

TOWN OF KURE BEACH, NORTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Town Council Members

Emilie Swearingen, Mayor
Craig Bloszinsky, Mayor Pro Tem
David Heglar
Joseph Whitley
Jim Dugan

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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2016, and the respective changes in financial position and cash flows where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10; the Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress and Schedule of Employer Contributions on page 43; Other Postemployment Benefits - Schedule of Funding Progress and Schedule of Employer Contributions on page 44; and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and the Schedule of Contributions, on page 45, 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 individual fund budgetary schedules and other schedules, as listed on the table of contents, 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.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

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, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$14,797,336 (net position).
- The government's total net position increased by \$746,962.
- As of the close of the current fiscal year, the Town's total governmental funds reported combined ending fund balances of \$4,486,438 with a net change of \$437,037 in fund balance. Approximately 15% of this total amount or \$651,683 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,611,376 or 63% of total General Fund expenditures for the fiscal year. The combined unassigned and assigned fund balance for the General Fund was \$3,834,755 or 93% of total General Fund expenditures for the fiscal year.
- The Town's total long-term liabilities increased by \$137,146 during the current fiscal year. The key factor in this increase was a change in the Town's portion of the Local Government Employees' Retirement System (LERS) liability.
- The business-type activities revenue increased by \$364,524 (22%). The most significant component of the increase was a change to the water and sewer rate structure.

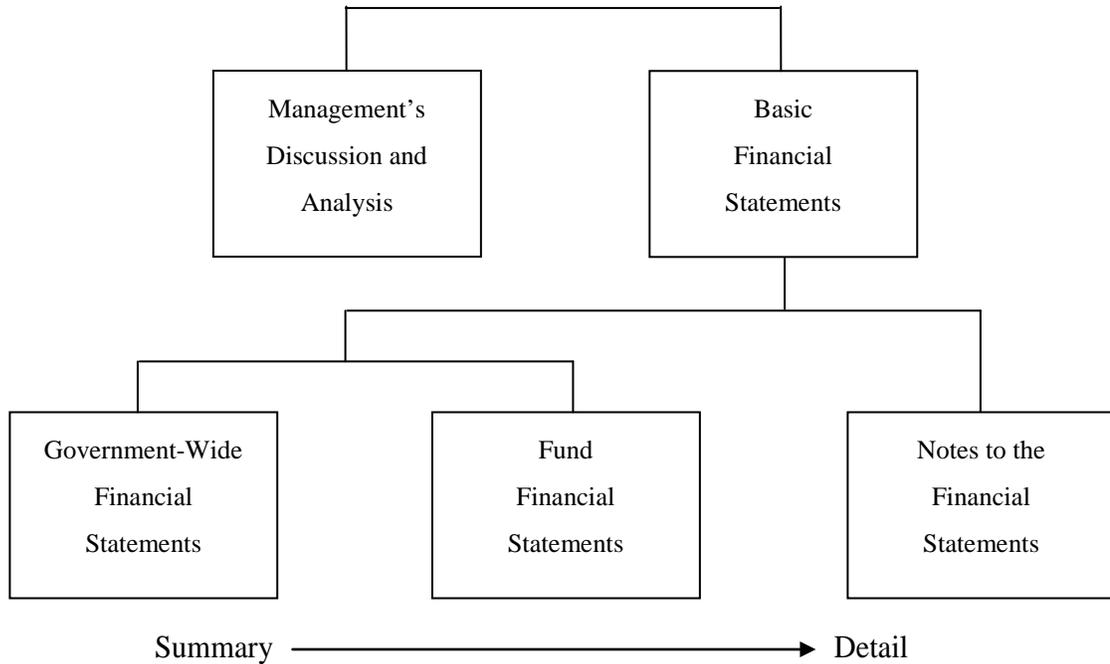
Overview of the Financial Statements

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

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 North Carolina General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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 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, 2016

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. Required supplementary information can be found beginning on page 43 of this report.

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

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

Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 4,673,306	\$ 4,340,528	\$ 2,686,821	\$ 2,376,827	\$ 7,360,127	\$ 6,717,355
Capital assets	6,556,224	6,552,205	5,212,824	5,288,651	11,769,048	11,840,856
Deferred outflows of resources	126,235	124,154	39,213	38,437	165,448	162,591
Total assets	11,355,765	11,016,887	7,938,858	7,703,915	19,294,623	18,720,802
Liabilities:						
Long-term liabilities	3,159,676	3,119,636	1,004,245	907,139	4,163,921	4,026,775
Other liabilities	168,704	122,296	88,245	72,470	256,949	194,766
Deferred inflows of resources	58,209	342,501	18,208	106,386	76,417	448,887
Total liabilities	3,386,589	3,584,433	1,110,698	1,085,995	4,497,287	4,670,428
Net Position:						
Net investment in capital						
assets	4,419,645	4,269,046	4,481,242	4,598,898	8,900,887	8,867,944
Restricted	651,683	653,680	-	-	651,683	653,680
Unrestricted	2,897,848	2,509,728	2,346,918	2,019,022	5,244,766	4,528,750
Total net position	\$ 7,969,176	\$ 7,432,454	\$ 6,828,160	\$ 6,617,920	\$ 14,797,336	\$ 14,050,374

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 \$14,797,336 as of June 30, 2016. The Town's net position for governmental activities and business-type activities were \$7,969,176 and \$6,828,160, respectively, for the fiscal year ended June 30, 2016. However, the largest portion, \$8,900,887, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

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 portion of the Town's net position of \$651,683 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,244,766 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total governmental net position, notably, the continued diligence in the collection of property taxes by accomplishing a tax collection percentage of 99.68% and the continued growth in the tax base.

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

Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 880,908	\$ 862,203	\$ 2,002,164	\$ 1,638,086	\$ 2,883,072	\$ 2,500,289
Operating grants and contributions	295,860	250,547	-	-	295,860	250,547
Capital grants and contributions	2,536	2,480	-	-	2,536	2,480
General revenues:						
Property taxes	2,156,461	2,128,297	-	-	2,156,461	2,128,297
Other taxes	711,101	676,471	-	-	711,101	676,471
Grants and contributions not restricted to specific programs	352,230	347,871	-	-	352,230	347,871
Transfers from other funds	-	-	-	-	-	-
Other	1,638	993	1,477	1,031	3,115	2,024
Total revenues	<u>4,400,734</u>	<u>4,268,862</u>	<u>2,003,641</u>	<u>1,639,117</u>	<u>6,404,375</u>	<u>5,907,979</u>
Expenses:						
General government	579,839	558,774	-	-	579,839	558,774
Public safety	2,054,961	1,869,676	-	-	2,054,961	1,869,676
Highways/streets	27,919	39,414	-	-	27,919	39,414
Environmental protection	960,306	900,542	-	-	960,306	900,542
Parks and recreation	132,226	126,780	-	-	132,226	126,780
Interest on long-term debt	83,724	81,619	-	-	83,724	81,619
Water and sewer	-	-	1,793,401	1,607,083	1,793,401	1,607,083

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
	Transfers to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Other	25,037	19,553	-	-	25,037	19,553
Total expenses	3,864,012	3,596,358	1,793,401	1,607,083	5,657,413	5,203,441
Increase in net position	536,722	672,504	210,240	32,034	746,962	704,538
Net position, July 1,	7,432,454	6,759,950	6,617,920	6,585,886	14,050,374	13,345,836
Net position, June 30,	<u>\$ 7,969,176</u>	<u>\$ 7,432,454</u>	<u>\$ 6,828,160</u>	<u>\$ 6,617,920</u>	<u>\$ 14,797,336</u>	<u>\$ 14,050,374</u>

Governmental Activities - Governmental activities increased the Town's net position by \$536,722, thereby accounting for 72% of the total growth in the net position of the Town. The key elements of this increase are as follows:

- Increase in local option sales tax revenues.
- Strong property tax collection rate of 99.68% and continued increase in the tax base.
- Increase in Tourism Development Authority (TDA) reimbursements for tourism activities.

Business-Type Activities - Business-type activities of the Town reported \$6,828,160 in net position, an increase of \$210,240. The key element of this increase is an increase in water and sewer fees resulting from changes to the rate structure.

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 \$2,611,376, while the total fund balance reached \$4,486,438. 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 63% of total General Fund expenditures, while total fund balance is 109% of total General Fund expenditures.

At June 30, 2016, the governmental funds of the Town of Kure Beach reported a fund balance of \$4,486,438 with a net increase in fund balance of \$437,037.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

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.

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 \$2,346,918. 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, 2016, totals \$11,769,048 (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 additions of equipment and vehicles. There were no significant demolitions or disposals of capital assets.

Town of Kure Beach, North Carolina's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
	Land	\$ 4,213,583	\$ 4,213,583	\$ 20,697	\$ 20,697	\$ 4,234,280
Building	713,439	739,430	118,641	123,470	832,080	862,900
Equipment and vehicles	345,431	315,874	121,762	44,571	467,193	360,445
Improvements other than buildings	430,259	445,421	-	-	430,259	445,421
Plant and Distribution Systems	-	-	4,951,724	5,099,913	4,951,724	5,099,913
Infrastructure	853,512	837,897	-	-	853,512	837,897
Total	<u>\$ 6,556,224</u>	<u>\$ 6,552,205</u>	<u>\$ 5,212,824</u>	<u>\$ 5,288,651</u>	<u>\$ 11,769,048</u>	<u>\$ 11,840,856</u>

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, 2016, the Town had total debt outstanding of \$2,868,161. Installment debt for governmental type activities and business-type activities were \$2,136,579 and \$731,582, respectively.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

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 \$4,488,370 General Fund budget for fiscal year 2016-2017. This budget represents a 9.2% increase from the fiscal year 2015-2016 amended budget. The increase primarily relates to planned additions of public safety personnel and increased capital expenditures.

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, 2016

Exhibit 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,512,888	\$ 2,384,273	\$ 5,897,161
Investments	490,541	-	490,541
Receivables, net	320,049	302,548	622,597
Restricted cash and cash equivalents	349,828	-	349,828
Total current assets	<u>4,673,306</u>	<u>2,686,821</u>	<u>7,360,127</u>
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements, and construction in progress	4,213,583	20,697	4,234,280
Other capital assets, net of depreciation	2,342,641	5,192,127	7,534,768
Total capital assets	<u>6,556,224</u>	<u>5,212,824</u>	<u>11,769,048</u>
Total assets	<u>11,229,530</u>	<u>7,899,645</u>	<u>19,129,175</u>
Deferred Outflows of Resources			
Pension deferrals	22,868	7,105	29,973
Contributions to pension plan in current fiscal year	103,367	32,108	135,475
Total deferred outflows of resources	<u>126,235</u>	<u>39,213</u>	<u>165,448</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	168,704	81,885	250,589
Customer deposits	-	6,360	6,360
Current portion of long-term liabilities	400,800	137,264	538,064
Total current liabilities	<u>569,504</u>	<u>225,509</u>	<u>795,013</u>
Long-term liabilities:			
Net pension liability	112,181	34,845	147,026
Due in more than one year	2,646,695	832,136	3,478,831
Total liabilities	<u>3,328,380</u>	<u>1,092,490</u>	<u>4,420,870</u>
Deferred Inflows of Resources			
Pension deferrals	<u>58,209</u>	<u>18,208</u>	<u>76,417</u>
Net Position			
Net investment in capital assets	4,419,645	4,481,242	8,900,887
Restricted	651,683	-	651,683
Unrestricted	2,897,848	2,346,918	5,244,766
Total net position	<u>\$ 7,969,176</u>	<u>\$ 6,828,160</u>	<u>\$ 14,797,336</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, 2016

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants	Capital Grants
Primary government:				
Governmental activities:				
General government	\$ 579,839	\$ 541,628	\$ -	\$ -
Public safety	2,054,961	19,505	230,454	2,536
Transportation	27,919	-	65,406	-
Parks and recreation	132,226	16,039	-	-
Special projects	25,037	25,088	-	-
Environmental protection	960,306	278,648	-	-
Interest on long-term debt	83,724	-	-	-
Total governmental activities	<u>3,864,012</u>	<u>880,908</u>	<u>295,860</u>	<u>2,536</u>
Business-type activities:				
Water and sewer	<u>1,793,401</u>	<u>2,002,164</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,793,401</u>	<u>2,002,164</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,657,413</u>	<u>\$ 2,883,072</u>	<u>\$ 295,860</u>	<u>\$ 2,536</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

Investment earnings, unrestricted

Total general revenues, special items, and transfers

Change in net position

Net position, beginning

Net position - ending

Exhibit 2

<u>Net (Expense) Revenue and Changes in Net Position</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (38,211)	\$ -	\$ (38,211)
(1,802,466)	-	(1,802,466)
37,487	-	37,487
(116,187)	-	(116,187)
51	-	51
(681,658)	-	(681,658)
(83,724)	-	(83,724)
<u>(2,684,708)</u>	<u>-</u>	<u>(2,684,708)</u>
-	208,763	208,763
-	208,763	208,763
<u>(2,684,708)</u>	<u>208,763</u>	<u>(2,475,945)</u>
2,156,461	-	2,156,461
703,036	-	703,036
8,065	-	8,065
352,230	-	352,230
1,638	1,477	3,115
<u>3,221,430</u>	<u>1,477</u>	<u>3,222,907</u>
<u>536,722</u>	<u>210,240</u>	<u>746,962</u>
<u>7,432,454</u>	<u>6,617,920</u>	<u>14,050,374</u>
<u>\$ 7,969,176</u>	<u>\$ 6,828,160</u>	<u>\$ 14,797,336</u>

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

Exhibit 3

	Major Governmental Fund
	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 3,512,888
Investments	490,541
Restricted cash	349,828
Taxes receivable, net	18,164
Account receivables, net	301,885
Total assets	<u>\$ 4,673,306</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 168,704
Total liabilities	<u>168,704</u>
Deferred Inflow of Resources	
Property taxes receivable	<u>18,164</u>
Fund Balances	
Restricted for:	
State statute	301,855
Streets	255,254
Federal asset forfeitures	94,574
Assigned:	
Beach protection	236,932
Storm water	986,447
Unassigned	2,611,376
Total fund balances	<u>4,486,438</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,673,306</u>

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

Exhibit 4

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

Total Fund Balance, Governmental Funds	\$ 4,486,438
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	103,367
Changes in proportion and differences between employer contributions and proportionate share of contributions are deferred outflows on the Statement of Net Position	22,868
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets at historical costs	10,581,629
Less: accumulated depreciation	<u>4,025,405</u>
Net adjustment to increase fund balance-total governmental funds to arrive at net assets - governmental activities	<u>6,682,459</u>
Liabilities for earned but considered deferred inflows of resources in fund statements	<u>18,164</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	2,136,579
Net pension obligation	270,642
Other postemployment benefits	531,628
Compensated absences	108,646
Net pension liability	112,181
Pension related deferrals	<u>58,209</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets - governmental activities	<u>3,217,885</u>
Net position of governmental activities	<u><u>\$ 7,969,176</u></u>

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

Exhibit 5

	Major Governmental Fund
	<u>General Fund</u>
Revenues	
Ad valorem taxes	\$ 2,166,605
Other taxes and licenses	7,615
Unrestricted intergovernmental	1,056,647
Restricted intergovernmental	84,667
Permits and fees	958,738
Sales and services	134,968
Investment earnings	1,638
Total revenues	<u>4,410,878</u>
Expenditures	
Current:	
General government	563,682
Public safety	1,911,313
Transportation	27,919
Parks and recreation	122,487
Special projects	25,037
Environmental protection	886,614
Debt service	374,334
Capital outlay	206,484
Total expenditures	<u>4,117,870</u>
Excess of revenues over expenditures	<u>293,008</u>
Other Financing Sources	
Proceeds from installment purchases	144,029
Total other financing sources	<u>144,029</u>
Net change in fund balances	<u>437,037</u>
Fund balances, beginning	<u>4,049,401</u>
Fund balances, ending	<u><u>\$ 4,486,438</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, 2016

Exhibit 6

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

Net change in fund balances - total governmental funds \$ 437,037

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 206,484
 Depreciation expense for governmental assets (202,465)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 103,367

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 (10,144)

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 232
 Pension expense (69,699)
 Net pension obligation (9,267)
 Other postemployment benefits (65,404)

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.

146,581

Total changes in net position of governmental activities \$ 536,722

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, 2016

Exhibit 7

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 2,121,250	\$ 2,126,232	\$ 2,166,605	\$ 40,373
Other taxes and licenses	7,100	7,100	7,615	515
Unrestricted intergovernmental	1,038,325	1,038,325	1,056,647	18,322
Restricted intergovernmental	64,150	125,205	84,667	(40,538)
Permits and fees	855,557	874,864	958,738	83,874
Sales and services	140,352	143,952	134,968	(8,984)
Investment earnings	985	985	1,638	653
Total revenues	<u>4,227,719</u>	<u>4,316,663</u>	<u>4,410,878</u>	<u>94,215</u>
Expenditures				
Current:				
General government	809,628	756,114	563,682	192,432
Public safety	1,927,101	1,963,386	1,911,313	52,073
Transportation	64,030	64,030	27,919	36,111
Parks and recreation	138,748	138,748	122,487	16,261
Special projects	25,350	30,332	25,037	5,295
Environmental protection	856,243	881,950	886,614	(4,664)
Debt service	374,339	374,339	374,334	5
Capital outlay	186,750	272,234	206,484	65,750
Total expenditures	<u>4,382,189</u>	<u>4,481,133</u>	<u>4,117,870</u>	<u>363,263</u>
Revenues over (under) expenditures	<u>(154,470)</u>	<u>(164,470)</u>	<u>293,008</u>	<u>457,478</u>
Other Financing Sources (Uses)				
Proceeds from installment purchases	151,750	151,750	144,029	(7,721)
Transfers from other funds	<u>(275,000)</u>	<u>(275,000)</u>	<u>-</u>	<u>275,000</u>
Total other financing sources (uses)	<u>(123,250)</u>	<u>(123,250)</u>	<u>144,029</u>	<u>267,279</u>
Fund balance appropriated	<u>277,720</u>	<u>287,720</u>	<u>-</u>	<u>(287,720)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>437,037</u>	<u>\$ 437,037</u>
Fund balances, beginning			<u>4,049,401</u>	
Fund balances, ending			<u>\$ 4,486,438</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, 2016

Exhibit 8

	Major Enterprise Fund
	<u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and equivalents	\$ 2,384,273
Account receivables, net	302,548
Total current assets	<u>2,686,821</u>
Noncurrent assets:	
Capital assets, net	5,212,824
Total assets	<u>7,899,645</u>
Deferred Outflows of Resources	
Contributions to pension plan	32,108
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,105
Total deferred outflows of resources	<u>39,213</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	81,885
Customer deposits	6,360
Current portion of compensated absences	25,000
Current portion of long-term debt	112,264
Total current liabilities	<u>225,509</u>
Noncurrent liabilities:	
Non-current portion of compensated absences	15,628
Other postemployment benefits payable	197,190
Net pension liability	34,845
Non-current portion of long-term debt	619,318
Total liabilities	<u>1,092,490</u>
Deferred Inflows of Resources	
Pension deferrals	<u>18,208</u>
Net Position	
Net investment in capital assets	4,481,242
Unrestricted	2,346,918
Total Net Position	<u>\$ 6,828,160</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, 2016

Exhibit 9

	Major Enterprise Fund
	Water and Sewer Fund
Operating revenues:	
Charges for services	\$ 1,996,014
Other operating revenues	6,150
Total operating revenues	<u>2,002,164</u>
Operating expenses:	
Administration	441,994
Water and sewer system operations	1,139,205
Depreciation	192,541
Total operating expenses	<u>1,773,740</u>
Operating income	<u>228,424</u>
Non-operating revenues (expenses):	
Investment earnings	1,477
Interest and fees	(19,661)
Total non-operating revenues (expenses)	<u>(18,184)</u>
Net income	<u>210,240</u>
Change in net position	<u>210,240</u>
Total net position, beginning	<u>6,617,920</u>
Total net position, ending	<u><u>\$ 6,828,160</u></u>

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

Exhibit 10

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,936,302
Cash paid for goods and services	(1,020,389)
Cash paid to employees for services	(535,061)
Net cash provided by operating activities	<u>380,852</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(116,714)
Proceeds from installment purchases	123,463
Principal paid on installment purchases	(81,634)
Interest and fees paid on installment purchases	(19,661)
Net cash used in capital and related financing activities	<u>(94,546)</u>
Cash flows from investing activities:	
Interest	<u>1,477</u>
Net increase in cash and cash equivalents	287,783
Balances, beginning	<u>2,096,490</u>
Balances, ending	<u><u>\$ 2,384,273</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 228,424</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	192,541
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(65,862)
Net pension asset	43,651
Deferred outflows of resources for pensions	(776)
Increase (decrease) in:	
Accounts payable and accrued liabilities	15,775
Compensated absences	1,444
Net Pension Liability	34,845
Deferred inflows of resources for pensions	(88,178)
Other postemployment benefits payable	18,988
Total adjustments	<u>152,428</u>
Net cash provided by operating activities	<u><u>\$ 380,852</u></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 a four-member council.

Basis of Presentation

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies result from non-exchange transactions. 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 sales tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by New Hanover County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. 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 Inflows/Outflows 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. Non-participating interest earning contracts are accounted for at cost. The NCCMT Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Restricted Cash

Restricted cash recorded in the Governmental Fund and General Fund represents unexpended Powell Bill and Federal Asset Forfeiture funds of \$255,254 and \$94,574, 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, 2015. 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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

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

Long-Term Obligations

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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)]. At year end, restricted for stabilization by state statute was \$301,855.

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. At year end, restricted for streets – Powell Bill was \$255,254.

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. At year end, restricted for Federal asset forfeiture was \$94,574.

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Pensions

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

NOTE 2 – DETAIL NOTES ON ALL FUNDS

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the 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.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

At June 30, 2016, the Town's deposits had a carrying amount of \$6,246,789 and a bank balance of \$6,298,824. Of the bank balance, \$500,000 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	Valuation	Book Value	Maturity	Rating
	Measurement Method			
NC Capital Management Trust - Cash Portfolio	Amortized Cost	\$ 9,332	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value - Level 1	481,209	0.14 years	Unrated
		<u>\$ 490,541</u>		

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

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

Interest Rate Risk - The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's internal investment policy limits 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, 2016. 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.

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

Receivables

Governmental activities - General Fund receivables of \$320,049 consist of \$59,025 for customer accounts; \$18,164 for taxes and related accrued interest and \$242,860 due from other governments. Business-Type activities - Water and Sewer Fund receivables of \$302,548 consist entirely of customer accounts. Based on historical experience an allowance for doubtful accounts has not been established.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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	\$ 4,213,583	\$ -	\$ -	\$ 4,213,583
Total capital assets not being depreciated	<u>4,213,583</u>	<u>-</u>	<u>-</u>	<u>4,213,583</u>
Capital assets being depreciated:				
Buildings	1,304,247	-	-	1,304,247
Equipment and vehicles	3,166,376	153,474	30,861	3,288,989
Improvements	582,642	5,190	-	587,832
Infrastructure	<u>1,139,158</u>	<u>47,820</u>	<u>-</u>	<u>1,186,978</u>
Total capital assets being depreciated	<u>6,192,423</u>	<u>206,484</u>	<u>30,861</u>	<u>6,368,046</u>
Less accumulated depreciation for:				
Buildings	564,817	25,991	-	590,808
Equipment and vehicles	2,850,502	123,917	30,861	2,943,558
Improvements	137,221	20,352	-	157,573
Infrastructure	<u>301,261</u>	<u>32,205</u>	<u>-</u>	<u>333,466</u>
Total accumulated depreciation	<u>3,853,801</u>	<u>202,465</u>	<u>30,861</u>	<u>4,025,405</u>
Total capital assets being depreciated, net	<u>2,338,622</u>			<u>2,342,641</u>
Government activity capital assets, net	<u>\$ 6,552,205</u>			<u>\$ 6,556,224</u>

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

General Government	\$ 13,889
Public Safety	113,056
Environmental Protection	65,781
Cultural and Recreational	<u>9,739</u>
Total depreciation expense	<u>\$ 202,465</u>

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

	<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	8,000	-	8,400,449
Buildings	193,162	-	-	193,162
Equipment and vehicles	525,356	108,714	-	634,070
Total capital assets being depreciated	<u>9,110,967</u>	<u>116,714</u>	<u>-</u>	<u>9,227,681</u>
Less accumulated depreciation for:				
Plant and Distribution Systems	3,292,536	156,189	-	3,448,725
Buildings	69,692	4,829	-	74,521
Equipment and vehicles	480,785	31,523	-	512,308
Total accumulated depreciation	<u>3,843,013</u>	<u>192,541</u>	<u>-</u>	<u>4,035,554</u>
Total capital assets being depreciated, net	<u>5,267,954</u>			<u>5,192,127</u>
Water and Sewer activity capital assets, net	<u>\$ 5,288,651</u>			<u>\$ 5,212,824</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Kure Beach employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Kure Beach's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Kure Beach were \$135,475 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Town reported a liability of \$147,026 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.03276%, which was an increase of 0.00153% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$91,349. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 34,559
Net difference between projected and actual earnings on pension plan investments	-	41,858
Changes in proportion and differences between Town contributions and proportionate share of contributions	29,973	-
Town contributions subsequent to the measurement date	135,475	-
	<u>\$ 165,448</u>	<u>\$ 76,417</u>

\$135,475 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2017	\$ 39,334
2018	39,334
2019	39,355
2020	(71,579)
	<u>\$ 46,444</u>

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

Inflation	3.0%
Salary increase	4.25 to 8.55%, including inflation and productivity factor
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation protection	6.0%	3.4%
	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Towns' proportionate share of the net pension liability (asset)	\$ 1,025,226	\$ 147,025	\$ (592,840)

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

b. Law Enforcement Officers Special Separation Allowance

Plan Description

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

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

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

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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

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

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

Contributions

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The annual required contribution for the current year was determined as part of the December 31, 2015 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 3.57% investment rate of return (net of administrative expenses), and (b) projected salary increases of 3.50-7.35% 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	\$ 21,935
Interest on net pension obligation	13,069
Adjustment to annual required contribution	<u>(22,969)</u>
Annual pension cost (expense)	12,035
Contributions made	<u>(2,768)</u>
Increase (decrease) in net pension obligation	9,267
Net pension obligation, beginning of year	<u>261,375</u>
Net pension obligation, end of year	<u><u>\$ 270,642</u></u>

Three Year Trend Information

For Year Ended June 30	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2016	\$ 12,035	23.0%	\$ 270,642
2015	7,973	34.7%	261,375
2014	14,026	19.7%	256,170

Funded Status and Funding Progress

As of December 31, 2015, 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 \$247,804. The covered payroll (annual payroll of active employees covered by the plan) was \$667,133, and the ratio of the UAAL to the covered payroll was 37.1 percent.

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. 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.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy: Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5.00% 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, 2016 were \$118,013, which consisted of \$99,542 from the Town and \$18,471 from the law enforcement officers and other employees.

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.

Membership of the Retiree Health Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

Retirees receiving benefits	10
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	40
	<hr/>
	50
	<hr/> <hr/>

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 6.0% of annual covered payroll. For the current year, the Town contributed \$30,306 or 1.6% 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, an amount determined in accordance with the parameters of GASB Statement 45. 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.

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

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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	\$ 113,546
Interest on net OPEB obligation	25,777
Adjustment to annual required contribution	<u>(24,625)</u>
Annual OPEB cost (expense)	114,698
Contributions made	<u>(30,306)</u>
Increase in net OPEB obligation	84,392
Net OPEB obligation, beginning of year	<u>644,426</u>
Net OPEB obligation, end of year	<u><u>\$ 728,818</u></u>

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

Three Year Trend Information			
For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 114,698	26.4%	\$ 728,818
2015	149,937	17.0%	644,426
2014	89,694	36.8%	519,981

Funded Status and Funding Progress: As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,460,577. The covered payroll (annual payroll of active employees covered by the plan) was \$1,889,038, and the ratio of the UAAL to the covered payroll was 77.3%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual pre-Medicare medical cost trend increase of 7.75 to 5.00 percent annually and a post-Medicare medical cost trend increase of 5.75 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

Other Employment Benefits

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

The Town also provides all active full-time employees with group term life insurance. The death benefit associated with this coverage is \$10,000.

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 1.93 percent	\$	71,645
\$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		16,345

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$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	\$ 778,846
\$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	291,826
\$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	123,951
\$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	265,353
\$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	7,706
\$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	31,532
\$409,471 loan to acquire land on 4th Street and H Avenue due in annual installments ranging from \$41,967 to \$51,143 including interest through March 12, 2025; interest at 2.49 percent	368,743
\$48,359 loan to finance two police cars due in annual installments of \$12,759 including interest through March 27, 2019; interest at 2.19 percent	36,659
\$40,743 loan to finance a HydroJetter due in annual installments of \$8,575 including interest through August 13, 2020; interest at 1.70 percent	40,743
\$103,230 loan to finance equipment and vehicles due in annual installments of \$27,117 including interest through September 14, 2019; interest at 2.01 percent	103,230
	<u>\$ 2,136,579</u>
<u>Serviced by the Water and Sewer Fund:</u>	
\$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	\$ 147,780
\$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	435,867

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$32,216 loan to finance a utility truck due in annual installments of \$8,500 including interest through October 24, 2018; interest at 2.19 percent	\$ 24,422
\$40,743 loan to finance a HydroJetter due in annual installments of \$8,575 including interest through August 13, 2020; interest at 1.70 percent	40,743
\$82,770 loan to finance equipment and vehicles due in annual installments of \$21,743 including interest through September 14, 2019; interest at 2.01 percent	82,770
	<u>\$ 731,582</u>

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>
2017	\$ 328,800	\$ 76,537	\$ 112,264	\$ 19,341
2018	319,457	65,924	115,580	16,025
2019	267,828	54,981	119,014	12,591
2020	259,196	45,156	114,069	9,036
2021	156,361	37,052	95,822	5,541
2022-2026	612,897	107,190	132,661	2,356
2027-2030	192,040	13,710	42,172	-
Total	<u>\$ 2,136,579</u>	<u>\$ 400,550</u>	<u>\$ 731,582</u>	<u>\$ 64,890</u>

Changes in Long-Term Liabilities

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

	<u>Beginning</u>			<u>Ending</u>	<u>Current</u>
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>	<u>Portion</u>
Governmental Activities:					
Installment purchases	\$ 2,283,159	\$ 144,030	\$ 290,610	\$ 2,136,579	\$ 328,800
OPEB liability	466,224	65,404	-	531,628	-
LEO liability	261,375	9,267	-	270,642	-
Net pension liability	-	112,181	-	112,181	-
Compensated absences	108,878	80,532	80,764	108,646	72,000
Total governmental activity					
long-term liabilities	<u>\$ 3,119,636</u>	<u>\$ 411,414</u>	<u>\$ 371,374</u>	<u>\$ 3,159,676</u>	<u>\$ 400,800</u>
Business-Type Activities:					
Installment purchases	\$ 689,753	\$ 123,463	\$ 81,634	\$ 731,582	\$ 112,264
OPEB liability	178,202	18,988	-	197,190	-
Net pension liability	-	34,845	-	34,845	-
Compensated absences	39,184	26,153	24,709	40,628	25,000
Total business-type					
long-term liabilities	<u>\$ 907,139</u>	<u>\$ 203,449</u>	<u>\$ 106,343</u>	<u>\$ 1,004,245</u>	<u>\$ 137,264</u>

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

At June 30, 2016, the Town of Kure Beach, North Carolina had a legal debt margin of \$63,665,923.

Deferred Inflows of Resources

In addition to the information disclosed in B.1 above, the remaining balance in deferred inflows of resources is composed of tax receivables reported in the General Fund.

C. 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	\$ 4,486,438
Less:	
Stabilization by State Statute	301,855
Streets- Powell Bill	255,254
Federal Asset Forfeiture	94,574
Assigned	1,223,379
Fund Balance Policy	<u>1,286,345</u>
Remaining Fund Balance	<u>\$ 1,325,031</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.

D. 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 2 self-funded risk financing pools administered by the NC 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.

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.

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, 2016

Exhibit 11

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Project Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Dec. 31, 2015	\$ -	\$ 247,804	\$ 247,804	0.0%	\$ 667,133	37.1%
Dec. 31, 2014	-	137,460	137,460	0.0%	593,539	23.2%
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%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Project Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Dec. 31, 2015	\$ -	\$ 1,460,577	\$ 1,460,577	0.0%	\$ 1,889,038	77.3%
Dec. 31, 2014	-	1,164,418	1,164,418	0.0%	1,747,087	66.6%
Dec. 31, 2013	-	1,624,024	1,624,024	0.0%	1,580,189	102.8%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2016	\$ 114,698	26.4%
2015	149,937	17.0%
2014	89,694	36.8%

TOWN OF KURE BEACH, NORTH CAROLINA
Proportionate Share of Net Pension Liability
Local Government Employees' Retirement System
Required Supplementary Information
Last Three Fiscal Years

Exhibit 13

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset)	0.03276%	0.03123%	0.02790%
Proportion of the net pension liability (asset)	\$ 147,026	\$ (184,179)	\$ 336,302
Covered-employee payroll	2,001,604	1,825,227	1,688,555
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	7.35%	-10.09%	19.92%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%
Contributions			
Contractually required contribution	\$ 135,475	\$ 133,380	\$ 119,670
Contributions in relation to the contractually required contribution	<u>135,475</u>	<u>133,380</u>	<u>119,670</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,001,604	\$ 1,825,227	\$ 1,688,555
Contributions as a percentage of covered- employee payroll	6.77%	7.31%	7.09%

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, 2016

Statement 1
Page 1 of 4

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,121,982	\$ 2,160,854	\$ 38,872
Penalties and interest	4,250	5,751	1,501
Total	<u>2,126,232</u>	<u>2,166,605</u>	<u>40,373</u>
Other taxes and licenses:			
Motor vehicle licenses	7,000	7,470	470
Licenses and fees	100	145	45
Total	<u>7,100</u>	<u>7,615</u>	<u>515</u>
Unrestricted intergovernmental:			
Local option sales taxes	697,200	703,036	5,836
ABC revenue	10,725	13,930	3,205
Hold harmless	88,000	96,029	8,029
Utility sales tax	150,000	182,602	32,602
Solid Waste Disposal	1,400	1,381	(19)
Beer and wine tax	9,500	9,374	(126)
Video programming	37,000	37,102	102
Telecommunications tax	14,500	13,015	(1,485)
Refunds	30,000	178	(29,822)
Total	<u>1,038,325</u>	<u>1,056,647</u>	<u>18,322</u>
Restricted intergovernmental:			
Grants	61,205	19,261	(41,944)
Powell Bill allocation	64,000	65,406	1,406
Total	<u>125,205</u>	<u>84,667</u>	<u>(40,538)</u>
Permits and fees:			
Garbage fees	340,000	357,500	17,500
Building permits	53,200	87,669	34,469
TDA funds	222,364	230,454	8,090
Miscellaneous	258,300	280,845	22,545
Police fees	1,000	2,270	1,270
Total	<u>874,864</u>	<u>958,738</u>	<u>83,874</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

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

Page 2 of 4

General Fund (Continued)

For the Fiscal Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Sales and services:			
Rents and concessions	\$ 108,602	\$ 93,637	\$ (14,965)
Miscellaneous	35,350	41,331	5,981
Total	<u>143,952</u>	<u>134,968</u>	<u>(8,984)</u>
Investment earnings	<u>985</u>	<u>1,638</u>	<u>653</u>
Total Revenues	<u>4,316,663</u>	<u>4,410,878</u>	<u>94,215</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits	7,267	7,071	196
Operating expense	37,200	27,428	9,772
Total	<u>44,467</u>	<u>34,499</u>	<u>9,968</u>
Administration:			
Salaries and benefits	106,773	105,327	1,446
Operating expense	456,847	315,879	140,968
Capital outlay	89,484	53,010	36,474
Total	<u>653,104</u>	<u>474,216</u>	<u>178,888</u>
Finance:			
Salaries and benefits	71,493	69,479	2,014
Operating expense	76,534	38,498	38,036
Total	<u>148,027</u>	<u>107,977</u>	<u>40,050</u>
Total general government	<u>845,598</u>	<u>616,692</u>	<u>228,906</u>
Public Safety:			
Police:			
Salaries and benefits	981,269	982,925	(1,656)
Operating expense	186,085	176,303	9,782
Capital outlay	109,000	92,441	16,559
Total	<u>1,276,354</u>	<u>1,251,669</u>	<u>24,685</u>
Fire:			
Salaries and benefits	372,960	359,130	13,830
Operating expense	101,950	95,461	6,489
Capital outlay	21,000	10,240	10,760
Total	<u>495,910</u>	<u>464,831</u>	<u>31,079</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, 2016

Statement 1
Page 3 of 4

	Budget	Actual	Variance Positive (Negative)
Life guards:			
Salaries and benefits	\$ 161,457	\$ 159,020	\$ 2,437
Operating expense	33,100	26,295	6,805
Total	<u>194,557</u>	<u>185,315</u>	<u>9,242</u>
Building Inspection:			
Salaries and benefits	99,560	98,331	1,229
Operating expense	27,005	13,848	13,157
Total	<u>126,565</u>	<u>112,179</u>	<u>14,386</u>
Total public safety	<u>2,093,386</u>	<u>2,013,994</u>	<u>79,392</u>
Transportation:			
Operating expense	64,030	27,919	36,111
Total transportation	<u>64,030</u>	<u>27,919</u>	<u>36,111</u>
Parks and recreation:			
Salaries and benefits	63,744	62,376	1,368
Operating expense	75,004	60,111	14,893
Total parks and recreation	<u>138,748</u>	<u>122,487</u>	<u>16,261</u>
Special projects:			
Community center	22,732	21,232	1,500
Other	7,600	3,805	3,795
Total special projects	<u>30,332</u>	<u>25,037</u>	<u>5,295</u>
Environmental protection:			
Salaries and benefits	526,893	512,357	14,536
Operating expense	355,057	374,257	(19,200)
Capital outlay	52,750	50,793	1,957
Total environmental protection	<u>934,700</u>	<u>937,407</u>	<u>(2,707)</u>
Debt service:			
Principal	290,557	290,647	(90)
Interest	83,782	83,687	95
Total debt service	<u>374,339</u>	<u>374,334</u>	<u>5</u>
Total expenditures	<u>4,481,133</u>	<u>4,117,870</u>	<u>363,263</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

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

Page 4 of 4

General Fund (Continued)

For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenue over (under) expenditures	<u>\$ (164,470)</u>	<u>\$ 293,008</u>	<u>\$ 457,478</u>
Other financing sources (uses):			
Proceeds from installment purchases	151,750	144,029	(7,721)
Transfers from other funds	<u>(275,000)</u>	<u>-</u>	<u>275,000</u>
Total other financing sources (uses)	<u>(123,250)</u>	<u>144,029</u>	<u>267,279</u>
Fund balance appropriated	<u>60,000</u>	<u>-</u>	<u>(60,000)</u>
Net change in fund balance	<u><u>\$ (227,720)</u></u>	437,037	<u><u>\$ 664,757</u></u>
Fund balances, beginning		<u>4,049,401</u>	
Fund balances, ending		<u><u>\$ 4,486,438</u></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, 2016

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	\$ 1,721,980	\$ 1,842,754	\$ 120,774
Water and sewer tap fees	27,000	67,300	40,300
Other user fees	23,340	85,960	62,620
Other operating revenues	5,150	6,150	1,000
Total	<u>1,777,470</u>	<u>2,002,164</u>	<u>224,694</u>
Non-operating revenues			
Interest earnings	<u>1,020</u>	<u>1,477</u>	<u>457</u>
Total revenues	<u>1,778,490</u>	<u>2,003,641</u>	<u>225,151</u>
Expenditures:			
Water and sewer administration and operations:			
Salaries and benefits - admin	240,987	234,391	6,596
Salaries and benefits - OPS	403,492	300,670	102,822
Utilities	55,500	56,985	(1,485)
Supplies	92,000	97,266	(5,266)
Repairs and maintenance	137,700	154,364	(16,664)
Treatment facility charges	300,000	360,014	(60,014)
Operating expenditures	285,236	260,869	24,367
Capital outlay	243,029	116,714	126,315
Total	<u>1,757,944</u>	<u>1,581,273</u>	<u>176,671</u>
Debt service:			
Interest and fees	19,662	19,661	1
Principal retirement	81,634	81,634	-
Total	<u>101,296</u>	<u>101,295</u>	<u>1</u>
Total expenditures	<u>1,859,240</u>	<u>1,682,568</u>	<u>176,672</u>
Revenues over expenditures	<u>(80,750)</u>	<u>321,073</u>	<u>401,823</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, 2016

Statement 2
Page 2 of 2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Installment purchase proceeds	\$ 130,750	\$ 123,463	\$ (7,287)
Transfers to other funds	(50,000)	-	50,000
Total other financing sources	<u>80,750</u>	<u>123,463</u>	<u>42,713</u>
 Revenues and other sources over expenditures and other uses	 <u>\$ -</u>	 444,536	 <u>\$ 444,536</u>
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		116,714	
Depreciation		(192,541)	
Installment purchase proceeds		(123,463)	
Principal retirement		81,634	
Decrease in net pension asset		(43,651)	
Increase in deferred outflows of resources pensions		776	
Decrease in deferred inflows of resources pensions		(88,178)	
Increase in net pension liability		34,845	
Change in OPEB and compensated absences		(20,432)	
Total reconciling items		<u>(234,296)</u>	
 Change in net position		 <u>\$ 210,240</u>	

OTHER SCHEDULES

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 1

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2016

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections, Credits and Adjustments	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 2,151,592	\$ 2,144,669	\$ 6,923
2014-2015	15,877	-	12,194	3,683
2013-2014	4,612	-	2,741	1,871
2012-2013	1,571	-	497	1,074
2011-2012	855	-	254	601
2010-2011	614	-	66	548
2009-2010	451	-	1	450
2008-2009	658	-	43	615
2007-2008	837	-	49	788
2006-2007	1,642	-	35	1,607
2005-2006	1,176	-	1,172	4
Total	\$ 28,293	\$ 2,151,592	\$ 2,161,721	\$ 18,164

Ad valorem taxes receivable - net \$ 18,164

Reconciliation with revenues:

Ad valorem taxes - general fund	\$ 2,166,605
Reconciling items:	
Write offs, collection fees, and discounts	(3,672)
Miscellaneous adjustments	3,764
Interest collected	(4,976)
	<u>\$ 2,161,721</u>

Analysis of Current Tax Levy

Town - Wide Levy

For the Fiscal Year Ended June 30, 2016

	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	\$ 799,871	0.2615	\$ 2,091,665	\$ 2,091,665	\$ -
Registered motor vehicles at prior year rates	23,253	0.2615	60,808	-	60,808
Penalties and interest	-		863	863	-
Total	<u>823,124</u>		<u>2,153,336</u>	<u>2,092,528</u>	<u>60,808</u>
Abatements:					
Current year taxes	<u>(666)</u>	-	<u>(1,744)</u>	<u>(1,744)</u>	<u>-</u>
Total property value	<u>\$ 822,458</u>				
Net levy			<u>2,151,592</u>	<u>2,090,784</u>	<u>60,808</u>
Uncollected taxes at June 30, 2016			<u>6,923</u>	<u>6,923</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,144,669</u>	<u>\$ 2,083,861</u>	<u>\$ 60,808</u>
Current levy collection percentage			<u>99.68%</u>	<u>99.67%</u>	<u>100.00%</u>