

TOWN OF KURE BEACH, NORTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014



Town Council Members

Dean Lambeth, Mayor
Craig Bloszinsky, Mayor Pro Tem
Emilie Swearingen
David Heglar
Steve Pagley

Administrative and Financial Staff

Nancy Avery, Town Clerk
Arlen Copenhaver, Budget and Finance Officer

TOWN OF KURE BEACH, NORTH CAROLINA

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Kure Beach, North Carolina (the "Town"), as of and for the year ended June 30, 2014, 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, and each major fund of the Town of Kure Beach, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 11; the Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress and Schedule of Employer Contributions on page 41; and the Other Postemployment Benefits - Schedule of Funding Progress and Schedule of Employer Contributions on page 42, 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 Kure Beach, North Carolina. The budgetary schedules and other schedules, 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 7, 2014 on our consideration of the Town of Kure 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 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

As management of the Town of Kure 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, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

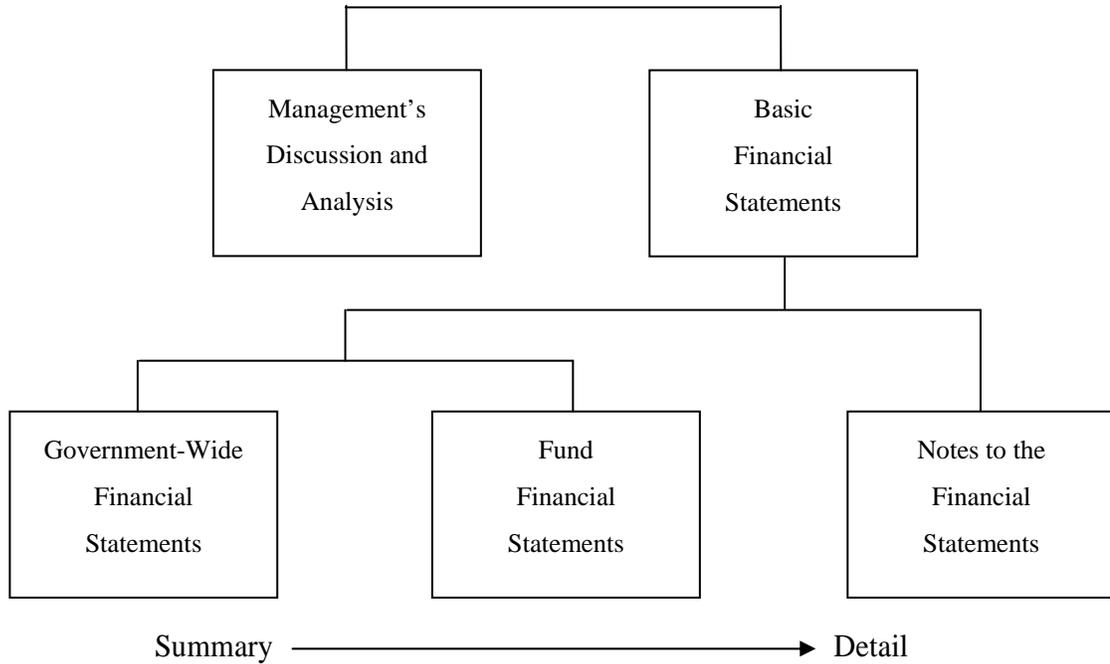
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$13,562,468 (net position).
- The government's total net position increased by \$852,620.
- As of the close of the current fiscal year, the Town's total governmental funds reported combined ending fund balances of \$3,485,632 with a net change of \$395,468 in fund balance. Approximately 25.0% of this total amount or \$870,112 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,691,197, or 42.2% of total General Fund expenditures for the fiscal year. The combined unassigned and assigned fund balance for the General Fund was \$2,615,520, or 65.2% of total General Fund expenditures for the fiscal year.
- The Town's governmental activities capital assets (net of accumulated depreciation) increased by \$61,205 during the current fiscal year. The key factor in this increase was the completion of the Town's downtown improvement project.
- The Town's total long-term liabilities decreased by \$62,170 during the current fiscal year. The key factor in this decrease was the required annual payment of principal on outstanding installment purchases.
- The business-type activities revenue increased by \$132,423 (7%). The most significant component of the increase was a refund of wastewater treatment facility charges from the Carolina and Kure Beach Sewer Authority.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Kure 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 Kure 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. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Kure 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. All 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* that 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 Kure 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.

Proprietary Fund - The Town of Kure Beach has one kind of proprietary fund, an Enterprise Fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow Exhibit 10 of the audit report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees.

Interdependence with Other Entities - The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations.

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

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 3,707,953	\$ 3,253,062	\$ 2,155,387	\$ 1,645,473	\$ 5,863,340	\$ 4,898,535
Capital assets	6,229,817	6,168,612	5,454,395	5,626,529	11,684,212	11,795,141
Total assets	<u>9,937,770</u>	<u>9,421,674</u>	<u>7,609,782</u>	<u>7,272,002</u>	<u>17,547,552</u>	<u>16,693,676</u>
Liabilities:						
Long-term liabilities	2,809,876	2,807,897	912,613	976,762	3,722,489	3,784,659
Other liabilities	202,654	138,327	59,941	60,842	262,595	199,169
Total liabilities	<u>3,012,530</u>	<u>2,946,224</u>	<u>972,554</u>	<u>1,037,604</u>	<u>3,985,084</u>	<u>3,983,828</u>
Net Position:						
Net invested in capital						
assets	4,150,603	4,019,191	4,717,976	4,805,790	8,868,579	8,824,981
Restricted	870,112	746,364	-	-	870,112	746,364
Unrestricted	1,904,525	1,709,895	1,919,252	1,428,608	3,823,777	3,138,503
Total net position	<u>\$ 6,925,240</u>	<u>\$ 6,475,450</u>	<u>\$ 6,637,228</u>	<u>\$ 6,234,398</u>	<u>\$ 13,562,468</u>	<u>\$ 12,709,848</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 Kure Beach exceeded liabilities by \$13,562,468 as of June 30, 2014. The Town's net position for governmental activities and business-type activities were \$6,925,240 and \$6,637,228, respectively, for the fiscal year ended June 30, 2014. However, the largest portion, \$8,868,579, 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

portion of the Town's net position of \$870,112 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,823,777 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.54%.
- Increase in the commercial and residential garbage collection fees.
- Refund of wastewater treatment facility charges from the Carolina and Kure Beach Sewer Authority.

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

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 854,226	\$ 1,125,500	\$ 2,023,185	\$ 1,673,721	\$ 2,877,411	\$ 2,799,221
Operating grants and contributions	245,307	226,663	-	-	245,307	226,663
Capital grants and contributions	-	844,322	-	216,330	-	1,060,652
General revenues:						
Property taxes	2,123,926	2,086,944	-	-	2,123,926	2,086,944
Other taxes	622,592	567,554	-	-	622,592	567,554
Grants and contributions not restricted to specific programs	246,781	254,980	-	-	246,781	254,980
Transfers from other funds	160,000	-	-	-	160,000	-
Other	1,214	2,257	1,169	1,880	2,383	4,137
Total revenues	4,254,046	5,108,220	2,024,354	1,891,931	6,278,400	7,000,151
Expenses:						
General government	907,943	681,671	-	-	907,943	681,671
Public safety	1,817,725	1,712,265	-	-	1,817,725	1,712,265
Highways/streets	11,064	21,731	-	-	11,064	21,731
Environmental protection	900,788	807,157	-	-	900,788	807,157
Interest on long-term debt	86,812	91,560	-	-	86,812	91,560
Water and sewer	-	-	1,461,524	1,537,484	1,461,524	1,537,484
Transfers to other funds	-	-	160,000	-	160,000	-
Other	79,924	50,416	-	-	79,924	50,416
Total expenses	3,804,256	3,364,800	1,621,524	1,537,484	5,425,780	4,902,284

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
	Increase in net position	\$ 449,790	\$ 1,743,420	\$ 402,830	\$ 354,447	\$ 852,620
Net position, July 1,	6,475,450	4,732,030	6,234,398	5,879,951	12,709,848	10,611,981
Net position, June 30,	\$ 6,925,240	\$ 6,475,450	\$ 6,637,228	\$ 6,234,398	\$ 13,562,468	\$ 12,709,848

Governmental Activities - Governmental activities increased the Town's net position by \$449,790. The key elements of this increase are as follows:

- Property tax revenues increased as a result of the implementation of the North Carolina Tag and Tax Together Program for billing and collecting property taxes on motor vehicles.
- Increase in sales tax revenue.
- Garbage collection revenue increased as a result of a fee increase.

Business-Type Activities - Business-type activities of the Town reported \$6,637,228 in net position, an increase of \$402,830. The key element of this increase was a refund of wastewater treatment facility charges from the Carolina and Kure Beach Sewer Authority.

Financial Analysis of the Town's Funds

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

Governmental Funds - 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 Kure Beach. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,691,197, while the total fund balance reached \$3,485,632. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 42.2% of total General Fund expenditures, while total fund balance is 86.9% of total General Fund expenditures.

At June 30, 2014, the governmental funds of the Town of Kure Beach reported a fund balance of \$3,485,632.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Proprietary Fund - The Town's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,919,252. Other factors concerning the finances of this 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, 2014, totals \$11,684,212 (net of accumulated depreciation). These assets include buildings, 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, other than vehicles):

- Downtown improvement project

Town of Kure Beach, North Carolina's Capital Assets
Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
	Land	\$ 3,804,111	\$ 3,804,111	\$ 20,697	\$ 20,697	\$ 3,824,808
Building	765,421	791,412	128,299	110,718	893,720	902,130
Equipment and vehicles	347,523	414,083	35,090	54,409	382,613	468,492
Improvements other than buildings	465,383	463,632	-	-	465,383	463,632
Plant and Distribution Systems	-	-	5,270,309	5,440,705	5,270,309	5,440,705
Infrastructure	847,379	695,374	-	-	847,379	695,374
Total	\$ 6,229,817	\$ 6,168,612	\$ 5,454,395	\$ 5,626,529	\$ 11,684,212	\$ 11,795,141

Additional information on the Town's capital assets can be found in the notes to the basic financial statements.

Long-Term Debt - As of June 30, 2014, the Town had total debt outstanding of \$2,815,633. Installment debt for governmental type activities and business-type activities were \$2,079,214 and \$736,419, respectively.

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.

- Tourism to the Town has continued to increase.
- The Town approved a \$3,793,416 General Fund budget for fiscal year 2014-2015. This budget represents an 8.9% decrease from the fiscal year 2013-2014 amended budget. The decrease primarily relates to the level of planned capital expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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 Finance Officer, 117 Settlers Lane, Kure Beach, NC 28449. You can also call (910) 458-8216, visit our website www.townofkurebeach.org or send an email to acopenhaver@townofkurebeach.org for more information.

BASIC FINANCIAL STATEMENTS

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

Exhibit 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,838,748	\$ 2,110,766	\$ 4,949,514
Investments	56,013	-	56,013
Receivables, net	285,177	239,326	524,503
Internal balances	194,705	(194,705)	-
Restricted cash and cash equivalents	333,310	-	333,310
Total current assets	<u>3,707,953</u>	<u>2,155,387</u>	<u>5,863,340</u>
Non-current assets:			
Land, non-depreciable improvements, and construction in progress	3,804,111	20,697	3,824,808
Other capital assets, net of depreciation	2,425,706	5,433,698	7,859,404
Total capital assets	<u>6,229,817</u>	<u>5,454,395</u>	<u>11,684,212</u>
Total assets	<u>\$ 9,937,770</u>	<u>\$ 7,609,782</u>	<u>\$ 17,547,552</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 202,654	\$ 53,581	\$ 256,235
Customer deposits	-	6,360	6,360
Current portion of long-term liabilities	253,948	78,881	332,829
Total current liabilities	<u>456,602</u>	<u>138,822</u>	<u>595,424</u>
Long-term liabilities:			
Due in more than one year	2,555,928	833,732	3,389,660
Total liabilities	<u>3,012,530</u>	<u>972,554</u>	<u>3,985,084</u>
Net Position			
Net investment in capital assets	4,150,603	4,717,976	8,868,579
Restricted for:			
Stabilization by State Statute	479,882	-	479,882
Streets	213,502	-	213,502
Federal Asset Forfeitures	176,728	-	176,728
Unrestricted	1,904,525	1,919,252	3,823,777
Total net position	<u>\$ 6,925,240</u>	<u>\$ 6,637,228</u>	<u>\$ 13,562,468</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>
Primary government:				
Governmental activities:				
General government	\$ 907,943	\$ 516,403	\$ -	\$ -
Public safety	1,817,725	7,182	180,618	-
Transportation	11,064	-	64,689	-
Special projects	79,924	60,023	-	-
Environmental protection	900,788	270,618	-	-
Interest on long-term debt	86,812	-	-	-
Total governmental activities	<u>3,804,256</u>	<u>854,226</u>	<u>245,307</u>	<u>-</u>
Business-type activities:				
Water and sewer	1,461,524	2,023,185	-	-
Total business-type activities	<u>1,461,524</u>	<u>2,023,185</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,265,780</u>	<u>\$ 2,877,411</u>	<u>\$ 245,307</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes, licenses and fees

Grants and contributions not restricted to specific programs

Transfers

Investment earnings, unrestricted

Total general revenues, special items, and transfers

Change in net position

Net position - beginning

Net position - ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Position
Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (391,540)	\$ -	\$ (391,540)
(1,629,925)	-	(1,629,925)
53,625	-	53,625
(19,901)	-	(19,901)
(630,170)	-	(630,170)
(86,812)	-	(86,812)
<u>(2,704,723)</u>	<u>-</u>	<u>(2,704,723)</u>
-	561,661	561,661
-	561,661	561,661
<u>(2,704,723)</u>	<u>561,661</u>	<u>(2,143,062)</u>
2,123,926	-	2,123,926
611,955	-	611,955
10,637	-	10,637
246,781	-	246,781
160,000	(160,000)	-
1,214	1,169	2,383
<u>3,154,513</u>	<u>(158,831)</u>	<u>2,995,682</u>
449,790	402,830	852,620
6,475,450	6,234,398	12,709,848
<u>\$ 6,925,240</u>	<u>\$ 6,637,228</u>	<u>\$ 13,562,468</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2014

Exhibit 3

	<u>Major Fund</u>	Total
	<u>General Fund</u>	<u>Governmental Funds</u>
Assets		
Cash and cash equivalents	\$ 2,838,748	\$ 2,838,748
Investments	56,013	56,013
Restricted cash	333,310	333,310
Taxes receivable, net	19,667	19,667
Account receivables, net	265,510	265,510
Due from other funds	194,705	194,705
Total assets	<u>\$ 3,707,953</u>	<u>\$ 3,707,953</u>
Liabilities, Deferred Inflow of Resources and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 202,654	\$ 202,654
Due to other funds	-	-
Total liabilities	<u>202,654</u>	<u>202,654</u>
Deferred Inflow of Resources:		
Property taxes receivable	19,667	19,667
	<u>19,667</u>	<u>19,667</u>
Fund Balances:		
Restricted for:		
State statute	479,882	479,882
Streets	213,502	213,502
Federal asset forfeitures	176,728	176,728
Assigned:		
Beach protection	83,640	83,640
Storm water	840,683	840,683
Unassigned	1,691,197	1,691,197
Total fund balances	<u>3,485,632</u>	<u>3,485,632</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,707,953</u>	

TOWN OF KURE BEACH, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
Governmental Funds
June 30, 2014

Exhibit 4

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

Total Fund Balance, Governmental Funds	<u>\$ 3,485,632</u>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets at historical costs	9,987,949
Less: accumulated depreciation	<u>3,758,132</u>
Net adjustment to increase fund balance-total governmental funds to arrive at net assets - governmental activities	<u>6,229,817</u>
Liabilities for earned but considered deferred inflows of resources in fund statements	<u>19,667</u>
Liabilities owed from governmental activities are not due and payable in the current period and therefore are not reported in the funds	
Installment purchases debt	2,079,214
Net pension obligation	256,170
Other postemployment benefits	378,117
Compensated absences	<u>96,375</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets - governmental activities	<u>2,809,876</u>
Net position of governmental activities	<u><u>\$ 6,925,240</u></u>

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

Exhibit 5

	<u>Major Fund</u>	Total
	<u>General Fund</u>	<u>Governmental Funds</u>
Revenues		
Ad valorem taxes	\$ 2,128,830	\$ 2,128,830
Other taxes and licenses	9,942	9,942
Unrestricted intergovernmental	858,976	858,976
Restricted intergovernmental	76,740	76,740
Permits and fees	596,328	596,328
Sales and services	426,921	426,921
Investment earnings	1,214	1,214
Total revenues	<u>4,098,951</u>	<u>4,098,951</u>
Expenditures		
Current:		
General government	886,345	886,345
Public safety	1,633,324	1,633,324
Transportation	11,064	11,064
Special projects	68,700	68,700
Environmental protection	810,915	810,915
Debt service	306,019	306,019
Capital outlay	296,116	296,116
Total expenditures	<u>4,012,483</u>	<u>4,012,483</u>
Excess of revenues over expenditures	<u>86,468</u>	<u>86,468</u>
Other Financing Sources		
Transfers from other funds	160,000	160,000
Proceeds from installment purchases	149,000	149,000
Total other financing sources	<u>309,000</u>	<u>309,000</u>
Net change in fund balances	<u>395,468</u>	<u>395,468</u>
Fund balances, beginning	<u>3,090,164</u>	<u>3,090,164</u>
Fund balances, ending	<u><u>\$ 3,485,632</u></u>	<u><u>\$ 3,485,632</u></u>

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

TOWN OF KURE 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, 2014

Exhibit 6

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

Net change in fund balances - total governmental funds	\$ 395,468
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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 capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	296,116
Depreciation expense for governmental assets	(233,352)
Loss on disposal of capital asset	(1,559)
	<u>61,205</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	(4,904)
--	---------

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	(13,322)
Net pension obligation	(16,203)
Other postemployment benefits	(42,661)

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.

	<u>70,207</u>
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Total changes in net position of governmental activities	<u><u>\$ 449,790</u></u>
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TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Annual Budget and Actual - General Fund
Year Ended June 30, 2014

Exhibit 7

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 2,076,800	\$ 2,084,500	\$ 2,128,830	\$ 44,330
Other taxes and licenses	12,500	12,500	9,942	(2,558)
Unrestricted intergovernmental	859,295	859,295	858,976	(319)
Restricted intergovernmental	110,900	115,589	76,740	(38,849)
Permits and fees	540,580	545,384	596,328	50,944
Sales and services	380,410	394,812	426,921	32,109
Investment earnings	1,460	1,460	1,214	(246)
Total revenues	<u>3,981,945</u>	<u>4,013,540</u>	<u>4,098,951</u>	<u>85,411</u>
Expenditures				
Current:				
General government	979,294	1,141,994	886,345	255,649
Public safety	1,707,641	1,735,807	1,633,324	102,483
Transportation	60,040	95,040	11,064	83,976
Special projects	72,350	85,890	68,700	17,190
Environmental protection	773,995	773,995	810,915	(36,920)
Debt service	306,664	306,664	306,019	645
Capital outlay	433,961	441,461	296,116	145,345
Total expenditures	<u>4,333,945</u>	<u>4,580,851</u>	<u>4,012,483</u>	<u>568,368</u>
Revenues over (under) expenditures	<u>(352,000)</u>	<u>(567,311)</u>	<u>86,468</u>	<u>653,779</u>
Other Financing Sources (Uses)				
Proceeds from installment purchases	232,000	232,000	149,000	(83,000)
Transfers from other funds	-	160,000	160,000	-
Total other financing sources (uses)	<u>232,000</u>	<u>392,000</u>	<u>309,000</u>	<u>(83,000)</u>
Fund balance appropriated	<u>120,000</u>	<u>175,311</u>	<u>-</u>	<u>(175,311)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>395,468</u>	<u>\$ 395,468</u>
Fund balances, beginning			<u>3,090,164</u>	
Fund balances, ending			<u>\$ 3,485,632</u>	

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Position
Proprietary Fund
June 30, 2014

Exhibit 8

	Major Enterprise Fund
	Water and Sewer Fund
Assets	
Current assets:	
Cash and equivalents	\$ 2,110,766
Account receivables, net	239,326
Total current assets	<u>2,350,092</u>
Capital assets, net	5,454,395
Total assets	<u>\$ 7,804,487</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 53,581
Due to other funds	194,705
Customer deposits	6,360
Current portion of long-term debt	78,881
Total current liabilities	<u>333,527</u>
Noncurrent liabilities:	
Compensated absences	34,330
Other postemployment benefits payable	141,864
Non-current portion of long-term debt	657,538
Total liabilities	<u>1,167,259</u>
Net Position	
Net investment in capital assets	4,717,976
Unrestricted	1,919,252
Total Net Position	<u>\$ 6,637,228</u>

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

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

Exhibit 9

	Major Enterprise Fund
	Water and Sewer Fund
Operating revenues:	
Charges for services	\$ 1,613,778
Other operating revenues	409,407
Total operating revenues	<u>2,023,185</u>
Operating expenses:	
Administration	368,160
Water and sewer system operations	874,927
Depreciation	194,267
Total operating expenses	<u>1,437,354</u>
Operating income	<u>585,831</u>
Non-operating revenues (expenses):	
Investment earnings	1,169
Interest and fees	(24,170)
Total non-operating revenues (expenses)	<u>(23,001)</u>
Net income before transfers	<u>562,830</u>
Transfers to other funds	<u>(160,000)</u>
Change in net position	402,830
Total net position, beginning	6,234,398
Total net position, ending	<u><u>\$ 6,637,228</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2014

Exhibit 10

	Major Enterprise Fund
	<u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 2,028,452
Cash paid for goods and services	(690,908)
Cash paid to employees for services	(532,909)
Net cash provided by operating activities	<u>804,635</u>
Cash flows from noncapital financing activities	
Transfers to other funds	(160,000)
Advances from other funds	159,751
Total cash flows from noncapital financing activities	<u>(249)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(22,133)
Principal paid on installment purchases	(84,320)
Interest and fees paid on installment purchases	(24,170)
Net cash used in capital and related financing activities	<u>(130,623)</u>
Cash flows from investing activities:	
Interest	<u>1,169</u>
Net increase in cash and cash equivalents	674,932
Balances, beginning	<u>1,435,834</u>
Balances, ending	<u>\$ 2,110,766</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 585,831</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	194,267
Changes in assets and liabilities:	
Decrease in:	
Accounts receivable	5,267
Increase (decrease) in:	
Accounts payable and accrued liabilities	(901)
Compensated absences	6,177
Other postemployment benefits payable	13,994
Total adjustments	<u>218,804</u>
Net cash provided by operating activities	<u>\$ 804,635</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Kure 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 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. Other non-operating revenues are ancillary activities such as investment earnings.

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:

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

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

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

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. The Budget Officer is authorized by the budget ordinance to transfer appropriations within a fund under the following conditions as specified in North Carolina General Statute Chapter 159: amounts between line item expenditures without limitation and without a report being required up to \$10,000 at any one time; amounts within departments and of the same fund and reported as part of the financial statements and shall make an official report immediately to Town Council on such transfers; and may not transfer amounts between funds without prior Town Council action.

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 as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, 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.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Restricted cash recorded in the Governmental Fund and General Fund represents unexpended Powell Bill and Federal Asset Forfeiture funds of \$156,582 and \$176,728, respectively, because their use is completely restricted to the purpose for which the grant or contribution was issued or given, which is street improvements and law enforcement equipment or training.

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, 2013. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior 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. At year end, the Town believes that receivables are fully collectable.

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. Capitalization cost for the Town's assets are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. 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 on a class life basis at the following rates:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and office equipment	10 years
Maintenance and construction equipment	5 years
Medium and heavy motor vehicles	5 years
Automobiles and light trucks	5 years

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element called deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meets the criterion for this category – property taxes receivable.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the 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.

Compensated Absences

Vacation leave is accumulated at the rate of up to twenty (20) days per year with each 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 within the funds 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 an 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 Position/Fund Balances

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 three classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Federal asset forfeiture - portion of fund balance that is restricted by Federal regulations. This amount represents the balance of total unexpended federal asset forfeiture funds received by the Town.

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

Assigned for Storm Water – portion of fund balance that has been budgeted by Town Council for maintenance and improvement of the Town’s storm water system.

Assigned for Beach Protection – portion of fund balance that has been budgeted by Town Council for beach related expenditures.

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

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

The Town has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that an unrestricted fund balance in the Governmental Funds of no less than 32% of the total projected expenditures be maintained. Unrestricted fund balance is the total of all committed, assigned and unassigned fund balance, as reported in the Annual Financial Report. Unrestricted fund balance in excess of 32% is available for general appropriation during the budget year as approved by the Town Council. Restricted fund balances only can be used, by authorization of the Town Council, for the purposes for which they were externally restricted. At the end of the fiscal year, after the annual audit is complete and financial statements have been reported, the Town Council may, at its discretion, credit any unrestricted fund balance in excess of 75% of the subsequent year’s total expenditures, to a capital reserve fund. This designation will be done by formal resolution of the Town Council. If a catastrophic, economic or natural event occurs that requires a 25% or more deviation from the total budgeted revenues or expenditures, the unrestricted fund balance can be reduced below 32% of the total projected expenditures by Town Council action. In such an event, the Town Council shall develop a recovery plan to rebuild the fund balance within 36 months of the current fiscal year end.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

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 unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

The Town's deposits had a carrying amount of \$5,282,824 and a bank balance of \$5,286,305. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral under the pooling method. The Town's petty cash fund totaled \$200.

Investments

The Town's investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust - Cash Portfolio	\$ 5,815	N/A	AAAm
NC Capital Management Trust - Term Portfolio	50,198	0.23 years	Unrated
	<u>\$ 56,013</u>		

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 the Town's investment portfolio to maturities of 12 months or less.

Credit Risk – The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2014. The Town's investment in the NC Capital Management Trust Term Portfolio 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 North Carolina General Statutes 159-30 as amended.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Receivables

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

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from other Governments</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 65,216	\$ 19,667	\$ 200,294	\$ 285,177
Total Governmental Activities	<u>\$ 65,216</u>	<u>\$ 19,667</u>	<u>\$ 200,294</u>	<u>\$ 285,177</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 239,326	\$ -	\$ -	\$ 239,326
Total Business-Type Activities	<u>\$ 239,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,326</u>

Based on historical experience an allowance for doubtful accounts has not been established.

Capital Assets

Capital asset activity for the Primary Government was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,804,111	\$ -	\$ -	\$ 3,804,111
Total capital assets not being depreciated	<u>3,804,111</u>	<u>-</u>	<u>-</u>	<u>3,804,111</u>
Capital assets being depreciated:				
Buildings	1,304,247	-	-	1,304,247
Equipment and vehicles	3,198,489	93,404	112,306	3,179,587
Improvements	560,510	22,132	-	582,642
Infrastructure	936,782	180,580	-	1,117,362
Total capital assets being depreciated	<u>6,000,028</u>	<u>296,116</u>	<u>112,306</u>	<u>6,183,838</u>

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Less accumulated depreciation for:				
Buildings	\$ 512,835	\$ 25,991	\$ -	\$ 538,826
Equipment and vehicles	2,784,406	158,405	110,747	2,832,064
Improvements	96,878	20,381	-	117,259
Infrastructure	241,408	28,575	-	269,983
Total accumulated depreciation	<u>3,635,527</u>	<u>233,352</u>	<u>110,747</u>	<u>3,758,132</u>
Total capital assets being depreciated, net	<u>2,364,501</u>			<u>2,425,706</u>
Government activity capital assets, net	<u>\$ 6,168,612</u>			<u>\$ 6,229,817</u>

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

General Government	\$ 16,008
Public Safety	130,304
Environmental Protection	75,816
Cultural and Recreational	11,224
Total depreciation expense	<u>\$ 233,352</u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 20,697	\$ -	\$ -	\$ 20,697
Total capital assets not being depreciated	<u>20,697</u>	<u>-</u>	<u>-</u>	<u>20,697</u>
Capital assets being depreciated:				
Plant and Distribution Systems	8,392,449	-	-	8,392,449
Buildings	171,029	22,133	-	193,162
Equipment and vehicles	492,127	-	-	492,127
Total capital assets being depreciated	<u>9,055,605</u>	<u>22,133</u>	<u>-</u>	<u>9,077,738</u>

TOWN OF KURE BEACH, NORTH CAROLINA**Notes to Financial Statements**

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Plant and Distribution				
Systems	\$ 2,951,744	\$ 170,396	\$ -	\$ 3,122,140
Buildings	60,311	4,552	-	64,863
Equipment and vehicles	437,718	19,319	-	457,037
Total accumulated depreciation	<u>3,449,773</u>	<u>194,267</u>	<u>-</u>	<u>3,644,040</u>
Total capital assets being depreciated, net	<u>5,605,832</u>			<u>5,433,698</u>
Water and Sewer activity capital assets, net	<u>\$ 5,626,529</u>			<u>\$ 5,454,395</u>

B. LiabilitiesPension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy: Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.28% of annual covered payroll. The contribution requirements of members and of the Town of Kure Beach, North Carolina are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERs for the years ended June 30, 2014, 2013, and 2012 were \$120,522, \$104,960, and \$97,336, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

Plan Description

The Town of Kure 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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	11
	<u>12</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

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

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

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.

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% 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.

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	\$ 21,579
Interest on net pension obligation	11,998
Adjustment to annual required contribution	<u>(14,606)</u>
Annual pension cost (expense)	18,971
Contributions made	<u>(2,768)</u>
Increase (decrease) in net pension obligation	16,203
Net pension obligation, beginning of year	<u>239,967</u>
Net pension obligation, end of year	<u>\$ 256,170</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Three Year Trend Information

For Year Ended June 30	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2014	\$ 18,971	14.6%	\$ 256,170
2013	16,993	16.3%	239,967

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$180,277. The covered payroll (annual payroll of active employees covered by the plan) was \$540,090, and the ratios of the UAAL to the covered payroll was 33.4%.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers and Other Employees

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 and other employees employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy: Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5.00% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 were \$101,082, which consisted of \$83,091 from the Town and \$17,991 from the law enforcement officers and other employees. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the State of North Carolina. The State's CAFR includes 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.

Other Postemployment Benefits (OPEB)

Healthcare Benefits

Plan Description: Under the terms of a Town resolution, the Town administers a single employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (“System”) and have at least fifteen years of creditable service with the Town. The Town pays a percentage of the cost of coverage based upon the number of years of service for these benefits through private insurers. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Membership of the Retiree Health Plan consisted of the following at December 31, 2013:

Retirees receiving benefits	9
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	<u>39</u>
	<u><u>48</u></u>

Funding Policy: By Town resolution, the Town pays a percentage of the cost of the coverage based upon the number of creditable service years the qualified retirees have under the Town resolution. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 5.6% of annual covered payroll. For the current year, the Town contributed \$33,039 or 2.1% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the Retiree Health Plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies: Postemployment expenditures are made either from the General Fund, which is maintained on the modified accrual basis of accounting or the Water and Sewer Fund, which is maintained on the full accrual basis of accounting depending on which fund the employee worked. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

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

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

Annual required contributions	\$ 88,866
Interest on net OPEB obligation	18,533
Adjustment to annual required contribution	<u>(17,705)</u>
Annual OPEB cost (expense)	89,694
Contributions made	<u>(33,039)</u>
Increase in net OPEB obligation	56,655
Net OPEB obligation, beginning of year	<u>463,326</u>
Net OPEB obligation, end of year	<u><u>\$ 519,981</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

Three Year Trend Information			
For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 89,694	36.8%	\$ 519,981
2013	145,298	23.8%	463,326
2012	237,102	9.8%	352,632

Funded Status and Funding Progress: As of December 31, 2013, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,624,024. The covered payroll (annual payroll of active employees covered by the plan) was \$1,580,189, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 102.8%. 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 information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

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 following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2003 United States Life Tables for Males and for Females were used.

Turnover – Non-group specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on actuarial projections. A rate of 7.5 percent initially, reduced to an ultimate rate of 5.0 percent after six years, was used.

Health insurance premiums – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 3.8 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2013 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was thirty 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 (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Deferred Inflows of Resources

The balance in deferred inflows of resources is composed of tax receivables reported in the general fund.

Long-Term Obligations

Installment Purchases

The Town has entered into the following installment purchase contracts:

Serviced by the General Fund:

\$117,000 loan to finance the Downtown Improvement Project due in annual installments of \$24,719 including interest through June 17, 2018; interest at 1.9 percent

\$ 117,000

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$32,000 loan to finance a police truck due in annual installments of \$8,441 including interest through January 15, 2018; interest at 2.18 percent	\$ 32,000
\$3,600,000 loan to acquire the land for Ocean Front Park due in annual installments ranging from \$112,128 to \$67,682 including interest through December 19, 2027; interest at 4.28 percent	908,654
\$875,000 loan to finance the Cutter Court Drainage Project due in monthly installments of \$6,678 including interest through June 23, 2020; interest at 4.40 percent	420,087
\$53,168 loan to finance two police cars due in annual installments of \$14,198 including interest through March 11, 2015; interest at 2.69 percent	13,826
\$27,095 loan to finance a police car due in annual installments of \$7,200 including interest through October 1, 2014; interest at 2.49 percent	6,855
\$261,181 of a \$1,187,187 loan to construct a water tower and finance town hall renovations due in semi-annual installments of \$11,598 including interest through May 7, 2022; interest at 3.92 percent	159,077
\$347,000 loan to finance development of Ocean Front Park due in annual installments ranging from \$35,645 to \$21,308 including interest through July 12, 2028; interest at 4.39 percent	306,176
\$29,836 loan to finance a police car due in annual installments of \$7,868 including interest through June 28, 2017; interest at 2.17 percent	22,615
\$152,152 loan to finance a garbage truck due in annual installments of \$32,103 including interest through September 16, 2016; interest at 1.81 percent	92,924
	<u>\$ 2,079,214</u>

Serviced by the Water and Sewer Fund:

\$432,660 loan to finance the Sewer Rehabilitation Project with 50% principal forgiveness due in annual installments of \$10,556 including interest through May 1, 2030; interest at 0.00 percent	\$ 168,891
\$926,006 of a \$1,187,187 loan to construct a water tower and finance town hall renovations due in semi-annual installments of \$41,119 including interest through May 7, 2022; interest at 3.92 percent	560,084
\$29,547 loan to finance a utility truck due in annual installments of \$7,565 including interest through December 30, 2014; interest at 1.50 percent	7,444
	<u>\$ 736,419</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The future minimum payments of the installment purchases:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 253,948	\$ 81,556	\$ 78,881	\$ 21,478
2016	237,903	72,529	73,839	18,955
2017	242,979	63,790	76,344	16,450
2018	232,736	55,096	78,948	13,845
2019	180,190	46,090	81,656	11,138
2020-2024	568,847	139,515	283,415	16,078
2025-2029	362,611	71,220	52,779	-
2030	-	-	10,557	-
Total	<u>\$ 2,079,214</u>	<u>\$ 529,796</u>	<u>\$ 736,419</u>	<u>\$ 97,944</u>

Changes in Long-Term Liabilities

The following changes occurred in liabilities reported in long-term debt:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Installment purchases	\$ 2,149,421	\$ 149,000	\$ 219,207	\$ 2,079,214
OPEB liability	335,456	42,661	-	378,117
LEO liability	239,967	16,203	-	256,170
Compensated absences	83,053	77,091	63,769	96,375
Total governmental activity long-term liabilities	<u>\$ 2,807,897</u>	<u>\$ 284,955</u>	<u>\$ 282,976</u>	<u>\$ 2,809,876</u>
Business-Type Activities:				
Installment purchases	\$ 820,739	\$ -	\$ 84,320	\$ 736,419
OPEB liability	127,870	13,994	-	141,864
Compensated absences	28,153	25,289	19,112	34,330
Total business-type long-term liabilities	<u>\$ 976,762</u>	<u>\$ 39,283</u>	<u>\$ 103,432</u>	<u>\$ 912,613</u>

Current portion of long-term liabilities at June 30, 2014, consist of \$253,948 and \$78,881 for installment purchases for governmental activities and business-type activities, respectively.

Compensated absences for governmental activities have typically been liquidated in the General Fund.

At June 30, 2014, the Town of Kure Beach, North Carolina had a legal debt margin of \$62,964,226.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

C. Interfund Balances and Activity

Balances due to/from other funds consist of the following:

Due to General Fund from Water and Sewer Fund	\$194,705
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Balances are for advances made to pay for expenditures related to capital project funds and reimbursement for transactions between funds.

Transfers to/from funds consist of the following:

From the Water and Sewer Fund to the General Fund	\$160,000
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D. Fund Balance

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

Total fund balance - General Fund	\$ 3,485,632
Less:	
Stabilization by State Statute	479,882
Streets- Powell Bill	213,502
Federal Asset Forfeiture	176,728
Assigned	924,323
Fund Balance Policy	1,213,893
Remaining Fund Balance	<u>\$ 477,304</u>

The Town's entire amount of unassigned general fund balance is available for appropriation. The Town has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that unrestricted fund balance in the Governmental Funds is at least 32% of total projected expenditures

E. 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 two 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 \$2 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 liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

In accordance with G.S. 159-29, 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 under a blanket bond for \$25,000.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The Town carries flood insurance through NCLM-Interlocal Risk Financing Fund of NC.

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.

NOTE 3 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF KURE BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2014

Exhibit 11

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Project Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
Dec. 31, 2013	\$ -	\$ 180,277	\$ 180,277	0.0%	\$ 540,090	33.4%
Dec. 31, 2012	-	164,074	164,074	0.0%	582,271	28.2%
Dec. 31, 2011	-	147,637	147,637	0.0%	557,613	26.5%

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 21,579	12.8%
2013	19,754	14.1%
2012	19,754	14.1%

TOWN OF KURE BEACH, NORTH CAROLINA
Other Post Employment Benefits
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2014

Exhibit 12

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Project Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
Dec. 31, 2013	\$ -	\$1,624,024	\$1,624,024	0.0%	\$1,580,189	102.8%
Dec. 31, 2012	-	1,566,041	1,566,041	0.0%	1,487,530	105.3%
June 30, 2012	-	996,106	996,106	0.0%	1,425,518	69.9%

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 89,694	36.8%
2013	145,298	23.8%
2012	237,102	9.8%

SUPPLEMENTAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

Statement 1
Page 1 of 4

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,079,500	\$ 2,124,793	\$ 45,293
Penalties and interest	5,000	4,037	(963)
Total	<u>2,084,500</u>	<u>2,128,830</u>	<u>44,330</u>
Other taxes and licenses:			
Motor vehicle licenses	9,000	6,940	(2,060)
Licenses and fees	3,500	3,002	(498)
Total	<u>12,500</u>	<u>9,942</u>	<u>(2,558)</u>
Unrestricted intergovernmental:			
Local option sales taxes	548,745	611,955	63,210
ABC revenue	11,150	10,305	(845)
Hold harmless	73,050	80,349	7,299
Utility franchise tax	109,000	93,028	(15,972)
Solid Waste Disposal	1,350	1,455	105
Beer and wine tax	9,000	9,077	77
Video programming	37,500	36,847	(653)
Telecommunications tax	17,500	15,885	(1,615)
Refunds	52,000	75	(51,925)
Total	<u>859,295</u>	<u>858,976</u>	<u>(319)</u>
Restricted intergovernmental:			
Grants	50,900	12,051	(38,849)
Powell Bill allocation	64,689	64,689	-
Total	<u>115,589</u>	<u>76,740</u>	<u>(38,849)</u>
Permits and fees:			
Garbage fees	329,000	343,289	14,289
Building permits	28,400	56,281	27,881
Cable fees	-	962	962
TDA funds	180,618	180,618	-
Miscellaneous	7,366	13,064	5,698
Police fees	-	2,114	2,114
Total	<u>545,384</u>	<u>596,328</u>	<u>50,944</u>

TOWN OF KURE 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, 2014

Statement 1
Page 2 of 4

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Sales and services:			
Rents and concessions	\$ 103,955	\$ 101,144	\$ (2,811)
Impact fees	246,000	269,163	23,163
Miscellaneous	44,857	56,614	11,757
Total	<u>394,812</u>	<u>426,921</u>	<u>32,109</u>
Investment earnings	1,460	1,214	(246)
Total Revenues	<u>4,013,540</u>	<u>4,098,951</u>	<u>85,411</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits	7,267	7,301	(34)
Operating expense	28,266	27,769	497
Total	<u>35,533</u>	<u>35,070</u>	<u>463</u>
Administration:			
Salaries and benefits	187,280	186,895	385
Operating expense	919,181	664,380	254,801
Total	<u>1,106,461</u>	<u>851,275</u>	<u>255,186</u>
Total general government	<u>1,141,994</u>	<u>886,345</u>	<u>255,649</u>
Pubic Safety:			
Police:			
Salaries and benefits	906,277	844,757	61,520
Operating expense	178,301	168,705	9,596
Capital outlay	67,000	57,653	9,347
Total	<u>1,151,578</u>	<u>1,071,115</u>	<u>80,463</u>
Fire:			
Salaries and benefits	303,950	294,064	9,886
Operating expense	66,000	55,652	10,348
Capital outlay	12,500	19,000	(6,500)
Total	<u>382,450</u>	<u>368,716</u>	<u>13,734</u>

(Continued)

TOWN OF KURE 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, 2014

Statement 1
Page 3 of 4

	Budget	Actual	Variance Positive (Negative)
Life guards:			
Salaries and benefits	\$ 144,005	\$ 145,672	\$ (1,667)
Operating expense	26,841	21,180	5,661
Total	<u>170,846</u>	<u>166,852</u>	<u>3,994</u>
Building Inspection:			
Salaries and benefits	89,711	89,074	637
Operating expense	20,722	14,220	6,502
Total	<u>110,433</u>	<u>103,294</u>	<u>7,139</u>
Total public safety	<u>1,815,307</u>	<u>1,709,977</u>	<u>105,330</u>
Transportation:			
Operating expense	95,040	11,064	83,976
Capital outlay	-	60,766	(60,766)
Total transportation	<u>95,040</u>	<u>71,830</u>	<u>23,210</u>
Special projects:			
Parks and recreation	60,740	55,984	4,756
Street festival	11,000	-	11,000
Community center	13,850	12,703	1,147
Other	300	13	287
Capital outlay	-	11,550	(11,550)
Total special projects	<u>85,890</u>	<u>80,250</u>	<u>5,640</u>
Environmental protection:			
Salaries and benefits	462,245	468,788	(6,543)
Operating expense	311,750	342,127	(30,377)
Capital outlay	361,961	147,147	214,814
Total environmental protection	<u>1,135,956</u>	<u>958,062</u>	<u>177,894</u>
Debt service:			
Principal	219,628	219,207	421
Interest	87,036	86,812	224
Total debt service	<u>306,664</u>	<u>306,019</u>	<u>645</u>
Total expenditures	<u>4,580,851</u>	<u>4,012,483</u>	<u>568,368</u>
Revenue over (under) expenditures	<u>(567,311)</u>	<u>86,468</u>	<u>653,779</u>

(Continued)

TOWN OF KURE 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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Proceeds from installment purchases	\$ 232,000	\$ 149,000	\$ (83,000)
Transfers from other funds	160,000	160,000	-
Total other financing sources (uses)	<u>392,000</u>	<u>309,000</u>	<u>(83,000)</u>
Fund balance appropriated	<u>175,311</u>	<u>-</u>	<u>(175,311)</u>
Net change in fund balance	<u>\$ -</u>	395,468	<u>\$ 395,468</u>
Fund balances, beginning		<u>3,090,164</u>	
Fund balances, ending		<u>\$ 3,485,632</u>	

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Water and Sewer Fund
For the Fiscal Year Ended June 30, 2014

Statement 2
Page 1 of 2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services:			
Water sales and sewer charges:			
Residential and commercial	\$ 1,590,350	\$ 1,521,378	\$ (68,972)
Water and sewer tap fees	24,000	54,000	30,000
Other user fees	21,500	38,400	16,900
Other operating revenues	165,750	409,407	243,657
Total	<u>1,801,600</u>	<u>2,023,185</u>	<u>221,585</u>
Non-operating revenues			
Interest earnings	<u>1,355</u>	<u>1,169</u>	<u>(186)</u>
Total revenues	<u>1,802,955</u>	<u>2,024,354</u>	<u>221,399</u>
Expenditures:			
Water and sewer administration and operations:			
Salaries and benefits - admin	186,791	189,119	(2,328)
Salaries and benefits - OPS	348,102	343,790	4,312
Utilities	55,300	53,764	1,536
Supplies	87,500	103,917	(16,417)
Repairs and maintenance	125,900	107,287	18,613
Treatment facility charges	300,000	211,410	88,590
Operating expenditures	263,876	213,629	50,247
Capital outlay	196,994	22,133	174,861
Total	<u>1,564,463</u>	<u>1,245,049</u>	<u>319,414</u>
Debt service:			
Interest and fees	24,171	24,170	1
Principal retirement	84,321	84,320	1
Total	<u>108,492</u>	<u>108,490</u>	<u>2</u>
Total expenditures	<u>1,672,955</u>	<u>1,353,539</u>	<u>319,416</u>
Revenues over expenditures	<u>130,000</u>	<u>670,815</u>	<u>540,815</u>
Other financing sources (uses):			
Installment purchase proceeds	30,000	-	(30,000)
Transfers to other funds	(160,000)	(160,000)	-
Total other financing sources	<u>(130,000)</u>	<u>(160,000)</u>	<u>(30,000)</u>

(Continued)

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

Statement 2
page 2 of 2

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>510,815</u>	<u>\$ 510,815</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		22,133	
Depreciation		(194,267)	
Principal retirement		84,320	
Change in OPEB and compensated absences		<u>(20,171)</u>	
Total reconciling items		<u>(107,985)</u>	
Change in net position		<u>\$ 402,830</u>	

OTHER SCHEDULES

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

Schedule 1

Fiscal Year	Uncollected Balance June 30, 2013	Additions	Collections, Credits and Adjustments	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 2,126,590	\$ 2,116,752	\$ 9,838
2012-2013	15,618	-	13,531	2,087
2011-2012	1,077	-	167	910
2010-2011	762	-	35	727
2009-2010	502	-	3	499
2008-2009	754	-	47	707
2007-2008	961	-	30	931
2006-2007	1,661	-	2	1,659
2005-2006	1,370	-	36	1,334
2004-2005	976	-	1	975
2003-2004	890	-	890	-
Total	\$ 24,571	\$ 2,126,590	\$ 2,131,494	\$ 19,667

Ad valorem taxes receivable - net \$ 19,667

Reconcilement with revenues:

Ad valorem taxes - general fund	\$ 2,128,830
Reconciling items:	
Write offs, collection fees, and discounts	(2,564)
Miscellaneous adjustments	1,623
Interest collected	3,605
	\$ 2,131,494

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 2

Analysis of Current Tax Levy

Town - Wide Levy

For the Fiscal Year Ended June 30, 2014

	Town-wide			Total Levy	
	Property Valuation (in Thousand)	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxes at current year rate	\$ 786,920	0.2615	\$ 2,057,796	\$ 2,057,796	\$ -
Registered motor vehicles at prior year rates	26,636	0.2615	69,952	-	69,952
Penalties	-		185	185	-
Total	<u>813,556</u>		<u>2,127,933</u>	<u>2,057,981</u>	<u>69,952</u>
Discoveries:					
Current year taxes	<u>68</u>	0.2615	<u>178</u>	<u>178</u>	<u>-</u>
Abatements:					
Current year taxes	<u>(581)</u>	0.2615	<u>(1,521)</u>	<u>(1,521)</u>	<u>-</u>
Total property value	<u>\$ 813,043</u>				
Net levy			<u>2,126,590</u>	<u>2,056,638</u>	<u>69,952</u>
Uncollected taxes at June 30, 2014			<u>9,838</u>	<u>8,267</u>	<u>1,571</u>
Current year's taxes collected			<u>\$ 2,116,752</u>	<u>\$ 2,048,371</u>	<u>\$ 68,381</u>
Current levy collection percentage			<u>99.54%</u>	<u>99.60%</u>	<u>97.75%</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 Kure 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 Kure Beach, North Carolina (the "Town") as of and for the year ended June 30, 2014, 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 7, 2014.

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 7, 2014