

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

Statement of Net Position

Proprietary Fund

June 30, 2016

	Business-Type Activities
	<u>Enterprise Funds</u>
	Utility Fund
Assets	
Current assets:	
Cash and equivalents	\$ 3,510,408
Accounts receivable	907,314
Restricted cash	19,633,338
Total current assets	<u>24,051,060</u>
Non-current assets:	
Capital assets:	
Land and other non-depreciable assets	9,614,595
Other capital assets, net of depreciation	19,350,360
Total capital assets	<u>28,964,955</u>
Total non-current assets	<u>28,964,955</u>
Total assets	<u>53,016,015</u>
Deferred Outflows of Resources	
Contributions to pension plan	<u>93,857</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	441,304
Utility deposits	89,832
Current portion of long-term liabilities	1,171,423
Total current liabilities	<u>1,702,559</u>
Noncurrent liabilities:	
Non-current portion of long-term liabilities	34,106,531
Total liabilities	<u>35,809,090</u>
Deferred Inflows of Resources	
Pension deferrals	<u>51,460</u>
Net Position	
Net investment in capital assets	13,894,836
Unrestricted	3,354,486
Total net position	<u>\$ 17,249,322</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Revenues, Expenses, and Changes in Net Fund Position
Proprietary Fund
Year Ended June 30, 2016

Exhibit 9

	Business-Type Activities
	<u>Enterprise Funds</u>
	Utility Fund
	<u> </u>
Operating revenues:	
Charges for services	\$ 5,677,125
Water and sewer taps	164,800
Other operating revenues	205,682
Total operating revenues	<u>6,047,607</u>
Operating expenses:	
Administration	565,558
Facilities and equipment	58,501
Stormwater	682,322
Water treatment and distribution	1,169,659
Waste collection and treatment	971,789
Repairs and maintenance	1,402,358
Depreciation	974,503
Total operating expenses	<u>5,824,690</u>
Operating income	<u>222,917</u>
Non-operating revenues (expenses):	
Investment earnings	2,114
Miscellaneous	5,005
Interest and other charges	<u>(592,187)</u>
Total non-operating revenues (expenses)	<u>(585,068)</u>
Net income before transfers	(362,151)
Transfers to other funds	<u>(599,999)</u>
Change in net fund position	(962,150)
Total net position, beginning	18,211,472
Total net position, ending	<u>\$ 17,249,322</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2016

Exhibit 10

	Business-Type Activities
	<u>Enterprise Funds</u>
	Utility Fund
	<u>Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 5,977,999
Cash paid for goods and services	(4,769,930)
Cash paid to employees for services	(1,391,938)
Net cash used in operating activities	<u>(183,869)</u>
Cash flows from noncapital financing activities:	
Transfers in (out)	(599,999)
Total cash flows used in noncapital financing activities	<u>(599,999)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(4,058,126)
Sale of asset	5,005
Proceeds from issuance of long-term debt	32,181,111
Principal payment on long-term debt	(10,133,814)
Interest payment on long-term debt	(592,187)
Net cash provided by capital and related financing activities	<u>17,401,989</u>
Cash flows from investing activities:	
Interest on investments	2,114
Net cash provided by investing activities	<u>2,114</u>
Net increase in cash and cash equivalents	16,620,235
Balances, beginning	6,523,511
Balances, ending	<u>\$ 23,143,746</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Statement of Cash Flows (Continued)
Proprietary Fund
Year Ended June 30, 2016

Exhibit 10

	Business-Type Activities
	<u>Enterprise Funds</u>
	Utility Fund
Operating income	<u>\$ 222,917</u>
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	974,503
Pension expense	174,125
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(69,608)
Deferred outflows of resources for pensions	13,465
Increase (decrease) in:	
Accounts payable and accrued liabilities	(1,357,329)
Deferred inflows of resources for pensions	(212,313)
Other postemployment benefits payable	70,371
Total adjustments	<u>(406,786)</u>
Net cash used in operating activities	<u>\$ (183,869)</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Carolina Beach, North Carolina (the "Town") conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

The Town is a municipal corporation, which is governed by an elected mayor and a four-member council.

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 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 or ancillary units.

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise fund:

Utility Fund – This fund is used to account for the Town's water and sewer and storm water drainage operations.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and 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 non-operating 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's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating 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.

The Town considers all revenues available if they are collected within 60 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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town because the tax is levied by New Hanover 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 by general revenues.

Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General and Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Fund and the Enterprise Fund Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. 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. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. 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.

Assets, Liabilities, Deferred Inflow of Resources, and Fund Equity

Deposits and Investments

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

State law (G.S. 159-30(c)) authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain 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. The NCCMT Cash Portfolio, a SEC-registered (2a-7) external investment pool is measured at amortized costs, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, followed by unrestricted resources as they are needed. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Money in the Powell Bill funds is classified as restricted cash because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. Unspent debt proceeds in the Fire Station Renovation Fund and Utility Fund are restricted for the purpose of the loan.

Restricted cash at June 30, 2016, consists of the following:

Governmental Activities

General Fund:

Streets - Powell Bill	\$ 756,569
Unspent debt proceeds	466,092
Total governmental activities	<u>\$ 1,222,661</u>

Business-Type Activities

Utility Fund:

Unspent debt proceeds	\$ 19,633,338
Total business-type activities	<u>\$ 19,633,338</u>

Total restricted cash	<u>\$ 20,855,999</u>
-----------------------	----------------------

Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance 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.

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 as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30-40 years
Buildings	50 years
Improvements	25 years
Vehicles	6 years
Furniture and equipment	10 years
Computer equipment	3 years

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element called deferred outflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an expense until then. The Town has one item that meets the criterion for this category – contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of net 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. On the statement of net position, the Town has one item that meets the criterion for this category – deferrals of pension expense that result from the implementation of GASB Statement 68; as well as two items that meet the criterion for this category on the balance sheet - property taxes receivable, and assessments receivable.

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 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 amortized and expensed over the term of the related 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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The vacation policies of the Town provide for the accumulation of up to 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 time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. The Town's sick leave policies provide for unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Investment in Capital Assets

	Governmental Activities	Business-Type Activities
Capital assets	\$ 22,640,378	\$ 28,964,955
Long-term debt	(6,020,939)	(34,703,457)
Unexpended debt proceeds	466,092	19,633,338
Net investment in capital assets	<u>\$ 17,085,531</u>	<u>\$ 13,894,836</u>

Net Position

Net Position - Net position in the 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 a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through State statutes.

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:

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

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 - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Grant Funds – Portion of the fund balance that is restricted by grant agreements and unspent at year end.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed Fund Balance - This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Carolina Beach, North Carolina's governing body (highest level of decision making authority, the Town Council). 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. Any changes or removal of specific purpose restrictions require majority action by the governing body.

Assigned Fund Balance – Assigned fund balance is the portion of fund balance that the Town of Carolina Beach, North Carolina intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager and Finance Director, as granted in the officially adopted budget ordinance, have been granted limited authority to assign fund balance.

Assigned for Capital Projects - portion of fund balance that has been budgeted by the Board for various construction projects of the Town.

Assigned for Storm Damage Prevention – portion of the fund balance that has been appropriated by the Board to fund future storm damage reduction and inlet dredging projects.

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

The Town of Carolina Beach, North Carolina has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, Federal funds, State funds, local non-Town funds; and 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 or when required by grant or other contractual agreements.

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

Total fund balance - General Fund	\$ 8,010,818
Less:	
Stabilization by State Statute	962,621
Streets- Powell Bill	756,569
Grant Funds	30,092
Storm Damage Prevention	1,050,000
Remaining Fund Balance	<u>\$ 5,211,536</u>

The Town of Carolina Beach, North Carolina has not adopted a formal fund balance policy.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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 Carolina Beach, North Carolina's employer contributions are recognized when due and the Town of Carolina Beach, North Carolina has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

NOTE 2 – DETAIL NOTES ON ALL FUNDS

A. Assets

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 units' 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 their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with 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 complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2016, the Town's deposits had a carrying amount of \$3,860,398 and a bank balance of \$3,958,694. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral under the Pooling Method. As of June 30, 2016, the Town's petty cash fund totaled \$450.

Investments

At June 30, 2016, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Valuation</u>		
	<u>Measurement Method</u>	<u>Book Value</u>	<u>Maturity</u>
NC Capital Management Trust:			
Cash Portfolio	Amortized Cost	\$ 6,787,399	N/A
Term Portfolio	Fair Value: Level 1	20,596,386	0.14 years
		<u>\$ 27,383,785</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy – Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest rate risk: The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town’s internal investment policy limits their investment portfolio to the NC Capital Management Trust Cash Portfolio, which can be liquidated at the share price or NC Capital Management Trust Term Portfolio, which usually has a maturity of less than 12 months.

Credit risk: The Town has no formal policy regarding credit risk, but has an internal management procedures that limits the Town’s investments to the provisions of G.S. 159-30 and restricts the purchase of securities to either the NC Capital Management Trust Cash Portfolio, which carries a credit rating of AAAM by Standard & Poor’s as of June 30, 2016, or the NC Capital Management Trust Term Portfolio, which is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under G.S. 159-30 as amended.

Custodial credit risk: For any investment, the custodial risk is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town has no formal policy on custodial risk, but management procedures are that the Town shall utilize a third party custodial agent for book entry transactions, all of which shall be held in the Town’s name.

Concentration of credit risk: The Town’s Board places no limit on the amount that the Town may invest in any one issuer. At year end, all of the Town’s investments are held in either NC Capital Management Trust Cash Portfolio or the NC Capital Management Trust Term Portfolio, which represents 39.6% and 60.4% of the Town’s total investment, respectively.

Receivables

Governmental activities receivables for the General Fund consist of \$158,567 for outstanding taxes; \$415,559 for customer accounts; \$529,262 for outstanding assessments; and \$685,962 due from other governments. Governmental activities receivables for other governmental funds consist of \$147,166 due from other governments.

Business-Type activities receivables for the Utility Fund consist of \$549,284 for customer accounts; \$82,913 for outstanding assessments; \$241,625 due from other governments; and \$33,492 for other miscellaneous receivables.

The amounts presented in the Balance Sheet and the Statement of Net Position are net of allowances for doubtful accounts, if any.

Due from other governments consisted of the following:

	Governmental Activities	Business-Type Activities
Local option sales tax	\$ 33,953	\$ 31,040
Grant reimbursements	727,514	144,619
Sales tax reimbursement	71,661	65,966
Total	<u>\$ 833,128</u>	<u>\$ 241,625</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 6,805,526	\$ -	\$ -	\$ -	\$ 6,805,526
Construction in progress	3,092,154	1,561,825	-	(2,107,228)	2,546,751
Total capital assets not being depreciated	<u>9,897,680</u>	<u>1,561,825</u>	<u>-</u>	<u>(2,107,228)</u>	<u>9,352,277</u>
Capital assets being depreciated:					
Buildings	6,296,583	-	-	1,885,665	8,182,248
Infrastructure	6,547,821	12,197	-	221,563	6,781,581
Equipment	3,771,528	198,753	180,515	-	3,789,766
Vehicles and motorized equipment	3,653,317	602,414	795,842	-	3,459,889
Total capital assets being depreciated	<u>20,269,249</u>	<u>813,364</u>	<u>976,357</u>	<u>2,107,228</u>	<u>22,213,484</u>
Less accumulated depreciation for:					
Buildings	2,027,117	43,516	-	-	2,070,633
Infrastructure	1,799,585	228,192	-	-	2,027,777
Equipment	2,704,479	149,840	169,380	-	2,684,939
Vehicles and motorized equipment	2,711,715	218,818	788,499	-	2,142,034
Total accumulated depreciation	<u>9,242,896</u>	<u>640,366</u>	<u>957,879</u>	<u>-</u>	<u>8,925,383</u>
Total capital assets being depreciated, net	<u>11,026,353</u>				<u>13,288,101</u>
Government activity capital assets, net	<u>\$ 20,924,033</u>				<u>\$ 22,640,378</u>

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

Governmental Activities:	
General government	\$ 209,295
Transportation	4,202
Public safety	205,141
Environmental protection	181,013
Fleet	10,264
Cultural and recreation	30,451
Total depreciation expense	<u>\$ 640,366</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Capital asset activity for the Business-Type Activities was as follows:

	Beginning Balances	Increases	Decreases	Transfer	Ending Balances
Utility Fund:					
Capital assets not being depreciated:					
Land	\$ 355,957	\$ -	\$ -	\$ -	\$ 355,957
Construction in progress	8,931,402	2,888,206	-	(2,560,970)	9,258,638
Total capital assets not being depreciated	9,287,359	2,888,206	-	(2,560,970)	9,614,595
Capital assets being depreciated:					
Plant and distribution systems	28,059,943	577,596	-	2,560,970	31,198,509
Furniture and maintenance equipment	1,059,331	175,176	-	-	1,234,507
Vehicles	1,534,261	417,148	219,543	-	1,731,866
Total capital assets being depreciated	30,653,535	1,169,920	219,543	2,560,970	34,164,882
Less accumulated depreciation for:					
Plant and distribution systems	12,049,379	821,690	-	-	12,871,069
Furniture and maintenance equipment	948,802	40,001	-	-	988,803
Vehicles	1,059,703	112,812	217,865	-	954,650
Total accumulated depreciation	14,057,884	974,503	217,865	-	14,814,522
Total capital assets being depreciated, net	16,595,651				19,350,360
Utility fund capital assets, net	\$ 25,883,010				\$ 28,964,955

B. Liabilities

Accounts Payable and Accrued Expenses

Payables at the government-wide level at June 30, 2016, were as follows:

	Vendors	Other	Total
Governmental Activities:			
General Fund	\$ 560,670	\$ 186,885	\$ 747,555
Other Governmental Funds	753	-	753
Total governmental activities	\$ 561,423	\$ 186,885	\$ 748,308
Business-Type Activities:			
Utility Fund	\$ 389,470	\$ 51,834	\$ 441,304

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Long Term Obligations

Installment Purchases

Governmental Activities:

Installment purchase contracts at June 30, 2016 are comprised of the following:

The Town of Carolina Beach, North Carolina currently has eight installment purchase contracts ranging from 1.24% to 3.21% interest-bearing notes. The notes maturities range from 2017 to 2030.

\$ 6,020,939

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 748,490	\$ 125,573
2018	782,049	128,032
2019	784,393	108,472
2020	709,033	88,727
2021	538,550	71,622
2022-2026	1,850,378	185,701
2027-2030	608,046	31,230
Total	<u>\$ 6,020,939</u>	<u>\$ 739,357</u>

Business-Type Activities:

Installment purchase contracts at June 30, 2016 are comprised of the following:

The Utility Fund currently has four installment purchase contracts ranging from 0% to 1.76% interest-bearing notes. The notes maturities range from 2016 to 2034.

\$ 1,561,119

Annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 252,196	\$ 8,229
2018	194,521	5,451
2019	194,521	3,634
2020	194,521	1,817
2021	83,731	-
2022-2026	418,654	-
2027-2029	222,975	-
Total	<u>\$ 1,561,119</u>	<u>\$ 19,131</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Revenue Bond

Revenue Bond at June 30, 2016 is comprised of the following:

The Utility Fund has an outstanding \$26,850,000 Water and Sewer Revenue Bonds, Series 2016 issued for water and sewer system improvements. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at an annual interest rate ranging from 2% to 5%.

\$ 26,850,000

Annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 765,000	\$ 1,061,131
2018	850,000	1,138,800
2019	910,000	1,113,300
2020	1,060,000	1,076,900
2021	1,105,000	1,034,500
2022-2026	5,910,000	4,410,500
2027-2031	5,630,000	2,900,500
2032-2036	4,790,000	1,755,800
2037-2041	5,830,000	718,000
Total	<u>\$ 26,850,000</u>	<u>\$ 15,209,431</u>

The Town has covenants related to the revenue bond for rates, fees, rentals and charges in Section 704 of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2016. Section 704(a) of the Bond Order requires a debt service coverage ratio of no less than 120% at the end of any year. Since the Water and Sewer Revenue Bonds, Series 2016 were issued on June 30, 2016, the Town was not required to be in compliance with these covenants as of June 30, 2016.

The Town has pledged future water and sewer customer revenues, net of specific operating expenses, to repay the water and sewer revenue bonds issued in June 2016. Proceeds from the bonds provided financing for several Utility Fund capital projects and refinanced outstanding debt on several current and past capital projects of the Utility Fund. The bonds are payable solely from water and sewer customer net revenues in which annual principal and interest payments on the bonds are expected to require less than 6% of net revenues.

Revolving Loan Payables

On May 1, 2001, the Town received \$1,854,260 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund Program. The loan is repayable at 2.57% interest for 20 years. The loan repayment schedule based on the loan amount of \$1,854,260 calls for annual principal repayments and semi-annual interest repayments for 20 years. The total amount outstanding at June 30, 2016 was \$649,117.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

On May 1, 2010, the Town was approved for a maximum loan amount of \$1,686,234 for a Federal revolving 50% forgiveness loan for treatment of a beach storm water pond. The loan is repayable at 0% interest for 20 years. The loan repayment schedule is based on the outstanding amount of the loan at year-end. The total amount outstanding at June 30, 2016 was \$573,074.

On May 1, 2010, the Town was approved for a maximum loan amount of \$1,000,000 for a Federal revolving 50% forgiveness loan for Lake Park Boulevard sewer rehabilitation. The loan is repayable at 0% interest for 20 years. The loan repayment schedule is based on the outstanding amount of the loan at year-end. The total amount outstanding at June 30, 2016 was \$287,881.

Annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 154,228	\$ 8,341
2018	154,228	7,150
2019	154,228	5,958
2020	154,228	4,766
2021	154,228	3,575
2022-2026	492,946	3,575
2027-2030	245,986	-
Total	<u>\$ 1,510,072</u>	<u>\$ 33,365</u>

Changes in Long-Term Liabilities

A summary of long-term debt as of June 30, 2016, is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental Activities:					
Installment purchases	\$ 6,037,283	\$ 863,050	\$ 879,394	\$ 6,020,939	\$ 748,490
Compensated absences	354,236	65,235	-	419,471	-
Net pension liability (LGERS)	-	310,237	-	310,237	-
OPEB	1,292,930	222,841	-	1,515,771	-
Net pension obligation (LEO)	102,874	-	57,596	45,278	-
Total governmental activity long-term liabilities	<u>\$ 7,787,323</u>	<u>\$ 1,461,363</u>	<u>\$ 936,990</u>	<u>\$ 8,311,696</u>	<u>\$ 748,490</u>
Business-Type Activities:					
Installment purchases	\$ 10,991,860	\$ 548,845	\$ 9,979,586	\$ 1,561,119	\$ 252,195
Revenue bonds	-	26,850,000	-	26,850,000	765,000
Deferred amounts:					
Issuance premiums	-	4,782,266	-	4,782,266	-
Revolving loans	1,664,300	-	154,228	1,510,072	154,228
Net pension liability (LGERS)	-	95,832	-	95,832	-
OPEB	408,294	70,371	-	478,665	-
Total business-type long-term liabilities	<u>\$ 13,064,454</u>	<u>\$ 32,347,314</u>	<u>\$ 10,133,814</u>	<u>\$ 35,277,954</u>	<u>\$ 1,171,423</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The LGERS pension plan had a net pension plan asset as of June 30, 2016; however, the plan had a net pension liability at the beginning of the fiscal year. Compensated absences, net pension obligation, and other post-employment benefits are typically liquidated in the General Fund. Compensated absences are accounted for on a first-in, first-out basis.

At June 30, 2016, the Town had a legal debt margin of \$134,493,840.

Interfund Activity

Balances due to/from other funds at June 30, 2016, consisted of \$33,232 due to the General Fund from the Grant Project Fund (nonmajor fund) resulting from the time lag for reimbursable expenditures that occur and repayment between funds are made.

Transfers to/from other funds at June 30, 2016, consist of the following:

<u>Transfers to</u>	<u>Transfers from</u>	<u>Amount</u>
General Fund	Fire Station Renovation (Non Major)	\$ 49,748
Annie Drive Paving and Drainage (Non Major)	General Fund	22,052
Boardwalk Improvements (Non Major)	General Fund	538,261
Cape Fear Multi-Use Path Project (Non Major)	General Fund	106,410
General Fund	Utility Fund	599,999
		<u>\$ 1,316,470</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, to close out completed capital project funds or payments in lieu of taxes.

Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description: The Town of Carolina Beach, North Carolina 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. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of thirteen 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 the State Superintendent, who serve as ex-officio members. The LGERS 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, or by calling (919) 981-5454.

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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. The Town of Carolina Beach, North Carolina 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 Carolina Beach, North Carolina's contractually required contribution rate for the year ended June 30, 2016, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Carolina Beach, North Carolina were \$334,680 for the year ended June 30, 2016.

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, 2016, the Town reported a liability of \$406,069 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.090%, which was an increase of 0.013% from its proportion measured as of June 30, 2015.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

For the year ended June 30, 2016, the Town recognized pension expense reduction of \$199,551. At June 30, 2016, 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	\$ -	\$ 95,449
Net difference between projected and actual earnings on pension plan investments	-	115,607
Changes in proportion and differences between Town contributions and proportionate share of contributions	63,018	6,998
Town contributions subsequent to the measurement date	334,680	-
	<u>\$ 397,698</u>	<u>\$ 218,054</u>

\$334,680 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense (income) as follows: 2017 - (\$120,545); 2018 - (\$120,545); 2019 - (\$120,376); and 2020 - \$206,430.

Actuarial Assumptions - The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25%, 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, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation protection	6.0%	3.4%
	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study from 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.

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town' proportionate share of the net pension liability (asset)	\$ 2,831,576	\$ 406,069	\$ (1,637,367)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	29
	<u>32</u>

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 and refunds 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 following criteria which are outlined in GASB Statements 67 and 68:

- Contributions to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing benefits to plan members.
- Pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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

Contributions

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The annual required contribution for the current year was determined as part of the December 31, 2015 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases. The unfunded actuarial accrued liability is being amortized as level dollar on a closed basis. The remaining amortization period at December 31, 2015, was 16 years.

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

Annual required contributions	\$ 43,772
Interest on net pension obligation	4,439
Adjustment to annual required contribution	<u>(7,773)</u>
Annual pension cost	40,438
Contributions made	<u>98,034</u>
Increase in net pension obligation	(57,596)
Net pension obligation, beginning of year	<u>102,874</u>
Net pension obligation, end of year	<u><u>\$ 45,278</u></u>

Three Year Trend Information

Year Ended June 30	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2016	\$ 40,438	242.4%	\$ 45,278
2015	39,163	89.6%	102,874
2014	39,163	78.8%	97,636

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$413,025. The covered payroll (annual payroll of active employees covered by the plan) was \$1,381,543, and the ratio of the UAAL to the covered payroll was 29.9%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2016 were \$96,518, which consisted of \$65,874 from the Town and \$30,644 from the law enforcement officers.

d. Other Post-Employment Benefits

Plan Description: The Town (by local ordinance) administers a single-employer defined benefit plan and provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and meet the following criteria. The retiree must have at least five years of creditable service with the Town, and the retirement must be due to a medical condition, which is subject to review by the North Carolina Medical Review Board. In addition, the Town pays the full cost of coverage for these benefits for retirees with a minimum of 20 years of creditable service with the Town. Retirees who do not meet the aforementioned criteria have the option to purchase basic medical insurance for themselves and their dependents through the Town. The entire cost of this insurance is borne by the retirees. The Town maintains healthcare coverage through private insurers. A separate report is not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	26
Active plan members	98
	<u>124</u>

Funding Policy: The Town agrees to provide medical insurance to certain retired employees as an extended benefit. Eligible retirees who elect this coverage will be enrolled in the group health plan. For members that retire with at least 20 years of service, or that retire with approved disability retirement, the Town pays 100% of the cost for pre-65 group healthcare coverage for the retiree and 100% of the cost of Medicare supplement coverage at age 65. Years of service are considered years of creditable service with the Local Governmental Employees' Retirement System. The retiree will be responsible for paying the cost of dependent coverage if dependent coverage is elected. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current annual required contribution (ARC) rate is 9.66% of annual covered payroll. For the current year, the Town contributed \$104,103 or 2.31% of annual covered payroll. The Town's contributions totaled \$104,103 in Fiscal year 2015. Contributions by employees for the fiscal year 2016 were \$39,987. The Town's obligation to contribute to the post-retirement benefit plan is established and may be amended by the Town Council.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

Annual OPEB Cost and Net OPEB Obligation: The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

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

Employer annual required contribution	\$ 363,162
Interest on net OPEB obligation	58,006
Adjustment to annual required contribution	<u>(55,414)</u>
Annual pension cost	365,754
Employer contributions made	<u>72,542</u>
Increase in net pension obligation	293,212
Net pension obligation, beginning of year	<u>1,701,224</u>
Net pension obligation, end of year	<u><u>\$ 1,994,436</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 were as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 365,754	19.8%	\$ 1,994,436
2015	355,176	11.3%	1,701,224
2014	351,343	19.9%	1,450,151

As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$4,900,731. The covered payroll (annual payroll of active employees covered by the plan) was \$4,273,513, and the ratio of the UAAL to the covered payroll was 114.7%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Actuarial Methods and Assumptions:

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

The annual required contribution for the current year was determined as part of the December 31, 2014, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4% investment rate of return, which included an inflation component of 3% and (b) a 9.5-5% medical cost trend rate with 2018, the year of ultimate trend rate. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as level percentage of pay on an open basis. The remaining amortization period at December 31, 2011, was 30 years.

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 (the "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 on 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. Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer had contributed as of December 31, 2010, was established by the State. The Town contributed more than 20 years and was relieved for two years. Contributions from the Town will resume in the fiscal year beginning July 1, 2015.

Deferred Outflows and Inflows of Resources

The Town's deferred outflow of resources at June 30, 2016 consisted of contributions to a pension plan made during the current year in the amount of \$397,698 and will be applied to future pension obligations.

The Town's deferred inflows of resources at June 30, 2016 consisted of taxes receivables, assessments receivables and pension plan deferrals in the amount of \$158,567, \$529,249 and \$218,054, respectively.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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 insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. Each structure is insured at an appropriate level. 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 is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket for \$100,000.

NOTE 3 – SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

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 monies 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 monies.

NOTE 4 – CONDUIT DEBT OBLIGATIONS

The Town assisted a local not-for-profit organization to obtain a loan from a financial institution to provide financial assistance to develop local properties for the benefit of the residents of Carolina Beach. This debt is secured by properties owned by the not-for-profit and are payable solely from the payments received from the not-for-profit. The Town is not obligated in any manner for the repayment of this debt and accordingly, is not reported as a liability in the accompanying financial statements. The Town contributes to the not-for-profit an annual amount to help in making the debt service payments of this debt. At year end, the amount outstanding is approximately \$1,923,000.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2016

Exhibit 11

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Project Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Dec. 31, 2015	\$ -	\$ 413,025	\$ 413,025	0.0%	\$ 1,381,543	29.9%
Dec. 31, 2014	-	413,025	413,025	0.0%	950,123	43.5%
Dec. 31, 2013	-	413,025	413,025	0.0%	1,166,849	35.4%
Dec. 31, 2012	-	413,025	413,025	0.0%	1,143,733	36.1%
Dec. 31, 2011	-	289,045	289,045	0.0%	1,181,224	24.5%
Dec. 31, 2010	-	318,181	318,181	0.0%	1,255,618	25.3%

Notes to the Required Schedules:

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

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17 year
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5%
Projected salary increases*	4.25-7.85%
Cost-of-living adjustments	N/A

*Includes inflation at 3.00%

**Other Post-Employment Benefits
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2016**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) Project Unit Credit (b)	Unfunded AAL (UAAL) (b-a)			
Dec. 31, 2014	\$ -	\$4,900,731	\$4,900,731	0.0%	\$4,273,513	114.7%
Dec. 31, 2011	-	3,087,723	3,087,723	0.0%	3,604,502	85.7%
Dec. 31, 2009	-	2,943,234	2,943,234	0.0%	4,273,355	68.9%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2016	\$ 363,162	20.0%
2015	352,584	11.3%
2014	348,083	17.8%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as the latest actuarial valuation follows.

Valuation date	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	4.0%
Medical cost trend rate	9.5%-5.0%
Year of ultimate trend rate	2018

*Includes inflation at 3.00%

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Local Government Employees' Retirement System
Required Supplementary Information
Last Three Fiscal Years

Exhibit 13

Proportionate Share of Net Pension Liability:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportionate of the net pension liability (asset)	0.090%	0.077%	0.077%
Proportionate of the net pension liability (asset)	\$ 406,069	\$ (454,753)	\$ 932,967
Covered-employee payroll	4,919,007	4,520,737	3,777,410
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	8.26%	-10.06%	24.70%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	102.64%	94.35%

Contributions:

Contractually required contribution	\$ 295,139	\$ 269,615	\$ 211,078
Contributions in relation to the contractually required contribution	<u>295,139</u>	<u>269,615</u>	<u>211,078</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 4,919,007	\$ 4,520,737	\$ 3,777,410
Contribution as a percentage of covered-employee payroll	6.00%	5.96%	5.59%

SUPPLEMENTAL STATEMENTS

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

Schedule 1
Page 1 of 5

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes		\$ 3,946,468	
Penalties and interest		14,068	
Total ad valorem taxes	<u>\$ 3,945,060</u>	<u>3,960,536</u>	<u>\$ 15,476</u>
Other taxes and licenses:			
Auto licenses		39,661	
Privilege licenses		8,977	
Total other taxes and licenses	<u>38,800</u>	<u>48,638</u>	<u>9,838</u>
Unrestricted intergovernmental:			
Local option sales taxes		1,471,074	
Utility sales tax		549,051	
ABC distribution		374,859	
Beer and wine tax		26,033	
Other taxes		288,254	
Cable franchise tax		97,865	
Total unrestricted intergovernmental	<u>2,716,240</u>	<u>2,807,136</u>	<u>90,896</u>
Restricted intergovernmental:			
Powell Bill allocation		187,368	
Other grants		60,371	
Total restricted intergovernmental	<u>186,660</u>	<u>247,739</u>	<u>61,079</u>
Permits and fees:			
Building permits		228,434	
Assessments		205,094	
Inspection fees		33,748	
Total permits and fees	<u>322,185</u>	<u>467,276</u>	<u>145,091</u>
Sales and services:			
Rents		247,742	
Recreation fees		1,295,770	
Court fees		14,121	
Parking		665,598	
Refuse fees		1,458,802	
Total sales and services	<u>3,522,635</u>	<u>3,682,033</u>	<u>159,398</u>
Investment earnings	<u>3,700</u>	<u>25,969</u>	<u>22,269</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2016

Schedule 1
Page 2 of 5

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues (Continued):			
Miscellaneous	\$ 8,000	\$ 67,332	\$ 59,332
Total Revenues	<u>10,743,280</u>	<u>11,306,659</u>	<u>563,379</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		68,745	
Other operating expenses		173,166	
Capital outlay		44,616	
Total	<u>323,388</u>	<u>286,527</u>	<u>36,861</u>
Administration:			
Salaries and employee benefits		241,326	
Other operating expense		468,444	
Capital outlay		29,732	
Total	<u>786,983</u>	<u>739,502</u>	<u>47,481</u>
Clerk:			
Salaries and employee benefits		136,610	
Other operating expenses		47,550	
Capital outlay		3,200	
Total	<u>200,265</u>	<u>187,360</u>	<u>12,905</u>
Finance:			
Salaries and employee benefits		151,999	
Other operating expenses		95,392	
Total	<u>257,276</u>	<u>247,391</u>	<u>9,885</u>
Human Resources:			
Salaries and employee benefits		245,303	
Other operating expenses		109,882	
Total	<u>362,840</u>	<u>355,185</u>	<u>7,655</u>
Public Works Administration:			
Salaries and employee benefits		43,691	
Other operating expense		93,477	
Total	<u>141,007</u>	<u>137,168</u>	<u>3,839</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2016

Schedule 1
Page 3 of 5

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Expenditures (Continued):			
Planning:			
Salaries and employee benefits		\$ 556,541	
Other operating expense		18,698	
Capital outlay		8,970	
Total	<u>\$ 606,600</u>	<u>584,209</u>	<u>\$ 22,391</u>
Parking:			
Other operating expense		565,321	
Capital outlay		33,592	
Total	<u>598,921</u>	<u>598,913</u>	<u>8</u>
Beach Maintenance:			
Salaries and benefits		401,125	
Other operating expenses		127,547	
Capital outlay		40,319	
Total	<u>981,197</u>	<u>568,991</u>	<u>412,206</u>
Marina:			
Salaries and benefits		79,705	
Other operating expenses		27,086	
Capital outlay		42,830	
Total	<u>156,321</u>	<u>149,621</u>	<u>6,700</u>
Total general government	<u>4,414,798</u>	<u>3,854,867</u>	<u>559,931</u>
Public Safety:			
Police:			
Salaries and employee benefits		1,571,469	
Other operating expenses		187,797	
Capital outlay		229,707	
Total	<u>2,048,574</u>	<u>1,988,973</u>	<u>59,601</u>
Fire:			
Salaries and employee benefits		832,845	
Other operating expenses		100,565	
Capital outlay		603,189	
Total	<u>1,566,215</u>	<u>1,536,599</u>	<u>29,616</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2016

Schedule 1
Page 4 of 5

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (Continued):			
Lifeguard:			
Salaries and employee benefits		\$ 258,646	
Other operating expenses		30,163	
Capital outlay		47,247	
Total	\$ 462,945	<u>336,056</u>	\$ 126,889
Total public safety	<u>4,077,734</u>	<u>3,861,628</u>	<u>216,106</u>
Transportation:			
Street and Highways:			
Street maintenance		84,893	
Total transportation	289,252	<u>84,893</u>	<u>204,359</u>
Fleet Maintenance:			
Other operating expenses		207,365	
Total fleet maintenance	229,121	<u>207,365</u>	<u>21,756</u>
Environmental Protection:			
Solid Waste:			
Salaries and employee benefits		565,508	
Other operating expenses		2,178,326	
Capital outlay		718,123	
Total environmental protection	3,478,441	<u>3,461,957</u>	<u>16,484</u>
Cultural and Recreation:			
Parks and Recreation:			
Salaries and employee benefits		379,607	
Other operating expenses		131,233	
Capital outlay		104,389	
Total cultural and recreation	623,477	<u>615,229</u>	<u>8,248</u>
Non-Departmental:			
Other operating expenses		417,064	
Total non-departmental	431,811	<u>417,064</u>	<u>14,747</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2016

Schedule 1
Page 5 of 5

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	\$ 906,873	\$ 879,394	\$ 27,479
Interest and other charges	128,354	155,833	(27,479)
Total debt service	<u>1,035,227</u>	<u>1,035,227</u>	<u>-</u>
Total expenditures	<u>14,579,861</u>	<u>13,538,230</u>	<u>1,041,631</u>
Revenue over (under) expenditures	<u>(3,836,581)</u>	<u>(2,231,571)</u>	<u>1,605,010</u>
Other financing sources (uses):			
Transfers in	\$ 600,000	\$ 684,244	\$ 84,244
Transfers out	(701,220)	(701,220)	-
Long-term debt issued	863,050	863,050	-
Total other financing sources (uses)	<u>761,830</u>	<u>846,074</u>	<u>84,244</u>
Fund balance appropriated	<u>3,074,751</u>	<u>-</u>	<u>(3,074,751)</u>
Net change in fund balance	<u>\$ -</u>	<u>(1,385,497)</u>	<u>\$ (1,385,497)</u>
Fund balances, beginning		<u>9,396,315</u>	
Fund balances, ending		<u>\$ 8,010,818</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Grant Project Fund	Fire Station Renovation Fund	MOTSU Project Fund
	<u> </u>	<u> </u>	<u> </u>
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 2,844
Due from other governments	33,232	-	-
Total assets	<u>\$ 33,232</u>	<u>\$ -</u>	<u>\$ 2,844</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable and other current liabilities	\$ -	\$ -	\$ -
Due to other funds	33,232	-	-
Total liabilities	<u>33,232</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Assigned:			
Capital projects	-	-	2,844
Total fund balances	<u>-</u>	<u>-</u>	<u>2,844</u>
 Total liabilities and fund balances	 <u>\$ 33,232</u>	 <u>\$ -</u>	 <u>\$ 2,844</u>

Schedule 2

Annie Drive Paving and Drainage Fund	Operations Center Fund	Boardwalk Improvement Fund	Island Greenway Improvement Fund	Cape Fear Multi-Use Path Project Fund	Total Nonmajor Governmental Funds
\$ 578	\$ -	\$ 365,044	\$ 34,325	\$ 106,410	\$ 509,201
-	-	113,934	-	-	147,166
<u>\$ 578</u>	<u>\$ -</u>	<u>\$ 478,978</u>	<u>\$ 34,325</u>	<u>\$ 106,410</u>	<u>\$ 656,367</u>
\$ 578	\$ -	\$ 175	\$ -	\$ -	\$ 753
-	-	-	-	-	33,232
<u>578</u>	<u>-</u>	<u>175</u>	<u>-</u>	<u>-</u>	<u>33,985</u>
-	-	478,803	34,325	106,410	622,382
-	-	478,803	34,325	106,410	622,382
<u>\$ 578</u>	<u>\$ -</u>	<u>\$ 478,978</u>	<u>\$ 34,325</u>	<u>\$ 106,410</u>	<u>\$ 656,367</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2016

	Grant Project Fund	Fire Station Renovation Fund	MOTSU Project Fund
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Restricted intergovernmental	\$ 221,273	\$ -	\$ -
Investment earnings	-	1	-
Miscellaneous	-	-	-
Total revenues	<u>221,273</u>	<u>1</u>	<u>-</u>
Expenditures:			
Current:			
General government	-	-	-
Public safety	221,273	61,703	-
Environmental protection	-	-	-
Total expenditures	<u>221,273</u>	<u>61,703</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>(61,702)</u>	<u>-</u>
Other Financing Sources (Uses):			
Transfers from (to) other funds	-	(49,748)	-
Long-term debt issued	-	-	-
Total other financing sources	<u>-</u>	<u>(49,748)</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>(111,450)</u>	<u>-</u>
Fund balances, beginning	<u>-</u>	<u>111,450</u>	<u>2,844</u>
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,844</u>

Schedule 3

Annie Drive Paving and Drainage Fund	Operations Center Fund	Boardwalk Improvements Fund	Island Greenway Improvement Fund	Cape Fear Multi-Use Path Project Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 14,210	\$ -	\$ 235,483
-	(1)	-	-	-	-
-	-	17,367	-	-	17,367
-	(1)	17,367	14,210	-	252,850
-	258,551	76,882	38,222	-	373,655
-	-	-	-	-	282,976
195,157	-	-	-	-	195,157
195,157	258,551	76,882	38,222	-	851,788
(195,157)	(258,552)	(59,515)	(24,012)	-	(598,938)
22,052	-	538,261	-	106,410	616,975
-	-	-	-	-	-
22,052	-	538,261	-	106,410	616,975
(173,105)	(258,552)	478,746	(24,012)	106,410	18,037
173,105	258,552	57	58,337	-	604,345
\$ -	\$ -	\$ 478,803	\$ 34,325	\$ 106,410	\$ 622,382

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 4

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

Grant Fund Project

From Inception and for the Fiscal Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
FEMA	\$ 2,073,844	\$ -	\$ 221,273	\$ 221,273
Total revenues	<u>2,073,844</u>	<u>-</u>	<u>221,273</u>	<u>221,273</u>
Expenditures:				
Renovations	2,073,844	-	221,273	221,273
Total expenditures	<u>2,073,844</u>	<u>-</u>	<u>221,273</u>	<u>221,273</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances, beginning			<u>-</u>	
Fund balances, ending			<u>\$ -</u>	

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

Fire Station Renovation

From Inception and for the Fiscal Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
Revenues:				
Investment income	\$ -	\$ 964	\$ 1	\$ 965
Total revenues	-	964	1	965
Expenditures:				
Renovations	1,466,850	1,356,364	61,703	1,418,067
Total expenditures	1,466,850	1,356,364	61,703	1,418,067
Revenues over (under) expenditures	(1,466,850)	(1,355,400)	(61,702)	(1,417,102)
Other financing sources (uses):				
Transfers from (to) general fund	266,850	266,850	(49,748)	217,102
Long-term borrowing issued	1,200,000	1,200,000	-	1,200,000
Total other financing sources	1,466,850	1,466,850	(49,748)	1,417,102
Net change in fund balance	\$ -	\$ 111,450	(111,450)	\$ -
Fund balances, beginning			111,450	
Fund balances, ending			\$ -	

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

MOTSU Project Fund

From Inception and for the Fiscal Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Expenditures:				
Professional services	\$ 80,000	\$ 77,156	\$ -	\$ 77,156
Total expenditures	<u>80,000</u>	<u>77,156</u>	<u>-</u>	<u>77,156</u>
Other financing sources (uses):				
Transfers from general fund	80,000	80,000	-	80,000
Total other financing sources	<u>80,000</u>	<u>80,000</u>	<u>-</u>	<u>80,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 2,844</u>	<u>-</u>	<u>\$ 2,844</u>
Fund balances, beginning			<u>2,844</u>	
Fund balances, ending			<u>\$ 2,844</u>	

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

Annie Drive Paving and Drainage Fund

From Inception and for the Fiscal Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Expenditures:				
Paving and drainage	\$ 254,804	\$ 25,150	\$ 195,157	\$ 220,307
Total expenditures	<u>254,804</u>	<u>25,150</u>	<u>195,157</u>	<u>220,307</u>
Other financing sources (uses):				
Transfers from general fund	254,804	198,255	22,052	220,307
Total other financing sources	<u>254,804</u>	<u>198,255</u>	<u>22,052</u>	<u>220,307</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 173,105</u>	(173,105)	<u>\$ -</u>
Fund balances, beginning			<u>173,105</u>	
Fund balances, ending			<u>\$ -</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 8

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

Operations Center Fund

From Inception and for the Fiscal Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Investment income	\$ -	\$ 1	\$ (1)	\$ -
Total revenues	<u>-</u>	<u>1</u>	<u>(1)</u>	<u>-</u>
Expenditures:				
Construction	466,210	207,659	258,551	466,210
Total expenditures	<u>466,210</u>	<u>207,659</u>	<u>258,551</u>	<u>466,210</u>
Revenues over (under) expenditures	<u>(466,210)</u>	<u>(207,658)</u>	<u>(258,552)</u>	<u>(466,210)</u>
Other financing sources (uses):				
Long-term borrowing issued	466,210	466,210	-	466,210
Total other financing sources	<u>466,210</u>	<u>466,210</u>	<u>-</u>	<u>466,210</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 258,552</u>	<u>(258,552)</u>	<u>\$ -</u>
Fund balances, beginning			<u>258,552</u>	
Fund balances, ending			<u>\$ -</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 9

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

Boardwalk Improvement Fund

From Inception and for the Fiscal Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental	\$ 849,367	\$ 530,500	\$ -	\$ 530,500
Miscellaneous	-	65,151	17,367	82,518
Total revenues	<u>849,367</u>	<u>595,651</u>	<u>17,367</u>	<u>613,018</u>
Expenditures:				
Construction	2,129,688	1,337,654	76,882	1,414,536
Total expenditures	<u>2,129,688</u>	<u>1,337,654</u>	<u>76,882</u>	<u>1,414,536</u>
Revenues over (under) expenditures	<u>(1,280,321)</u>	<u>(742,003)</u>	<u>(59,515)</u>	<u>(801,518)</u>
Other financing sources (uses):				
Transfers from general fund	1,280,321	742,060	538,261	1,280,321
Total other financing sources	<u>1,280,321</u>	<u>742,060</u>	<u>538,261</u>	<u>1,280,321</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 57</u>	478,746	<u>\$ 478,803</u>
Fund balances, beginning			<u>57</u>	
Fund balances, ending			<u>\$ 478,803</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

Schedule 10

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

Island Greenway Improvement Fund

From Inception and for the Fiscal Year Ended June 30, 2016

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental	\$ 586,031	\$ -	\$ 14,210	\$ 14,210
Total revenues	<u>586,031</u>	<u>-</u>	<u>14,210</u>	<u>14,210</u>
Expenditures:				
Construction	732,539	88,171	38,222	126,393
Total expenditures	<u>732,539</u>	<u>88,171</u>	<u>38,222</u>	<u>126,393</u>
Revenues over (under) expenditures	<u>(146,508)</u>	<u>(88,171)</u>	<u>(24,012)</u>	<u>(112,183)</u>
Other financing sources (uses):				
Transfers from general fund	146,508	146,508	-	146,508
Total other financing sources	<u>146,508</u>	<u>146,508</u>	<u>-</u>	<u>146,508</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 58,337</u>	(24,012)	<u>\$ 34,325</u>
Fund balances, beginning			<u>58,337</u>	
Fund balances, ending			<u>\$ 34,325</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Utility Fund
Year Ended June 30, 2016

Schedule 11
Page 1 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Customer charges:			
Water and sewer		\$ 3,918,441	
User fees		579,699	
Other municipals		356,279	
Stormwater fees		<u>822,706</u>	
Total customer charges	<u>\$ 5,163,516</u>	<u>5,677,125</u>	<u>\$ 513,609</u>
Other Operating Revenues:			
Water and sewer taps	110,000	164,800	54,800
Other operating revenues	<u>107,900</u>	<u>205,682</u>	<u>97,782</u>
Total other operating revenues	<u>217,900</u>	<u>370,482</u>	<u>152,582</u>
Non-Operating Revenues:			
Interest	338	2,078	1,740
Miscellaneous	<u>-</u>	<u>5,005</u>	<u>5,005</u>
Total non-operating revenues	<u>338</u>	<u>7,083</u>	<u>6,745</u>
Total revenues	<u>5,381,754</u>	<u>6,054,690</u>	<u>672,936</u>
Expenditures:			
Water and Sewer Administration:			
Salaries and employee benefits		393,587	
Other operating expenditures		<u>145,028</u>	
Total water and sewer administration	<u>504,130</u>	<u>538,615</u>	<u>(34,485)</u>
Facilities and Equipment:			
Other operating expenditures		<u>58,501</u>	
Total facilities and equipment	<u>87,500</u>	<u>58,501</u>	<u>28,999</u>
Water Treatment:			
Salaries and employee benefits		286,882	
Chemicals		42,646	
Utilities		122,096	
Other operating expenditures		<u>233,477</u>	
Total water treatment	<u>813,346</u>	<u>685,101</u>	<u>128,245</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Utility Fund
Year Ended June 30, 2016

Schedule 11
Page 2 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Water Distribution:			
Salaries and employee benefits		\$ 99,084	
Utilities		19,325	
Other operating expenditures		<u>366,149</u>	
Total water distribution	<u>\$ 721,927</u>	<u>484,558</u>	<u>\$ 237,369</u>
Waste Collection and Treatment:			
Sewer Collection System:			
Salaries and employee benefits		635,220	
Other operating expenditures		<u>336,569</u>	
Total water collection and treatment	<u>1,143,144</u>	<u>971,789</u>	<u>171,355</u>
Stormwater Drainage:			
Salaries and employee benefits		384,035	
Other operating expenditures		<u>298,287</u>	
Total stormwater drainage	<u>881,630</u>	<u>682,322</u>	<u>199,308</u>
Repairs and Maintenance	<u>730,921</u>	<u>588,180</u>	<u>142,741</u>
Total operating expenditures	<u>4,882,598</u>	<u>4,009,066</u>	<u>873,532</u>
Debt service:			
Interest and fees		592,187	
Principal retirement		<u>10,133,814</u>	
Total debt service	<u>11,677,319</u>	<u>10,726,001</u>	<u>951,318</u>
Capital Outlay:			
System improvements	<u>1,555,021</u>	<u>1,112,898</u>	<u>442,123</u>
Total expenditures	<u>18,114,938</u>	<u>15,847,965</u>	<u>2,266,973</u>
Revenues over expenditures	<u>(12,733,184)</u>	<u>(9,793,275)</u>	<u>2,939,909</u>
Other financing sources (uses):			
Appropriated fund balance	6,531,916	-	(6,531,916)
Loan proceeds	32,177,270	31,855,932	(321,338)
Transfer to other funds	<u>(25,976,002)</u>	<u>(22,201,516)</u>	<u>3,774,486</u>
Total other financing sources	<u>12,733,184</u>	<u>9,654,416</u>	<u>(3,078,768)</u>

(Continued)

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Utility Fund
Year Ended June 30, 2016

Schedule 11
Page 3 of 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ (138,859)</u>	<u>\$ (138,859)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Capital project fund - interest		36	
Capital project fund - capital outlay		(3,759,406)	
Capital project fund - loan proceeds		325,179	
Capital project fund - transfer from other funds		21,601,517	
Principal retirement		10,133,814	
Capital outlay		4,058,126	
Loan proceeds and issuance premiums		(32,181,111)	
Changes in related pension liability		(26,943)	
Depreciation		(974,503)	
Total reconciling items		<u>(823,291)</u>	
Change in net position		<u>\$ (962,150)</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Water Project
From Inception and Year Ended June 30, 2016

Schedule 12

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Interest income	\$ -	\$ 602	\$ 36	\$ 638
Total revenues	-	602	36	638
Expenditures:				
Cormix Project:				
Professional services	-	51,650	(51,650)	-
	-	51,650	(51,650)	-
Lake Park Intersection Project:				
Replacement and repair	1,005,088	1,001,984	(1,400)	1,000,584
Pipe replacement	108,560	108,560	-	108,560
	1,113,648	1,110,544	(1,400)	1,109,144
AMI Project:				
Water meter replacement	1,558,986	1,321,561	237,425	1,558,986
Phase 1A Project:				
Infrastructure	6,841,529	6,364,986	579,241	6,944,227
Streetscape	1,043,511	82,661	888,595	971,256
	7,885,040	6,447,647	1,467,836	7,915,483
Water and Sewer Infrastructure Projects:				
Phases B, C, D, and E	13,836,794	-	580,088	580,088
Wastewater Treatment Plant	809,481	-	132,063	132,063
Water Lines, Lakes and Wells	4,962,245	-	183,952	183,952
	19,608,520	-	896,103	896,103
Phase 1D Project:				
Infrastructure	1,375,000	-	1,211,092	1,211,092
Total expenditures	31,541,194	8,931,402	3,759,406	12,690,808
Revenues over expenditures	(31,541,194)	(8,930,800)	(3,759,370)	(12,690,170)
Other financing sources (uses):				
Long-term borrowing issued	9,626,030	9,300,851	325,179	9,626,030
Transfers in (out)	21,915,164	313,643	21,601,517	21,915,160
Total other financing sources	31,541,194	9,614,494	21,926,696	31,541,190
Revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 683,694	\$ 18,167,326	\$ 18,851,020

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Stormwater Improvement
From Inception and Year Ended June 30, 2016

Schedule 13

	Project Authorization	Prior Years	Actual Current Year	Total
Expenditures:				
Stormwater improvements	\$ 570,189	\$ -	\$ -	\$ -
Total expenditures	<u>570,189</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:				
Capital contributions	285,000	285,189	-	285,189
Transfers in	285,189	-	-	-
Total other financing sources	<u>570,189</u>	<u>285,189</u>	<u>-</u>	<u>285,189</u>
Other financing sources over expenditures	<u>\$ -</u>	<u>\$ 285,189</u>	<u>\$ -</u>	<u>\$ 285,189</u>

OTHER SCHEDULES

TOWN OF CAROLINA BEACH, NORTH CAROLINA
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

Schedule 1

Fiscal Year	Uncollected Balance July 1, 2015	Additions	Collections, and Credits	Uncollected Balance June 30, 2016
2014-2015	\$ -	\$ 3,978,915	\$ 3,936,078	\$ 42,837
2013-2014	54,872	-	26,730	28,142
2012-2013	28,381	-	4,766	23,615
2011-2012	18,580	-	2,804	15,776
2010-2011	12,197	-	1,362	10,835
2009-2010	7,730	-	319	7,411
2008-2009	6,435	-	64	6,371
2007-2008	6,226	-	174	6,052
2006-2007	7,669	-	118	7,551
2005-2006	9,829	-	102	9,727
2004-2005	8,088	-	7,838	250
Total	\$ 160,007	\$ 3,978,915	\$ 3,980,355	158,567
Less: allowance for uncollectible ad valorem taxes receivable				-
Ad valorem taxes receivable - net				\$ 158,567
<u>Reconciliation of collections and credits with revenues:</u>				
Ad valorem taxes - general fund				3,946,468
Reconciling items:				
Releases and refunds and other adjustments				(2,030)
Amounts written off for tax years per statute of limitations				21,849
Interest and penalties collected				14,068
Total collections and credits				\$ 3,980,355

TOWN OF CAROLINA BEACH, NORTH CAROLINA
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2016

Schedule 2

	Property Valuation (in Thousand)	Rate	Amount of Levy	Total Levy	
				Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxes at current year rate	\$ 1,631,676	0.2350	\$ 3,834,439	\$ 3,834,439	\$ -
Registered motor vehicles at prior year rates	63,919	0.2350	150,209	-	150,209
Penalties	-		5,458	5,458	-
Total	<u>1,695,595</u>		<u>3,990,106</u>	<u>3,839,897</u>	<u>150,209</u>
Discoveries:					
Current year taxes	-	-	754	754	-
Abatements:					
Current year taxes	(4,717)	-	(11,945)	(11,945)	-
Total property value	<u>\$ 1,690,878</u>				
Net levy			<u>3,978,915</u>	<u>3,828,706</u>	<u>150,209</u>
Uncollected taxes at June 30, 2016			<u>42,837</u>	<u>42,837</u>	<u>-</u>
Current year's taxes collected			<u>\$ 3,936,078</u>	<u>\$ 3,785,869</u>	<u>\$ 150,209</u>
Current levy collection percentage			<u>98.92%</u>	<u>98.88%</u>	<u>100.00%</u>

OTHER REPORTING

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

To the Honorable Mayor and
Members of the Town Council
Town of Carolina 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 statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the aggregated remaining fund information of the Town of Carolina Beach, North Carolina (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Town'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town'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 to be 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's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 21, 2016