

TOWN OF SURF CITY, NORTH CAROLINA

Report of Audit

For the Fiscal Year Ended June 30, 2014



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Financial Section

Independent Auditor's Report

To the Honorable Mayor
And Members of Town Council
Surf City, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Surf City, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Surf City, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparisons for the General Fund and the Accommodations Tax Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014 on our consideration of Town of Surf City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Surf City's internal control over financial reporting and compliance.

W Greene PLLC

Whiteville, North Carolina
December 2, 2014

Management's Discussion and Analysis

As management of the Town of Surf City, we offer readers of the Town of Surf City's financial statements this narrative overview and analysis of the financial activities of the Town of Surf City for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

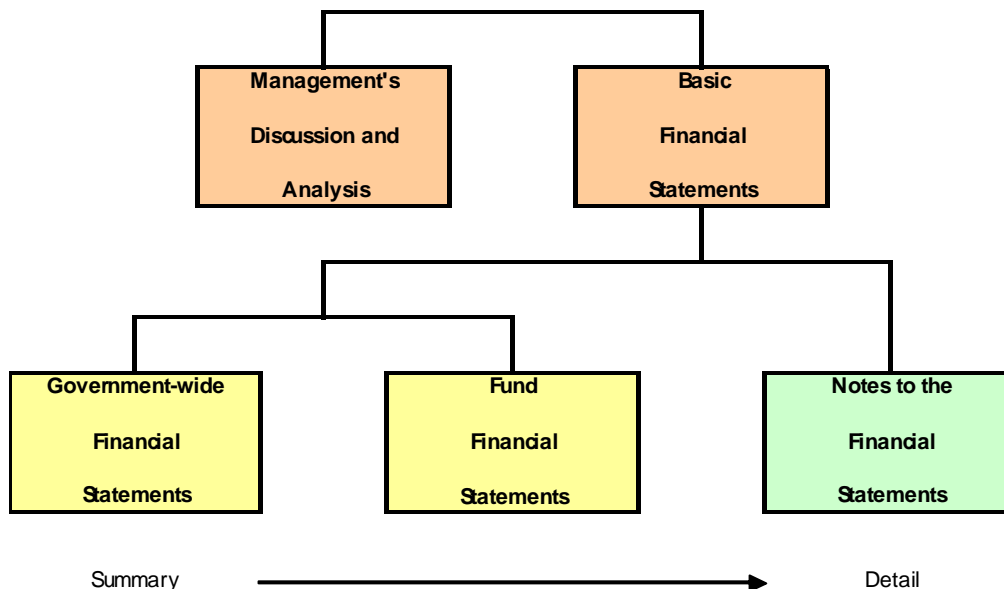
- The assets and deferred outflows of resources of the Town of Surf City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$44,421,469.
- The government's total net position increased by \$2,021,462, primarily due to increases in both the governmental and business-type activities net positions.
- As of the close of the current fiscal year, the Town of Surf City's governmental funds reported combined ending fund balances of \$11,672,500, an increase of \$1,017,252 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,162,826.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Surf City'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 Surf City.

Required Components of Annual Financial Report

Figure 1



Management's Discussion and Analysis (Continued)

Basic Financial Statements

The first two statements (pages 20 through 23) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (pages 24 through 43) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Management's Discussion and Analysis (Continued)

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* 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 Surf City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – Town of Surf City has one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Surf City uses enterprise funds to account for its water and wastewater activity. This fund is the same as those functions shown in business-type activities in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Town of Surf City has one fiduciary funds, which is a pension trust fund.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 44 through 65 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain supplementary information concerning the Town of Surf City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 66 of this report.

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

Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis

The Town of Surf City's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 11,993,329	\$ 10,930,336	\$ 551,337	\$ 859,024	\$ 12,544,666	\$ 11,789,360
Capital assets	14,486,097	14,718,211	42,817,714	43,543,413	57,303,811	58,261,624
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	26,479,426	25,648,547	43,369,051	44,402,437	69,848,477	70,050,984
Long-term liabilities outstanding	3,828,223	4,539,846	18,721,578	20,281,205	22,549,801	24,821,051
Other liabilities	758,359	769,269	2,105,089	2,041,066	2,863,448	2,810,335
Deferred inflows of resources	-	2,189	13,759	17,402	13,759	19,591
Total liabilities and deferred inflows of resources	4,586,582	5,311,304	20,840,426	22,339,673	25,427,008	27,650,977
Net position:						
Net investment in capital assets	10,079,827	9,557,625	22,380,991	21,579,956	32,460,818	31,137,581
Restricted	1,488,423	1,603,325	-	-	1,488,423	1,603,325
Unrestricted	10,324,594	9,176,293	147,634	482,808	10,472,228	9,659,101
Total net position	\$ 21,892,844	\$ 20,337,243	\$ 22,528,625	\$ 22,062,764	\$ 44,421,469	\$ 42,400,007

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Surf City exceeded liabilities and deferred inflows by \$44,421,469 as of June 30, 2014. The Town's net position increased by \$2,021,462 for the fiscal year ended June 30, 2014. However, the largest portion (73.07%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Surf City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Surf City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Surf City's net position, \$1,488,423, represents sources that are subject to external restrictions on how they may be used. The remaining balance of \$10,472,228 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.42%

Management's Discussion and Analysis (Continued)

The Town of Surf City's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 655,860	\$ 756,042	\$ 3,833,415	\$ 3,566,912	\$ 4,489,275	\$ 4,322,954
Operating grants and contributions	83,949	271,008	-	-	83,949	271,008
Capital grants and contributions	40,347	-	-	-	40,347	-
General Revenues						
Property taxes	5,369,638	4,060,634	-	-	5,369,638	4,060,634
Other taxes	2,548,359	2,171,210	-	-	2,548,359	2,171,210
Other	258,750	34,409	149,525	213,393	408,275	247,802
Total revenues	8,956,903	7,293,303	3,982,940	3,780,305	12,939,843	11,073,608
Expenses:						
Governing body	666,505	92,239	-	-	666,505	92,239
Administration	172,818	228,672	-	-	172,818	228,672
Elections	3,102	-	-	-	3,102	-
Finance	317,195	249,645	-	-	317,195	249,645
Insurance	200,073	227,230	-	-	200,073	227,230
Legal	30,543	14,957	-	-	30,543	14,957
Public buildings	30,207	32,847	-	-	30,207	32,847
Public works	165,352	169,487	-	-	165,352	169,487
Police	1,786,826	1,682,105	-	-	1,786,826	1,682,105
Fire	1,032,687	790,871	-	-	1,032,687	790,871
Community development	333,752	423,653	-	-	333,752	423,653
Street department	513,339	395,909	-	-	513,339	395,909
Sanitation	675,041	727,002	-	-	675,041	727,002
Parks and recreation	601,074	426,311	-	-	601,074	426,311
Beach and strand	521,957	411,603	-	-	521,957	411,603
Tourism	164,966	153,624	-	-	164,966	153,624
Interest on long-term debt	185,865	206,864	-	-	185,865	206,864
Water and wastewater	-	-	3,517,079	3,134,298	3,517,079	3,134,298
Total expenses	7,401,302	6,233,019	3,517,079	3,134,298	10,918,381	9,367,317
Increase(Decrease) in net position before transfers	1,555,601	1,060,284	465,861	646,007	2,021,462	1,706,291
Transfers	-	-	-	-	-	-
Change in net position	1,555,601	1,060,284	465,861	646,007	2,021,462	1,706,291
Net position, July 1	20,337,243	19,276,959	22,062,764	21,416,757	42,400,007	40,693,716
Net position, June 30	\$ 21,892,844	\$ 20,337,243	\$ 22,528,625	\$ 22,062,764	\$ 44,421,469	\$ 42,400,007

Governmental activities. Governmental activities increased the Town's net position by \$1,555,601 primarily due to increased revenues in the general fund.

Business-type activities. Business-type activities increased the Town's net position by \$465,861.

Management's Discussion and Analysis (Continued)

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Surf City. At the end of the current fiscal year, fund balance available of the General Fund was \$1,791,572, while total fund balance reached \$2,326,498. The Town currently has an available fund balance of 26.72% of general fund expenditures, while total fund balance represents 34.70% of the same amount.

At June 30, 2014, the governmental funds of Town of Surf City reported a combined fund balance of \$11,672,500, a 9.55 percent increase over last year. Included in this change in fund balance are decreases in fund balance in the General, Accommodations Tax and non-major funds and increases in the Beach Renourishment Fund.

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

Revenues were less than the budgeted amounts primarily because the Town did not receive ad valorem tax and restricted governmental revenue as it originally anticipated. Expenditures were held below budgeted amounts to comply with budgetary requirements.

Proprietary Funds. The Town of Surf City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Wastewater Fund at the end of the fiscal year amounted to \$147,634. The total change in net position for the Water and Wastewater Fund was an increase of \$465,861.

Capital Asset and Debt Administration

Capital assets. The Town of Surf City's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$57,303,811 (net of accumulated depreciation). These assets include buildings, land, construction in progress, vehicles, infrastructure, and equipment.

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

- Water System acquisition in the Water and Wastewater Fund of \$245,941.
- Vehicle acquisitions of \$74,399 in governmental-type activities.

Management's Discussion and Analysis (Continued)

The Town of Surf City's Capital Assets

Figure 4

	(Net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 8,339,220	\$ 8,265,556	\$ 5,245,933	\$ 5,245,933	\$ 13,585,153	\$ 13,511,489
Construction in Progress	22,794	-	-	-	22,794	-
Buildings	4,153,922	4,274,724	-	-	4,153,922	4,274,724
Infrastructure	1,135,104	1,085,937	-	-	1,135,104	1,085,937
Vehicles	483,104	584,273	22,106	36,221	505,210	620,494
Plant and Distribution Equipment	-	-	37,483,735	38,197,261	37,483,735	38,197,261
	351,953	507,721	65,940	63,998	417,893	571,719
Total	\$ 14,486,097	\$ 14,718,211	\$ 42,817,714	\$ 43,543,413	\$ 57,303,811	\$ 58,261,624

Additional information on the Town's capital assets can be found on page 53 in the Notes to the Financial Statements.

Long-term Debt. As of June 30, 2014, the Town of Surf City had total long-term debt outstanding of \$24,842,993. Of this, \$-0- is debt backed by the full faith and credit of the Town of Surf City.

The Town of Surf City's Outstanding Debt Installment Purchases and Capital Leases

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
	Installment purchases	\$ 3,956,805	\$ 4,581,675	\$ 20,436,723	\$ 21,963,457	\$ 24,393,528
Capital Leases	449,465	578,911	-	-	449,465	578,911
Total	\$ 4,406,270	\$ 5,160,586	\$ 20,436,723	\$ 21,963,457	\$ 24,842,993	\$ 27,124,043

Management's Discussion and Analysis (Continued)

The Town of Surf City's total debt decreased by \$2,281,050 (8.41%) during the fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Surf City is \$104,635,692. The Town of Surf City does not have any authorized but un-issued debt at Town of Surf City.

Additional information regarding the Town of Surf City's long-term debt can be found beginning on page 60 in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

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

- Tourism. The Town's economy depends heavily on beach tourism.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities. Property taxes and revenues from other taxes are expected to lead budgeted revenue. The Town will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to decrease slightly.

Business-type Activities. Utility rates in the Town will remain constant for the next year.

Requests for Information

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

**Jane Kirk
Finance Officer
Town of Surf City
214 N. New River Drive
Surf City, NC 28445**

Basic Financial Statements

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Net Position
June 30, 2014

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 10,204,845	\$ 176,316	\$ 10,381,161
Receivables (net):			
Ad Valorem Taxes	253,942	-	253,942
Accommodations Taxes	187,160	-	187,160
Interest	17,541	-	17,541
Accounts	50,150	375,021	425,171
Due from Other Governments	513,354	-	513,354
Restricted Cash and Cash Equivalents	766,337	-	766,337
Total Current Assets	11,993,329	551,337	12,544,666
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	8,362,014	5,245,933	13,607,947
Other Capital Assets, Net of Depreciation	6,124,083	37,571,781	43,695,864
Total Noncurrent Assets	14,486,097	42,817,714	57,303,811
Total Assets	\$ 26,479,426	\$ 43,369,051	\$ 69,848,477

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

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Net Position (Continued)
June 30, 2014

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 49,346	\$ 18,890	\$ 68,236
Prepaid Utilities	-	13,759	13,759
Customer Deposits	-	334,483	334,483
Current Portion of Long-Term Liabilities	709,013	1,751,716	2,460,729
Total Current Liabilities	758,359	2,118,848	2,877,207
Long-Term Liabilities:			
Due in More Than One year	3,828,223	18,721,578	22,549,801
Total Liabilities	4,586,582	20,840,426	25,427,008
DEFERRED INFLOWS OF RESOURCES			
Prepaid Taxes	-	-	-
Total Deferred Inflows of Resources	-	-	-
NET POSITION			
Net Investment in Capital Assets	10,079,827	22,380,991	32,460,818
Restricted for:			
Transportation	131,193	-	131,193
Stabilization by State Statute	534,926	-	534,926
Tourism	809,751	-	809,751
Durg Forfeitures	12,553	-	12,553
Unrestricted	10,324,594	147,634	10,472,228
Total Net Position	\$ 21,892,844	\$ 22,528,625	\$ 44,421,469

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

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Governing Body	\$ 666,505	\$ -	\$ -	\$ -
Administration	172,818	-	-	-
Elections	3,102	-	-	-
Finance	317,195	-	-	-
Insurance	200,073	-	-	-
Legal	30,543	-	-	-
Public Buildings	30,207	-	-	-
Public Works	165,352	-	-	-
Police	1,786,826	-	5,106	-
Fire	1,032,687	-	2,449	40,347
Community Development	333,752	160,668	-	-
Street Department	513,339	-	74,633	-
Sanitation	675,041	495,192	1,049	-
Parks and Recreation	601,074	-	-	-
Beach and Strand	521,957	-	712	-
Tourism	164,966	-	-	-
Interest on long-term debt	185,865	-	-	-
Total Governmental Activities	7,401,302	655,860	83,949	40,347
Total Primary Government	7,401,302	655,860	83,949	40,347
Business-Type Activities:				
Water and Wastewater	3,517,079	3,833,415	-	-
Total Business-Type Activities	\$ 3,517,079	\$ 3,833,415	\$ -	\$ -

General Revenues:

Property Taxes, Levied for General Purpose
Other Taxes and Licenses
Investment Earnings
Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

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

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

Governmental Activities	Business-Type Activities	Totals
\$ (666,505)	\$ -	\$ (666,505)
(172,818)	-	(172,818)
(3,102)	-	(3,102)
(317,195)	-	(317,195)
(200,073)	-	(200,073)
(30,543)	-	(30,543)
(30,207)	-	(30,207)
(165,352)	-	(165,352)
(1,781,720)	-	(1,781,720)
(989,891)	-	(989,891)
(173,084)	-	(173,084)
(438,706)	-	(438,706)
(178,800)	-	(178,800)
(601,074)	-	(601,074)
(521,245)	-	(521,245)
(164,966)	-	(164,966)
(185,865)	-	(185,865)
(6,621,146)	-	(6,621,146)
(6,621,146)	-	(6,621,146)
-	316,336	316,336
-	316,336	316,336
5,369,638	-	5,369,638
2,548,359	-	2,548,359
1,511	4	1,515
257,239	149,521	406,760
-	-	-
8,176,747	149,525	8,326,272
1,555,601	465,861	2,021,462
20,337,243	22,062,764	42,400,007
\$ 21,892,844	\$ 22,528,625	\$ 44,421,469

TOWN OF SURF CITY, NORTH CAROLINA

Balance Sheet
 Governmental Funds
 June 30, 2014

	Major Funds			
	General	Beach Renourishment Fund	Accommodation Tax Fund	Total Non-Major Funds
ASSETS				
Cash and Investments	\$ 1,697,172	\$ 7,606,241	\$ -	\$ 901,432
Receivables (net):				
Ad Valorem Taxes	253,942	-	-	-
Accommodations Tax	-	-	187,160	-
Accounts	50,150	-	-	-
Due from Other Funds	31,458			(31,458)
Due from Other Governments	453,318	60,036	-	-
Restricted Cash and Investments	143,746	-	622,591	-
Total Assets	\$ 2,629,786	\$ 7,666,277	\$ 809,751	\$ 869,974
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 49,346	\$ -	\$ -	\$ -
Total Liabilities	49,346	-	-	-
DEFERRED INFLOWS OF RESOURCES				
Property Taxes Receivable	253,942	-	-	-
Prepaid Taxes	-	-	-	-
Total Deferred Inflows of Resources	253,942	-	-	-
FUND BALANCES				
Restricted				
State Statute	534,926	-	-	-
Streets - Powell Bill	131,193	-	-	-
Tourism	-	-	809,751	-
Drug Forfeitures	12,553	-	-	-
Assigned				
Beach and Strand	-	7,666,277		898,396
Streets	-	-	-	3,036
Public Buildings	-	-	-	(31,458)
Subsequent Year's Expenditures	485,000	-	-	-
Unassigned	1,162,826	-	-	-
Total Fund Balances	2,326,498	7,666,277	809,751	869,974
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,629,786	\$ 7,666,277	\$ 809,751	\$ 869,974

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

**Total
Governmental
Funds**

\$ 10,204,845

253,942

187,160

50,150

-

513,354

766,337

\$ 11,975,788

\$ 49,346

49,346

253,942

-

253,942

534,926

131,193

809,751

12,553

8,564,673

3,036

(31,458)

485,000

1,162,826

11,672,500

TOWN OF SURF CITY, NORTH CAROLINA
 Balance Sheet (Continued)
 Governmental Funds
 June 30, 2014

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

Total Governmental Fund Balance

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross capital assets at historical costs	19,664,209
Accumulated depreciation	<u>(5,178,112)</u>

Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred

Accrued interest - taxes	<u>17,541</u>
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Liabilities for earned but deferred revenues in fund statements.

Ad valorem taxes	<u>253,942</u>
------------------	----------------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Net pension obligation	4,099
Capital leases	(449,465)
Installment purchases	(3,956,805)
Compensated absences	<u>(135,065)</u>

Net position of governmental activities.

**Total
Governmental
Funds**

\$ 11,735,416

14,486,097

17,541

253,942

(4,537,236)

\$ 21,955,760

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	Major Funds			
	General Fund	Beach Renourishment Fund	Accommodation Tax Fund	Total Non-Major Funds
Revenues				
Ad Valorem Taxes	\$ 3,456,323	\$ 1,883,081	\$ -	\$ -
Other Taxes and Licenses	53,982	487,000	515,664	-
Unrestricted Intergovernmental	1,491,713	-	-	-
Restricted Intergovernmental	123,584	712	-	-
Permits and Fees	160,668	-	-	-
Sales and Services	495,192	-	-	-
Investment Earnings	1,511	-	-	-
Miscellaneous	257,239	-	-	-
Total Revenues	6,040,212	2,370,793	515,664	-
Expenditures				
Governing Body	666,505	-	-	-
Administration	171,666	-	-	-
Elections	3,102	-	-	-
Finance	314,816	-	-	-
Insurance	200,073	-	-	-
Legal	30,543	-	-	-
Public Buildings	25,526	-	-	-
Public Works	165,352	-	-	-
Police	1,420,717	-	-	-
Fire	933,349	-	-	-
Community Development	331,888	-	-	-
Street Department	411,694	-	-	60,083
Sanitation	675,041	-	-	-
Parks And Recreation	590,582	-	-	-
Beach and Strand	-	151,535	336,013	23,148
Tourism	-	-	164,966	-
Debt Service				
Principal Retirement	525,316	229,000	-	-
Interest and other charges	116,156	69,709	-	-
Capital Outlay				
Police	52,042	-	-	-
Fire	27,035	-	-	-
Public Buildings	-	-	-	96,458
Street Department	22,357	-	-	94,745
Parks And Recreation	-	-	-	-
Tourism	-	-	-	-
Beach and Strand	-	-	-	-
Total Expenditures	6,683,760	450,244	500,979	274,434
Revenues Over (Under) Expenditures	(643,548)	1,920,549	14,685	(274,434)

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

**Total
Governmental
Funds**

\$ 5,339,404
1,056,646
1,491,713
124,296
160,668
495,192
1,511
257,239

8,926,669

666,505
171,666
3,102
314,816
200,073
30,543
25,526
165,352
1,420,717
933,349
331,888
471,777
675,041
590,582
510,696
164,966

754,316
185,865

52,042
27,035
96,458
117,102

-
-
-

7,909,417

1,017,252

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	Major Funds			
	General Fund	Beach Renourishment Fund	Accommodation Tax Fund	Total Non-Major Funds
Other Financing Sources (Uses)				
Transfers from Other Funds	\$ 24,000	\$ -	\$ -	\$ 20,000
Transfers to Other Funds	(20,000)	-	(24,000)	-
Capital Lease Obligation Issued	-	-	-	-
Total Other Financing Sources (Uses)	4,000	-	(24,000)	20,000
Net Change in Fund Balance	(639,548)	1,920,549	(9,315)	(254,434)
Fund Balance - Beginning of Year	2,966,046	5,745,728	819,066	1,124,408
Fund Balance - End of Year	\$ 2,326,498	\$ 7,666,277	\$ 809,751	\$ 869,974

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



**Total
Governmental
Funds**

\$	44,000
	(44,000)
	-
	-
	1,017,252
	10,655,248
\$	<u>11,672,500</u>

TOWN OF SURF CITY, NORTH CAROLINA
 Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
 Governmental Funds
 For the Year Ended June 30, 2014

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

Net changes in fund balances - total governmental funds

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	292,637
Depreciation expense	<u>(524,751)</u>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Change in deferred revenue for ad valorem tax revenues	41,129
Interest earned on ad valorem taxes	<u>(10,895)</u>

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. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issuance	-
Debt retirement	<u>754,316</u>

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:

Net pension obligation	877
Compensated absences	<u>(14,964)</u>

Total changes in net position of governmental activities

**Total
Governmental
Funds**

\$ 1,017,252

(232,114)

30,234

754,316

(14,087)

\$ 1,555,601

TOWN OF SURF CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2014

	General Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Ad Valorem Taxes	\$ 5,214,089	\$ 5,316,889	\$ 3,456,323	\$ (1,860,566)
Other Taxes and Licenses	1,012,000	42,000	53,982	11,982
Unrestricted Intergovernmental	68,900	1,312,300	1,491,713	179,413
Restricted Intergovernmental	75,940	117,287	123,584	6,297
Permits and Fees	758,400	117,300	160,668	43,368
Sales and Services	71,800	600,000	495,192	(104,808)
Investment Earnings	3,000	3,000	1,511	(1,489)
Miscellaneous	28,000	186,460	257,239	70,779
Total Revenues	7,232,129	7,695,236	6,040,212	(1,655,024)
Expenditures				
Governing Body	104,377	104,377	666,505	(562,128)
Administration	255,743	255,743	171,666	84,077
Elections	6,000	6,000	3,102	2,898
Finance	327,818	327,818	314,816	13,002
Insurance	250,000	250,000	200,073	49,927
Legal	20,000	20,000	30,543	(10,543)
Public Buildings	-	26,000	25,526	474
Public Works	24,200	174,200	165,352	8,848
Police	1,668,708	1,668,708	1,679,966	(11,258)
Fire	850,444	1,140,351	1,008,121	132,230
Community Development	296,326	346,326	331,888	14,438
Street Department	670,723	741,107	674,216	66,891
Sanitation	675,600	778,400	675,041	103,359
Parks And Recreation	687,376	750,776	736,945	13,831
Contingency	25,000	25,000	-	25,000
Total Expenditures	5,862,315	6,614,806	6,683,760	(68,954)
Revenues Over (Under) Expenditures	1,369,814	1,080,430	(643,548)	(1,723,978)
Other Financing Sources (Uses)				
Transfers from Other Funds	61,000	60,000	24,000	(36,000)
Transfers to Other Funds	(2,103,081)	(1,903,081)	(20,000)	1,883,081
Installment Purchase Obligations	-	-	-	-
Total Other Financing Sources (Uses)	(2,042,081)	(1,843,081)	4,000	1,847,081
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(672,267)	(762,651)	(639,548)	123,103
Appropriated Fund Balance	672,267	762,651	-	(762,651)
Net Change in Fund Balance	\$ -	\$ -	(639,548)	\$ (639,548)
Fund Balance - Beginning of Year			2,966,046	
Fund Balance - End of Year			\$ 2,326,498	

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

TOWN OF SURF CITY, NORTH CAROLINA
Accommodations Tax Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Accommodations Tax Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Other Taxes and Licenses	\$ 835,000	\$ 996,500	\$ 515,664	\$ (480,836)
Total Revenues	<u>835,000</u>	<u>996,500</u>	<u>515,664</u>	<u>(480,836)</u>
Expenditures				
Beach and Strand	-	324,300	336,013	(11,713)
Tourism	999,080	334,280	164,966	169,314
Total Expenditures	<u>999,080</u>	<u>658,580</u>	<u>500,979</u>	<u>157,601</u>
Revenues Over (Under) Expenditures	<u>(164,080)</u>	<u>337,920</u>	<u>14,685</u>	<u>(323,235)</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	-	-	-	-
Transfers to Other Funds	-	(502,000)	(24,000)	478,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>(502,000)</u>	<u>(24,000)</u>	<u>478,000</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(164,080)</u>	<u>(164,080)</u>	<u>(9,315)</u>	<u>154,765</u>
Appropriated Fund Balance	<u>164,080</u>	<u>164,080</u>	<u>-</u>	<u>(164,080)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(9,315)</u>	<u>\$ (9,315)</u>
Fund Balance - Beginning of Year			<u>819,066</u>	
Fund Balance - End of Year			<u>\$ 809,751</u>	

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

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Fund Net Position
Proprietary Fund
June 30, 2014

	Water and Wastewater Fund
ASSETS	
Current Assets	
Cash and Investments	\$ 176,316
Accounts Receivable (net)	375,021
Total Current Assets	<u>551,337</u>
Noncurrent Assets	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	5,245,933
Other Capital Assets, Net of Depreciation	<u>37,571,781</u>
Total Capital Assets	<u>42,817,714</u>
Total Noncurrent Assets	<u>42,817,714</u>
Total Assets	<u><u>\$ 43,369,051</u></u>

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Fund Net Position (Continued)
Proprietary Fund
June 30, 2014

	Water and Wastewater Fund
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ 18,890
Customer Deposits	334,483
Prepaid Utilities	13,759
Installment Purchase Obligations Payable	1,751,716
Total Current Liabilities	<u>2,118,848</u>
Noncurrent Liabilities	
Installment Purchase Obligations Payable	18,685,007
Compensated Absences Payable	36,571
Total Noncurrent Liabilities	<u>18,721,578</u>
Total Liabilities	<u>20,840,426</u>
NET POSITION	
Net Investment in Capital Assets Unrestricted	22,380,991 <u>147,634</u>
Total Net Position	<u>\$ 22,528,625</u>



TOWN OF SURF CITY, NORTH CAROLINA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	Water and Wastewater Fund
Operating Revenues	
Water Charges	\$ 1,262,091
Wastewater Charges	1,925,482
Taps	40,265
Impact Fees	605,473
Assessments	104
Total Operating Revenues	<u>3,833,415</u>
Operating Expenses	
Administration	194,389
Insurance	66,987
Water Operations	114,180
Wastewater Collection	547,188
Wastewater Treatment	714,452
Depreciation	985,640
Total Operating Expenses	<u>2,622,836</u>
Operating Income (Loss)	<u>1,210,579</u>
Nonoperating Revenues (Expenses)	
Investment Earnings	4
Miscellaneous Income	149,521
Interest Expense	(894,243)
Total Nonoperating Revenues (Expenses)	<u>(744,718)</u>
Total Income (Loss) Before Transfers	465,861
Transfers from Other Funds	<u>-</u>
Change in Net Position	465,861
Net Position - Beginning of Year	<u>22,062,764</u>
Net Position - End of Year	<u><u>\$ 22,528,625</u></u>

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

	Water and Wastewater Fund
Cash Flows from Operating Activities	
Cash Received from Customers and Users	\$ 3,910,835
Cash Paid for Goods and Services	(790,952)
Cash Paid to Employees for Services	(822,666)
Customer Deposits Received	13,952
Customer Deposits Returned	(6,400)
Miscellaneous Income	149,521
Net Cash Provided(Used) by Operating Activities	<u>2,454,290</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	-
Net Cash Provided(Used) by Noncapital Financing Activities	<u>-</u>
Cash Flows from Capital Financing Activities	
Installment Purchase Obligations Issued	189,413
Acquisition of Capital Assets	(259,941)
Interest Paid on Debt	(894,243)
Principal Paid on Debt	(1,716,147)
Net Cash Provided(Used) by Capital Financing Activities	<u>(2,680,918)</u>
Cash Flows from Investing Activities	
Interest on Investments	4
Net Increase(Decrease) in Cash and Cash Equivalents	(226,624)
Cash and Cash Equivalents - Beginning of Year	<u>402,940</u>
Cash and Cash Equivalents - End of Year	<u>\$ 176,316</u>

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended June 30, 2014

	<u>Water and Wastewater Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 1,210,579
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	985,640
Miscellaneous Income	149,521
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	81,063
Increase (Decrease) in Accounts Payable and Accrued Liabilities	18,890
Increase (Decrease) in Customer Deposits	7,552
Increase (Decrease) in Unearned Revenue	(3,643)
Increase (Decrease) in Compensated Absences Payable	4,688
Total Adjustments	<u>1,243,711</u>
Net Cash Provided(Used) by Operating Activities	<u>\$ 2,454,290</u>

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>Pension Trust Fund</u>
Assets	
Cash and Cash Equivalents	<u>\$ 133,935</u>
Total Assets	<u><u>\$ 133,935</u></u>
Net Position	
Net Position	
Assets Held in Trust for Pension Benefits	<u>\$ 133,935</u>
Total Net Position	<u><u>\$ 133,935</u></u>

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

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

	<u>Pension Trust Fund</u>
Additions	
Employer Contributions	\$ 16,000
Investment Earnings	
Interest	<u>-</u>
Total Additions	16,000
Deductions	
Benefits	<u>-</u>
Change in Net Position	16,000
Net Position - Beginning of Year	<u>117,935</u>
Net Position - End of Year	<u><u>\$ 133,935</u></u>

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

TOWN OF SURF CITY, NORTH CAROLINA

Notes to the Financial Statements
For the Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Beach Renourishment Fund. This fund is used to account for the renourishment of the Town's beach front.

Accommodations Tax Fund. This fund is used to account for tourism related projects

The Town reports the following non-major governmental funds:

Disaster Recovery Fund. This fund is used to account for related costs in relation to a natural disaster.

Capital Reserve Fund. This fund is to accumulate resources to acquire fixed assets.

Community Center Fund. This fund is used to account for construction of a community center.

Sidewalk Capital Project Fund. This fund is used to account for construction of sidewalks.

Town Hall Capital Project Fund. This fund is used to account for costs of a new town hall.

The Town reports the following major enterprise fund:

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

The Town reports the following fund types:

Pension Trust Fund. The Town maintains a Pension Trust Fund – the Special Separation Allowance Fund. Pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans. The Special Separation Allowance Fund, which accounts for the Law Enforcement Officers' Special Separation Allowance, is a single-employer, public employee retirement system.

C. Measurement Focus and Basis of Accounting

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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 during this period prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Beach Renourishment Fund, Accommodations Tax Fund, Capital Reserve Fund, Sidewalk Capital Project Fund, Community Center Fund, Disaster Recovery Fund, Town Hall Capital Project Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Enterprise Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Powell bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S.136-41.1 through 136-41.1. Cash collected for drug forfeitures and seizures are classified as restricted assets because their use is completely restricted by the U.S. Department of Justice, to the purpose for which they were received. Unexpended accommodation taxes are classified as restricted cash because it can be expended only for the purpose of promoting tourism and development.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Restricted Assets (Continued)

Town of Surf City Restricted Cash

Governmental Activities	
General Fund	
Powell Bill	131,193
Drug Forfeitures	12,553
Accommodation Tax Fund	
Tourism	<u>622,591</u>
Total governmental activities	<u>766,337</u>
Total Restricted Cash	<u>\$ 766,337</u>

4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2004, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. Capital Assets (Continued)

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Improvements	25
Vehicles	6
Furniture and Fixtures	10
Equipment	10
Computer Equipment	3
Software	3

7. Deferred Outflows/Inflows of Resources

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

8. Long-Term Obligations

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

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

Restricted for Drug Forfeitures and Seizures – portion of fund balance that is restricted by the U.S. Department of Justice.

Restricted for Tourism – portion of fund balance that is restricted for the purpose of promoting tourism and development. Restricted balance represents unexpended accommodation taxes collected and receivable.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

10. Net Position/Fund Balances (Continued)

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

Assigned for Beach and Strand – portion of fund balance that has been budgeted by the Board for Beach and Strand improvements and maintenance.

Assigned for Streets – portion of fund balance that has been budgeted by the Board for the streets improvement and maintenance.

Assigned for Public Buildings – portion of fund balance that has been budgeted by the Board for acquisition and construction of buildings.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent.

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

1. Deposits (Continued)

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.

At June 30, 2014, the Town's deposits had a carrying amount of \$3,996,971 and a bank balance of \$4,176,800. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2014, the Town's petty cash funds totaled \$250.

2. Investments

At June 30, 2014, the Town of Surf City had \$7,284,212 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk of its investments.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2014 are net of the following allowances for doubtful accounts:

Fund	06/30/2014
General Fund:	
Taxes receivable	\$ 28,000
Total	\$ 28,000

TOWN OF SURF CITY, NORTH CAROLINA
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,265,556	\$ 73,664	\$ -	\$ 8,339,220
Construction In Progress	-	22,794	-	22,794
Total capital assets not being depreciated	8,265,556	96,458	-	8,362,014
Capital assets being depreciated:				
Buildings	6,040,106	-	-	6,040,106
Equipment	1,549,251	27,035	-	1,576,286
Vehicles	2,166,124	74,399	-	2,240,523
Infrastructure	1,350,535	94,745	-	1,445,280
Total capital assets being depreciated	11,106,016	196,179	-	11,302,195
Less accumulated depreciation for:				
Buildings	1,765,382	120,802	-	1,886,184
Equipment	1,041,530	182,803	-	1,224,333
Vehicles	1,581,851	175,568	-	1,757,419
Infrastructure	264,598	45,578	-	310,176
Total accumulated depreciation	4,653,361	524,751	-	5,178,112
Total capital assets being depreciated, net	6,452,655			6,124,083
Governmental activity capital assets, net	<u>\$ 14,718,211</u>			<u>\$ 14,486,097</u>

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

Fire	\$ 96,001
Parks and Recreation	8,621
Police	362,625
Public Buildings	4,681
Street Department	41,562
Beach and Strand	11,261
Total	<u>\$ 524,751</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water and Wastewater Fund</i>				
Capital assets not being depreciated:				
Land	\$ 5,245,933	\$ -	\$ -	\$ 5,245,933
Capital assets being depreciated:				
Buildings	-	-	-	-
Equipment	163,701	14,000	-	177,701
Vehicles	133,864	-	-	133,864
Water System	47,772,517	245,941	-	48,018,458
Total capital assets being depreciated	48,070,082	259,941	-	48,330,023
Less accumulated depreciation for:				
Buildings	-	-	-	-
Equipment	99,703	12,058	-	111,761
Vehicles	97,643	14,115	-	111,758
Water System	9,575,256	959,467	-	10,534,723
Total accumulated depreciation	9,772,602	985,640	-	10,758,242
Total capital assets being depreciated, net	38,297,480			37,571,781
Water and Wastewater Fund capital assets, net	\$ 43,543,413			\$ 42,817,714

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.28%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Surf City are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$195,037, \$143,209, and \$240,203, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

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

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

Retired Members	1
Active plan members	17
Total	<u>18</u>

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

3. Contributions

The Town is required by Article 12D of Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the Town contributed \$22,880, or 2.87% of annual covered payroll. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases from 4.25 to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 was 17 years.

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

Annual required contribution	\$	21,902
Interest on net pension obligation		(161)
Adjustment to annual required contribution		262
Annual pension cost		<u>22,003</u>
Contributions made		<u>22,880</u>
Increase (decrease) in net pension obligation		(877)
Net pension obligation beginning of year		<u>(3,222)</u>
Net pension obligation end of year	\$	<u>(4,099)</u>

For Year Ended June 30	3 Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 16,891	94.73%	\$ (5,624)
2013	22,105	89.13	(3,222)
2014	22,003	103.99	(4,099)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 54.92 percent funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$96,793. The covered payroll (annual payroll of active employees covered by the plan) was \$795,876, and the ratio of UAAL to the covered payroll was 12.16 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

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 were \$56,646, which consisted of \$41,506 from the Town and \$15,140 from the law enforcement officers.

All Other Employees

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

Funding Policy. The Town pays \$20 per pay period for each participating employee. For the year ended June 30, 2013, total contributions to the plan equaled \$68,614, which consisted of \$23,920 from the Town and \$44,694 from the participating employees.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Firefighter's and Rescue Squad Workers' Pension Fund

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

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

e. Other Employment Benefit

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 month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

3. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenue		Unearned Revenue
Prepaid taxes (General Fund)	\$ -	-	\$ -
Taxes receivable (General Fund)	253,942		-
Total	\$ 253,942	-	\$ -

4. Risk Management

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

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

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

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

5. Claims, Judgments and Contingent Liabilities

At June 30, 2014, the Town did not have any litigation pending.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations

a. Capital Leases

The Town has entered into agreements to lease certain equipment and vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on March 26, 2011 to lease equipment, and requires 8 semiannual payments of \$17,166. The second agreement was executed on July 7, 2011 to lease equipment, and requires 12 annual payments of \$47,337. The third agreement was executed on October 4, 2012 to lease vehicles, and requires 3 annual payments of \$52,042. In all agreements, title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under capital leases at June 30, 2014:

Governmental Activities:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Vehicles	\$ 619,678	\$ 280,300	\$ 339,378
Equipment	121,460	98,026	23,434
Total	\$ 741,138	\$ 378,326	\$ 362,812

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

Year Ending June 30	
2015	\$ 99,378
2016	47,337
2017	47,336
2018	47,337
2019	47,336
2020-2024	236,683
2025-2029	-
Total minimum lease payments	525,407
Less: amount representing interest	75,942
Present value of the minimum lease payments	\$ 449,465

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations (Continued)

a. Installment Purchases

Serviced by the General Fund:

In August 2005, the Town entered into \$1,358,700 in certificates of participation to finance the construction of a community center. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.46%.

In January 2006, the Town entered into \$2,900,000 in certificates of participation to finance the construction of parking facilities. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 3.93%.

In January 2006, the Town entered into \$535,000 in certificates of participation to finance the construction of parking facilities. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 3.93%.

In June 2013, the Town refinanced into \$2,100,000 in certificates of participation to finance the purchase of land for the Town Hall. The financing contract requires principal payments beginning fiscal year 2014 with an interest rate of 2.47%.

In September 2013, the Town refinanced into \$1,020,000 in certificates of participation to finance the construction of a police station. The financing contract requires principal payment beginning fiscal year 2014 with an interest rate of 2.47%.

Serviced by the Water and Wastewater Fund:

In August 2005, the Town entered into \$1,448,840 in certificates of participation to finance the construction of a water tower. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.59%.

In June 2006, the Town entered into \$1,000,000 in certificates of participation to finance the construction of sewer lines. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 3.93%.

In May 2007, the Town entered into \$6,000,000 in certificates of participation to finance the construction of a water treatment plant. The financing contract requires principal payments beginning fiscal year 2008 with an interest rate of 3.91%.

In June 2009, the Town entered into \$38,300 in certificates of participation to finance the acquisition and installation of solar mixers. The financing contract requires principal payments beginning fiscal year 2011 with an interest rate of 0.00%.

In September 2013, the Town entered into \$1,403,006 in certificates of participation to finance the construction of a pump station. The financing contract requires principal payments beginning fiscal year 2014 with an interest rate of 2.19%.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations (Continued)

a. Installment Purchases (Continued)

In January 2014, the Town entered into \$2,864,685 in certificates of participation to finance the purchase of land. The financing contract requires principal payments beginning fiscal year 2015 with an interest rate of 2.99%.

In January 2014, the Town entered into \$7,250,000 in certificates of participation to finance the construction of a waste water treatment facility. The financing contract requires principal payments beginning fiscal year 2015 with an interest rate of 2.81%.

In November 2012, the Town entered into \$5,096,821 in certificates of participation to finance the construction of the first phase of the irrigation system at Juniper Swamp. The financing contract requires principal payments beginning fiscal year 2014 with an interest rate of 2.455%.

Annual debt service payments of the installment purchases as of June 30, 2014, including \$4,422,907 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 624,870	\$ 101,685	\$ 1,751,716	\$ 718,494
2016	556,935	83,461	1,756,274	654,918
2017	489,000	68,762	4,082,548	541,025
2018	489,000	55,238	1,599,060	432,385
2019	489,000	41,714	1,508,324	375,690
2020-2024	1,308,000	82,412	5,492,333	1,165,612
2025-2029	-	-	3,387,820	33,837
2030-2034	-	-	858,648	67,674
Total	\$ 3,956,805	\$ 433,272	\$ 20,436,723	\$ 3,989,635

TOWN OF SURF CITY, NORTH CAROLINA
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

6. Long-Term Obligations (Continued)

b. Changes in Long-Term Liabilities

	Balance 07/01/13	Increases	Decreases	Balance 06/30/14	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 4,581,675	\$ -	\$ (624,870)	\$ 3,956,805	\$ 624,870
Capitalized leases	578,911	-	(129,446)	449,465	84,143
Compensated absences	120,101	80,107	(65,143)	135,065	-
Net pension obligation	(3,222)	22,003	(22,880)	(4,099)	-
Governmental activity long-term liabilities	<u>\$ 5,277,465</u>	<u>\$ 102,110</u>	<u>\$ (842,339)</u>	<u>\$ 4,537,236</u>	<u>\$ 709,013</u>
Business-type activities:					
Installment purchases	\$ 21,963,457	\$ 189,413	\$ (1,716,147)	\$ 20,436,723	\$ 1,751,716
Capital leases	-	-	-	-	-
Compensated absences	31,883	24,720	(20,032)	36,571	-
Business-type activity long-term liabilities	<u>\$ 21,995,340</u>	<u>\$ 214,133</u>	<u>\$ (1,736,179)</u>	<u>\$ 20,473,294</u>	<u>\$ 1,751,716</u>

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

C. Interfund Balances and Activity

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

From the Accommodations Tax Special Fund to the General Fund	\$ 24,000
From the General Fund to the Sidewalk Capital Project Fund	20,000
From the Water Capital Reserve Fund to the Water and Sewer Fund	298,805
From the Sewer Capital Reserve Fund to the Water and Sewer Fund	<u>326,943</u>
Total	<u>\$ 669,748</u>

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

II. DETAIL NOTES ON ALL FUNDS (Continued)

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2014, the Town of Surf City has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$272 for the 9 employed firemen who perform firefighting duties for the town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by \$10 monthly contribution paid by each member, investment income, and a State appropriation.

E. Net Investment in Capital Assets

	Governmental	Business-type
Capital Assets	\$ 14,486,097	\$ 42,817,714
Less: long-term debt	4,406,270	20,436,723
Add: unexpended debt proceeds	-	-
Net Investment in Capital Assets	<u>\$ 10,079,827</u>	<u>\$ 22,380,991</u>

F. Fund Balance

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

<i>Total fund balance – General Fund</i>	\$	2,326,498
Less:		
Stabilization by State Statute		503,468
Streets – Powell Bill		131,193
Drug Forfeitures		12,553
Appropriated Fund Balance in 2014 budget		485,000
Remaining Fund Balance		1,194,284

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

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

III. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

IV. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 2, 2014, which is the date the financial statements were available to be issued.

V. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2014, the expenditures made in the Town's General Fund, Accommodations Tax Fund, and the Water and Wastewater Fund exceeded the authorized appropriations made by the governing board for the governing body, legal, and police activities by \$583,929, Beach and Strand by \$11,713, and Wastewater Treatment by \$30,638. This over-expenditure occurred because of unplanned expenditures. Management and the Board will more closely review the budget reports to ensure compliance in future years.



Required Supplementary

Financial Data

TOWN OF SURF CITY, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2005	\$ 11,935	\$ 56,842	\$ 44,907	21.00%	\$ 482,495	9.31%
12/31/2006	23,935	68,660	44,725	34.86%	592,242	7.55%
12/31/2008	69,935	95,392	25,457	73.31%	639,466	3.98%
12/31/2009	85,935	141,955	56,020	60.54%	699,700	8.01%
12/31/2010	85,935	150,750	64,815	57.01%	687,024	9.43%
12/31/2011	101,935	203,151	101,216	50.18%	851,110	11.89%
12/31/2012	117,935	203,482	85,547	57.96%	774,336	11.05%
12/31/2013	117,935	214,728	96,793	54.92%	795,876	12.16%

TOWN OF SURF CITY, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2012	16,891	94.73%
2013	22,105	89.13%
2014	22,003	103.99%

Notes to the Required Schedules:

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

Valuation Date	12/31/2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Closed
Remaining Amortization Period	17 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Projected Salary Increases	4.25% - 7.85%
Includes Inflation at	3.00%
Cost of Living Adjustments	N/A



Major Governmental Funds

General Fund

TOWN OF SURF CITY, NORTH CAROLINA
 General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 3,417,161	
Penalties and Interest		39,162	
Total Ad Valorem Taxes	\$ 5,316,889	3,456,323	\$ (1,860,566)
Other Taxes and Licenses			
Privilege Licenses		53,982	
Total Other Taxes and Licenses	42,000	53,982	11,982
Unrestricted Intergovernmental			
Local Option Sales Tax		1,037,555	
Utility Franchise Tax		162,784	
Telecommunications Tax		21,113	
Video Franchise Tax		68,440	
Beer and Wine Tax		8,394	
ABC Profit Distribution		49,497	
Fire District Tax		143,930	
Total Unrestricted Intergovernmental	1,312,300	1,491,713	179,413
Restricted Intergovernmental			
Powell Bill Allocation		74,633	
Controlled Substance Tax		4,032	
Drug Seizures and Forfeitures		1,074	
On-Behalf of Payments - Fire Department		2,449	
Solid Waste Disposal Tax		1,049	
Federal Grants		40,347	
Total Restricted Intergovernmental	117,287	123,584	6,297
Permits and Fees			
Building Permits		157,944	
Court Costs and Fees		954	
Beach Access		1,770	
Total Permits and Fees	117,300	160,668	43,368
Sales and Services			
Solid Waste		495,192	
Total Sales and Services	600,000	495,192	(104,808)
Investment Earnings			
General		1,511	
Total Investment Earnings	3,000	1,511	(1,489)
Miscellaneous			
Sale of Assets		22,560	
Other		234,679	
Total Miscellaneous	186,460	257,239	70,779
Total Revenues	7,695,236	6,040,212	(1,655,024)

TOWN OF SURF CITY, NORTH CAROLINA

General Fund

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

Budget and Actual

For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Expenditures			
Governing Body			
Salaries and Employee Benefits		\$ 21,598	
Other Expenditures		644,907	
Total Governing Body	\$ 104,377	666,505	\$ (562,128)
Administration			
Salaries and Employee Benefits		122,026	
Other Expenditures		49,640	
Total Administration	255,743	171,666	84,077
Elections			
Other Expenditures		3,102	
Total Elections	6,000	3,102	2,898
Finance			
Salaries and Employee Benefits		274,729	
Other Expenditures		40,087	
Total Finance	327,818	314,816	13,002
Insurance			
Other Expenditures		200,073	
Total Insurance	250,000	200,073	49,927
Legal			
Other Expenditures		30,543	
Total Legal	20,000	30,543	(10,543)
Public Buildings			
Salaries and Employee Benefits		6,118	
Other Expenditures		19,408	
Debt Service:			
Principal Retirement		-	
Interest and Other Charges		-	
Total Public Buildings	26,000	25,526	474
Public Works			
Other Expenditures		165,352	
Total Public Works	174,200	165,352	8,848
Police			
Salaries and Employee Benefits		1,243,481	
Other Expenditures		177,236	
Capital Outlay		52,042	
Debt Service:			
Principal Retirement		167,203	
Interest and Other Charges		40,004	
Total Police	1,668,708	1,679,966	(11,258)

TOWN OF SURF CITY, NORTH CAROLINA

General Fund

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

Budget and Actual

For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Fire			
Salaries and Employee Benefits		\$ 765,530	
Other Expenditures		167,819	
Capital Outlay		27,035	
Debt Service:			
Principal Retirement		33,511	
Interest and Other Charges		14,226	
Total Fire	\$ 1,140,351	1,008,121	\$ 132,230
Community Development			
Salaries and Employee Benefits		239,880	
Other Expenditures		92,008	
Capital Outlay		-	
Total Community Development	346,326	331,888	14,438
Street Department			
Salaries and Employee Benefits		254,496	
Other Expenditures		157,198	
Capital Outlay		22,357	
Debt Service:			
Principal Retirement		188,732	
Interest and Other Charges		51,433	
Total Street Department	741,107	674,216	66,891
Sanitation			
Other Expenditures		675,041	
Total Sanitation	778,400	675,041	103,359
Parks and Recreation			
Salaries and Employee Benefits		368,822	
Other Expenditures		221,760	
Capital Outlay		-	
Debt Service:			
Principal Retirement		135,870	
Interest and Other Charges		10,493	
Total Parks and Recreation	750,776	736,945	13,831
Contingency			
Other Expenditures		-	
Total Contingency	25,000	-	25,000
Total Expenditures	6,614,806	6,683,760	(68,954)

TOWN OF SURF CITY, NORTH CAROLINA

General Fund

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

Budget and Actual

For the Fiscal Year Ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 1,080,430	\$ (643,548)	\$ (1,723,978)
Other Financing Sources (Uses)			
Transfers In:			
Accommodations Tax Fund	60,000	24,000	(36,000)
Transfers Out:			
Sidewalk Capital Project Fund	(1,903,081)	(20,000)	1,883,081
Capital Lease Obligations Issued	-	-	
Total Other Financing Sources (Uses)	<u>(1,843,081)</u>	<u>4,000</u>	<u>1,847,081</u>
Fund Balance Appropriated	<u>762,651</u>	<u>-</u>	<u>(762,651)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(639,548)</u>	<u>\$ (639,548)</u>
Fund Balance - Beginning of Year		<u>2,966,046</u>	
Fund Balance - End of Year		<u>\$ 2,326,498</u>	



Major Governmental Funds

Capital Project Funds

TOWN OF SURF CITY, NORTH CAROLINA
 Beach Renourishment Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 1,883,081	
Total Ad Valorem Taxes	\$ 4,984,435	1,883,081	\$ (3,101,354)
Other Taxes and Licenses			
Accommodations Tax		487,000	
Total Other Taxes and Licenses	3,454,498	487,000	(2,967,498)
Restricted Intergovernmental			
State Grants		712	
County Grants		-	
Total Restricted Intergovernmental	1,820,577	712	(1,819,865)
Total Revenues	10,259,510	2,370,793	(7,888,717)
Expenditures			
Beach and Strand			
Other Expenditures		151,535	
Debt Service:			
Principal Retirement		229,000	
Interest and Other Charges		69,709	
Total Beach and Strand	10,852,967	450,244	10,402,723
Total Expenditures	10,852,967	450,244	10,402,723
Excess (Deficiency) of Revenues Over (Under) Expenditures	(593,457)	1,920,549	2,514,006
Other Financing Sources (Uses)			
Transfers In:			
General Fund	500,000	-	(500,000)
Installment Purchase Obligations	23,600	-	(23,600)
Capital Lease Obligations	69,857	-	(69,857)
Total Other Financing Sources (Uses)	593,457	-	(593,457)
Fund Balance Appropriated	-	-	-
Net Change in Fund Balance	\$ -	\$ 1,920,549	\$ 1,920,549
Fund Balance - Beginning of Year		5,745,728	
Fund Balance - End of Year		\$ 7,666,277	

Major Governmental Funds

Special Revenue Funds

TOWN OF SURF CITY, NORTH CAROLINA
Accommodations Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Other Taxes and Licenses			
Accommodations Tax		\$ 515,664	
Total Other Taxes and Licenses	<u>\$ 996,500</u>	<u>515,664</u>	<u>\$ (480,836)</u>
Total Revenues	<u>996,500</u>	<u>515,664</u>	<u>(480,836)</u>
Expenditures			
Beach and Strand			
Salaries and Employee Benefits		24,857	
Other Expenditures		311,156	
Capital Outlay		-	
Total Beach and Strand	<u>324,300</u>	<u>336,013</u>	<u>(11,713)</u>
Tourism			
Salaries and Employee Benefits		120,704	
Other Expenditures		44,262	
Capital Outlay		-	
Total Tourism	<u>334,280</u>	<u>164,966</u>	<u>169,314</u>
Total Expenditures	<u>658,580</u>	<u>500,979</u>	<u>157,601</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>337,920</u>	<u>14,685</u>	<u>(323,235)</u>
Other Financing Sources (Uses)			
Transfers Out:			
General Fund	(502,000)	(24,000)	478,000
Total Other Financing Sources (Uses)	<u>(502,000)</u>	<u>(24,000)</u>	<u>478,000</u>
Fund Balance Appropriated	<u>164,080</u>	<u>-</u>	<u>(164,080)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(9,315)</u>	<u>\$ (9,315)</u>
Fund Balance - Beginning of Year		<u>819,066</u>	
Fund Balance - End of Year		<u>\$ 809,751</u>	

Nonmajor Governmental Funds

Capital Project Funds

TOWN OF SURF CITY, NORTH CAROLINA
 Combining Balance Sheet
 Nonmajor Capital Project Funds
 June 30, 2014

	Capital Reserve Fund	Sidewalk Capital Project Fund	Community Center Fund
ASSETS			
Cash and Cash Equivalents	\$ 140,000	\$ 3,036	\$ 13,396
Total Assets	\$ 140,000	\$ 3,036	\$ 13,396
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Total Liabilities	-	-	-
Fund Balances:			
Assigned			
Beach and Strand	140,000	-	13,396
Street Department	-	3,036	-
Public Buildings	-	-	-
Total Fund Balances	140,000	3,036	13,396
Total Liabilities and Fund Balances	\$ 140,000	\$ 3,036	\$ 13,396



Disaster Recovery Fund	Town Hall Capital Project Fund	Total
\$ 745,000	\$ -	\$ 901,432
\$ 745,000	\$ -	\$ 901,432

\$ -	\$ -	\$ -
-	31,458	31,458
-	31,458	31,458

745,000	-	898,396
-	-	3,036
-	(31,458)	(31,458)
745,000	(31,458)	869,974
\$ 745,000	\$ -	\$ 901,432

TOWN OF SURF CITY, NORTH CAROLINA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Capital Project Funds

For the Fiscal Year Ended June 30, 2014

	Capital Reserve Fund	Sidewalk Capital Project Fund	Community Center Fund
Revenues			
Restricted Intergovernmental	\$ -	\$ -	\$ -
Expenditures			
Beach and Strand	-	-	23,148
Public Buildings	-	-	-
Street Department	-	154,828	-
Total Expenditures	-	154,828	23,148
Revenues Over (Under) Expenditures	-	(154,828)	(23,148)
Other Financing Sources (Uses)			
Transfers from Other Funds	-	20,000	-
Transfers to Other Funds	-	-	-
Total Other Financing Sources (Uses)	-	20,000	-
Net Change in Fund Balance	-	(134,828)	(23,148)
Fund Balance - Beginning of Year	140,000	137,864	36,544
Fund Balance - End of Year	\$ 140,000	\$ 3,036	\$ 13,396

Disaster Recovery Fund	Town Hall Capital Project Fund	Total
\$ -	\$ -	\$ -
-	-	23,148
-	96,458	96,458
-	-	154,828
-	96,458	274,434
-	(96,458)	(274,434)
-	-	20,000
-	-	-
-	-	20,000
-	(96,458)	(254,434)
745,000	65,000	1,124,408
\$ 745,000	\$ (31,458)	\$ 869,974

TOWN OF SURF CITY, NORTH CAROLINA
 Capital Reserve Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	-	\$ -
Expenditures			
Beach and Strand			
Capital Outlay		-	
Total Beach and Strand	-	-	-
Total Expenditures	-	-	-
Revenues Over (Under) Expenditures	-	-	-
Other Financing Sources (Uses)			
Transfers in:			
General Fund	417,500	-	(417,500)
Transfers out:			
General Fund	(417,500)	-	417,500
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning		<u>140,000</u>	
Fund Balance - Ending		<u>\$ 140,000</u>	

TOWN OF SURF CITY, NORTH CAROLINA
Sidewalk Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
State Grants	\$ -	\$ -	\$ -
Expenditures			
Street Department			
Other Expenditures		60,083	
Capital Outlay		94,745	
Total Street Department	443,500	154,828	288,672
Total Expenditures	443,500	154,828	288,672
Revenues Over (Under) Expenditures	(443,500)	(154,828)	288,672
Other Financing Sources (Uses)			
Transfers in:			
General Fund	443,500	20,000	(423,500)
Transfers out:			
General Fund	-	-	-
Total Other Financing Sources (Uses)	443,500	20,000	(423,500)
Net Change in Fund Balance	<u>\$ -</u>	<u>(134,828)</u>	<u>\$ (134,828)</u>
Fund Balance - Beginning		<u>137,864</u>	
Fund Balance - Ending		<u>\$ 3,036</u>	

TOWN OF SURF CITY, NORTH CAROLINA
Community Center Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Restricted Intergovernmental			
State Grants		\$ -	
Total Restricted Intergovernmental	\$ 462,950	-	\$ (462,950)
Miscellaneous			
Other		-	
Total Miscellaneous	31,500	-	(31,500)
Total Revenues	494,450	-	(494,450)
Expenditures			
Beach and Strand			
Other Expenditures		23,148	
Total Beach and Strand	2,798,150	23,148	2,775,002
Total Expenditures	2,798,150	23,148	2,775,002
Revenues Over (Under) Expenditures	(2,303,700)	(23,148)	2,280,552
Other Financing Sources (Uses)			
Transfers in:			
General Fund	945,000	-	(945,000)
Installment Purchase Obligations	1,358,700	-	(1,358,700)
Total Other Financing Sources (Uses)	2,303,700	-	(2,303,700)
Net Change in Fund Balance	\$ -	(23,148)	\$ (23,148)
Fund Balance - Beginning		36,544	
Fund Balance - Ending		\$ 13,396	

TOWN OF SURF CITY, NORTH CAROLINA
 Disaster Recovery Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ -	\$ -
Expenditures			
Beach and Strand			
Other Expenditures		-	
Total Beach and Strand	758,550	-	758,550
Total Expenditures	758,550	-	758,550
Revenues Over (Under) Expenditures	(758,550)	-	758,550
Other Financing Sources (Uses)			
Transfers in:			
General Fund	770,000	-	(770,000)
Transfers out:			
General Fund	(11,450)	-	11,450
Total Other Financing Sources (Uses)	758,550	-	(758,550)
Net Change in Fund Balance	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning		<u>745,000</u>	
Fund Balance - Ending		<u>\$ 745,000</u>	

TOWN OF SURF CITY, NORTH CAROLINA
Town Hall Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ -	\$ -
Expenditures			
Public Buildings			
Capital Outlay		96,458	
Total Public Buildings	2,454,436	96,458	2,357,978
Total Expenditures	2,454,436	96,458	2,357,978
Revenues Over (Under) Expenditures	(2,454,436)	(96,458)	2,357,978
Other Financing Sources (Uses)			
Transfers in:			
General Fund	354,436	-	(354,436)
Transfers out:			
General Fund	-	-	-
Installment Purchase Obligations	2,100,000	-	(2,100,000)
Total Other Financing Sources (Uses)	2,454,436	-	(2,454,436)
Net Change in Fund Balance	<u>\$ -</u>	(96,458)	<u>\$ (96,458)</u>
Fund Balance - Beginning		<u>65,000</u>	
Fund Balance - Ending		<u>\$ (31,458)</u>	

Enterprise Funds

TOWN OF SURF CITY, NORTH CAROLINA
 Water and Wastewater Fund
 Schedule of Revenues and Expenditures
 Budget and Actual (Non-GAAP)
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Operating Revenues			
Water Charges		\$ 1,262,091	
Wastewater Charges		1,925,482	
Tap Fees		40,265	
Total Operating Revenues	\$ 3,432,257	3,227,838	\$ (204,419)
Investment Earnings			
Investment Earnings		1	
Total Investment Earnings	1,000	1	(999)
Miscellaneous			
Other		149,521	
Total Miscellaneous	175,000	149,521	(25,479)
Total Revenues	3,608,257	3,377,360	(230,897)
Expenditures			
Administration			
Salaries and Employee Benefits		176,900	
Other Expenditures		17,489	
Capital Outlay		-	
Total Administration	202,094	194,389	7,705
Insurance			
Other Expenditures		66,987	
Total Treatment and Distribution	77,000	66,987	10,013
Water Operations			
Salaries and Employee Benefits		69,011	
Other Expenditures		20,277	
Repairs and Maintenance		22,632	
Capital Outlay		-	
Debt Service			
Principal Retirement		400,000	
Interest Expense		109,086	
Total Water Operations	648,685	621,006	27,679

TOWN OF SURF CITY, NORTH CAROLINA
 Water and Wastewater Fund
 Schedule of Revenues and Expenditures (Continued)
 Budget and Actual (Non-GAAP)
 For the Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Expenditures (Continued)			
Wastewater Collection			
Salaries and Employee Benefits		\$ 208,210	
Repairs and Maintenance		151,925	
Other Expenditures		185,061	
Capital Outlay		-	
Debt Service			
Principal Retirement		322,213	
Interest Expense		74,534	
Total Wastewater Collection	\$ 964,739	941,943	\$ 22,796
Wastewater Treatment			
Salaries and Employee Benefits		373,233	
Repairs and Maintenance		66,652	
Other Expenditures		274,131	
Capital Outlay		14,000	
Debt Service			
Principal Retirement		993,934	
Interest Expense		710,623	
Total Wastewater Treatment	2,401,935	2,432,573	(30,638)
Contingency	50,000	-	50,000
Total Expenditures	4,344,453	4,256,898	87,555
Excess (Deficiency) of Revenues Over (Under) Expenditures	(736,196)	(879,538)	(143,342)
Other Financing Sources (Uses)			
Appropriated Fund Balance	-	-	-
Transfers In:			
Water Capital Reserve Fund	452,201	298,805	(153,396)
Wastewater Capital Project Fund	283,995	326,943	42,948
Installment Purchase Obligations	-	-	-
Total Other Financing Sources (Uses)	736,196	625,748	(110,448)
Net Change in Fund Balance	\$ -	\$ (253,790)	\$ (253,790)

TOWN OF SURF CITY, NORTH CAROLINA
 Water and Wastewater Fund
 Schedule of Revenues and Expenditures (Continued)
 Budget and Actual (Non-GAAP)
 For the Fiscal Year Ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Net Change in Fund Balance		<u>\$ (253,790)</u>	
Reconciling Items:			
Depreciation Expense		(985,640)	
Capital Outlay		14,000	
Principal Retirement		1,716,147	
Increase in Accrued Vacation		(4,688)	
Transfers In			
Water Capital Reserve Fund		(298,805)	
Wastewater Capital Reserve Fund		(326,943)	
Installment Loan Proceeds			
Water and Sewer Fund		-	
Impact Fees			
Water Capital Reserve Fund		301,120	
Wastewater Capital Reserve Fund		304,353	
Assessments			
Wastewater Capital Reserve Fund		104	
Other Revenues			
Wastewater Capital Project Fund		-	
Interest Income			
Water Capital Reserve Fund		2	
Wastewater Capital Reserve Fund		1	
Total Reconciling Items		<u>719,651</u>	
Change in Net Position		<u><u>\$ 465,861</u></u>	

TOWN OF SURF CITY, NORTH CAROLINA
Water Capital Reserve Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2014

	Actual		Totals to Date	Variance Positive (Negative)	
	Project Authorization	Prior Year			Current Year
Revenues					
Operating Revenues					
Impact Fees	\$ 2,774,500	\$ 2,985,032	\$ 301,120	\$ 3,286,152	\$ 511,652
Assessments	1,850	1,850	-	1,850	
Total Operating Revenues	<u>2,776,350</u>	<u>2,986,882</u>	<u>301,120</u>	<u>3,288,002</u>	<u>511,652</u>
Investment Earnings					
Interest	44,000	45,256	2	45,258	1,258
Total Revenues	<u>2,820,350</u>	<u>3,032,138</u>	<u>301,122</u>	<u>3,333,260</u>	<u>512,910</u>
Expenditures					
Water					
Contingency	40,562	-	-	-	40,562
Total Expenditures	<u>40,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,562</u>
Revenues Over (Under) Expenditures	<u>2,779,788</u>	<u>3,032,138</u>	<u>301,122</u>	<u>3,333,260</u>	<u>553,472</u>
Other Financing Sources (Uses)					
Appropriated Fund Balance	100,000	-	-	-	(100,000)
Transfers in:					
Water and Wastewater Fund	144,260	-	-	-	(144,260)
Wastewater Capital Reserve Fund	115,000	-	-	-	(115,000)
Transfers out:					
Water and Wastewater Fund	(2,705,048)	(3,257,217)	(298,805)	(3,556,022)	(850,974)
Water Supply Development Capital Project Fund	(269,000)	283,248	-	283,248	552,248
Installment Purchase Obligations	(165,000)	-	-	-	165,000
Total Other Financing Sources (Uses)	<u>(2,779,788)</u>	<u>(2,973,969)</u>	<u>(298,805)</u>	<u>(3,272,774)</u>	<u>(492,986)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 58,169</u>	<u>\$ 2,317</u>	<u>\$ 60,486</u>	<u>\$ 60,486</u>

TOWN OF SURF CITY, NORTH CAROLINA
Wastewater Capital Reserve Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2014

	Project Authorization	Actual		Totals to Date	Variance Positive (Negative)
		Prior Year	Current Year		
Revenues					
Operating Revenues					
Impact Fees	\$ 3,446,485	\$ 3,950,611	\$ 304,353	\$ 4,254,964	\$ 808,479
Assessments	409,600	17,624	104	17,728	(391,872)
Total Operating Revenues	3,856,085	3,968,235	304,457	4,272,692	416,607
Investment Earnings					
Interest	86,000	61,749	1	61,750	(24,250)
Total Revenues	3,942,085	4,029,984	304,458	4,334,442	392,357
Expenditures					
Wastewater					
Contingency	7,006	-	-	-	7,006
Total Expenditures	7,006	-	-	-	7,006
Revenues Over (Under)					
Expenditures	3,935,079	4,029,984	304,458	4,334,442	399,363
Other Financing Sources (Uses)					
Transfers in:					
Wastewater Capital Project Fund	379,000	182,000	-	182,000	(197,000)
Transfers out:					
Water and Wastewater Fund	(1,865,379)	(4,130,679)	(326,943)	(4,457,622)	(2,592,243)
Wastewater Capital Project Fund	(2,448,700)	-	-	-	2,448,700
Total Other Financing Sources (Uses)	(3,935,079)	(3,948,679)	(326,943)	(4,275,622)	(340,543)
Net Change in Fund Balance	\$ -	\$ 81,305	\$ (22,485)	\$ 58,820	\$ 58,820

TOWN OF SURF CITY, NORTH CAROLINA
Wastewater Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2014

	Actual		Totals to Date	Variance Positive (Negative)	
	Project Authorization	Prior Year			Current Year
Revenues					
Investment Earnings					
Interest	\$ 35,000	\$ 12,122	\$ -	\$ 12,122	\$ (22,878)
Nonoperating Revenues					
Capital Contributions-					
Federal Grants	2,000,000	2,000,000	-	2,000,000	-
Rent	20,000	20,187	-	20,187	187
Other	299,627	441,096	-	441,096	141,469
Total Nonoperating Revenues	2,319,627	2,461,283	-	2,461,283	141,656
Total Revenues	2,354,627	2,473,405	-	2,473,405	118,778
Expenditures					
Wastewater					
Wastewater Construction	28,143,301	26,616,290	245,941	26,862,231	1,281,070
Total Expenditures	28,143,301	26,616,290	245,941	26,862,231	1,281,070
Revenues Over (Under)					
Expenditures	(25,788,674)	(24,142,885)	(245,941)	(24,388,826)	1,399,848
Other Financing Sources (Uses)					
Appropriated Fund Balance	414,500	-	-	-	(414,500)
Transfers in:					
General Fund	120,000	120,000	-	120,000	-
Sea Wall Capital Project Fund	14,000	-	-	-	(14,000)
Water Supply Development Capital Project Fund	-	2,369,686	-	2,369,686	2,369,686
Wastewater Capital Reserve Fund	2,521,770	-	-	-	(2,521,770)
Water and Wastewater Fund	300,000	-	-	-	(300,000)
Transfers out:					
Wastewater Capital Reserve Fund	-	(182,000)	-	(182,000)	(182,000)
Installment Purchase Obligations	22,418,404	22,002,057	189,413	22,191,470	(226,934)
Total Other Financing Sources (Uses)	25,788,674	24,309,743	189,413	24,499,156	(1,289,518)
Net Change in Fund Balance	\$ -	\$ 166,858	\$ (56,528)	\$ 110,330	\$ 110,330



Other Schedules

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

Fiscal Year	Uncollected Balance 7-1-13	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-14
2013-14	\$ -	\$ 5,347,630	\$ 5,209,520	\$ 138,110
2012-13	119,201	-	67,825	51,376
2011-12	57,198	-	20,951	36,247
2010-11	41,901	-	2,779	39,122
2009-10	5,325	-	259	5,066
2008-09	4,798	-	446	4,352
2007-08	3,752	-	58	3,694
2006-07	1,512	-	24	1,488
2005-06	1,393	-	40	1,353
2005-06	1,133	-	-	1,133
2004-05	600	-	600	-
	\$ 236,813	\$ 5,347,630	\$ 5,302,502	281,941
Less: Allowance for Uncollectible Accounts: General Fund				28,000
Ad Valorem Taxes Receivable - Net				253,941
 <u>Reconciliation with Revenues</u>				
Ad Valorem Taxes - General Fund				3,456,323
Ad Valorem Taxes - Beach Renourishment Fund				1,883,081
Reconciling Items:				
Interest and Penalties Collected				(39,162)
Taxes Released				1,660
Taxes Written Off				600
Total Collections and Credits			\$ 5,302,502	

TOWN OF SURF CITY, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2014

	Town-Wide		Total Levy		
	Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property Taxed at					
Current Year's Rate	\$ 1,309,172,646	0.410	\$ 5,351,863	\$ 5,298,931	\$ 52,932
Penalties	-		796	796	-
	<u>1,309,172,646</u>		<u>5,352,659</u>	<u>5,299,727</u>	<u>52,932</u>
Discoveries:					
Current Year Taxes	-	0.410	-	-	-
Penalties	-		-	-	-
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Abatements:					
Property Taxes -					
Current Year's Rate	(1,226,496)	0.410	(5,029)	-	(5,029)
Penalties	-		-	-	-
	<u>(1,226,496)</u>		<u>(5,029)</u>	<u>-</u>	<u>(5,029)</u>
Total Property Valuations	<u><u>\$ 1,307,946,150</u></u>				
Net Levy			5,347,630	5,299,727	47,903
Uncollected Taxes at June 30, 2014			138,110	132,057	6,053
Current Year's Taxes Collected			<u>\$ 5,209,520</u>	<u>\$ 5,167,670</u>	<u>\$ 41,850</u>
Current Levy Collection Percentage			<u>97.42%</u>	<u>97.51%</u>	<u>87.36%</u>



Compliance Section

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Surf City, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the Town of Surf City's basic financial statements, and have issued our report thereon dated December 2, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Surf City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 14-1.

Town of Surf City's Response to Findings

The Town of Surf City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

W Greene PLLC

Whiteville, North Carolina
December 2, 2014

TOWN OF SURF CITY, NORTH CAROLINA
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2014

SECTION I. SUMMARY OF AUDITOR'S RESULTS
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Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(s) identified that are not considered to be material weaknesses

_____ Yes X No

Noncompliance material to financial statements noted

 X Yes _____ No

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding: 14-1

MATERIAL NONCOMPLIANCE

- Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.
- Condition: The Town of Surf City expended \$583,929 (General Fund), \$11,713 (Accommodations Tax Fund), and \$30,638 (Water and Wastewater Fund) more than appropriated for in the annual budget ordinance.
- Effect: Moneys were spent that had not been appropriated.
- Cause: The Town received and expended more than had been budgeted for in the budget ordinance and a budget amendment was not adopted.
- Recommendation: Budget amendments should be adopted when revenues are received that exceed estimated revenues in the budget ordinance prior to expending the funds.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts.

TOWN OF SURF CITY, NORTH CAROLINA

Corrective Action Plan

For the Fiscal Year Ended June 30, 2014

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding: 14-1

Name of contact person: Jane Kirk, Finance Officer

Corrective Action: The Board members will review a budget-to-actual report prepared by the finance officer at each monthly board meeting. Budget amendments will be made as will be necessary.

Proposed Completion Date: Immediately.