

**Town of Surf City
Surf City, North Carolina**

Audited Financial Statements

Year Ended June 30, 2018



Town of Surf City, North Carolina
Audited Financial Statements
For the Year Ended June 30, 2018

TOWN COUNCIL

Nelva R. Albury

Donald R. Helms

Teresa B. Batts

Jeremy Shugarts

OFFICIALS

Mayor

Douglas C. Medlin

Mayor Pro-Tem

William J. Fowler

Finance Director

Ashley Loftis

Town Clerk

Stephanie Hobbs

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June 30, 2018**

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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10, respectively, the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 51 and 52 respectively, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 53 and 54 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

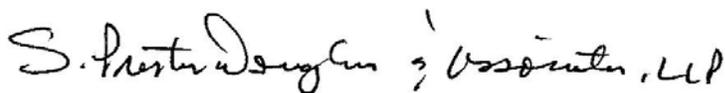
Supplementary and Other Information

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

The combining and individual fund financial 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. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated in, all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019 on our consideration of the 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.



Lumberton, North Carolina
October 9, 2019

Management's Discussion and Analysis

**Town of Surf City, North Carolina
Management's Discussion and Analysis
June 30, 2018**

Management's Discussion and Analysis

As management of the Town of Surf City, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Surf City for the fiscal year ending June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

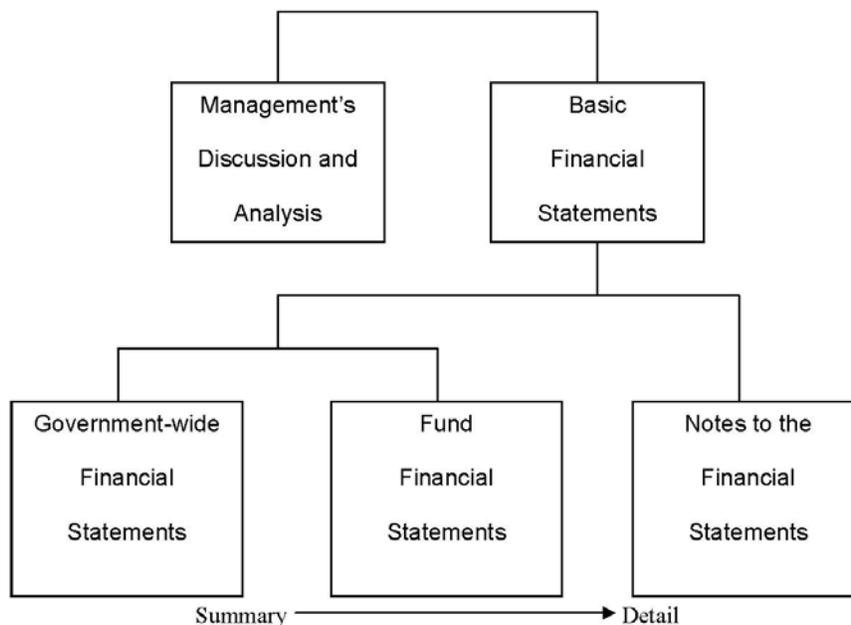
- The assets and deferred outflows of the Town of Surf City exceeded its liabilities and deferred outflows at the close of the fiscal year by \$62,376,235 (net position).
- The government's total net position increased by \$5,169,548.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,722,049 or approximately 61.45% of total general fund expenditures for the year.
- As of the close of the current fiscal year, the Town of Surf City's governmental funds reported combined ending fund balances of \$21,733,668, with an increase of \$3,415,882 in fund balance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Surf City's basic financial statements. The Town's basic financial statements comprise 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 also contains other supplementary 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



Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Basic Financial Statements

The first two statements 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 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 to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show additional details about the Town's individual funds. Budgetary information required by the North Carolina General Statutes can also 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, in a manner similar to the 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 found on pages 11 and 12 of this report.

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. 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 monies that are unexpended at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps 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.

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Governmental Funds (continued). The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary 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. The Town of Surf City has one fiduciary fund, which is the agency 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 can be found on pages 24-50 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Surf City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 51 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 governments and others holders of publicly held U.S. Treasury Securities.

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Government-Wide Financial Analysis

The Town of Surf City's Net Position
Figure 2

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 22,203,251	\$ 18,632,401	\$ 2,332,735	\$ 2,605,158	\$ 24,535,986	\$ 21,237,559
Capital assets	15,014,668	15,191,152	40,464,873	40,272,414	55,479,541	55,463,566
Deferred outflows of resources	726,922	989,330	129,993	179,058	856,915	1,168,388
Total assets and deferred outflows of resources	37,944,841	34,812,883	42,927,601	43,056,630	80,872,442	77,869,513
Long-term liabilities outstanding	3,386,249	3,984,041	11,918,198	13,651,816	15,304,447	17,635,857
Other liabilities	850,371	734,170	2,301,474	2,235,676	3,151,845	2,969,846
Deferred inflows of resources	34,320	49,302	5,595	7,821	39,915	57,123
Total liabilities and deferred inflows of resources	4,270,940	4,767,513	14,225,267	15,895,313	18,496,207	20,662,826
Net position						
Net investment in capital assets	12,724,093	12,214,663	27,077,508	25,087,727	39,801,601	37,302,390
Restricted	2,697,906	1,721,090	-	-	2,697,906	1,721,090
Unrestricted	18,251,902	16,109,617	1,624,826	2,073,590	19,876,728	18,183,207
Total net position	\$ 33,673,901	\$ 30,045,370	\$ 28,702,334	\$ 27,161,317	\$ 62,376,235	\$ 57,206,687

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$62,376,235 at the close of the current fiscal year. The Town's net position increased by \$5,169,548 for the fiscal year ended June 30, 2018. By far the largest portion of the Town's net position, 63.81%, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Government-Wide Financial Analysis (continued)

Although the Town's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of net position, 4.33%, represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$19,876,728 or 31.87% of the total. One aspect of the Town's financial operations influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.34%

Town of Surf City's Changes in Net Position
Figure 3

	Governmental		Business-type		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,269,204	\$ 1,386,366	\$ 4,850,996	\$ 4,643,006	\$ 6,120,200	\$ 6,029,372
Operating grants and contributions	411,453	260,714	-	-	411,453	260,714
Capital grants and contributions	750	86,652	-	-	750	86,652
General revenues:						
Property taxes	5,758,078	5,618,662	-	-	5,758,078	5,618,662
Other taxes	4,004,576	3,529,867	-	-	4,004,576	3,529,867
Other	595,456	483,783	219,376	299,901	814,832	783,684
Total revenues	12,039,517	11,366,044	5,070,372	4,942,907	17,109,889	16,308,951
Expenses:						
Governing body	71,223	77,298	-	-	71,223	77,298
Administration	594,580	488,904	-	-	594,580	488,904
Elections	4,880	-	-	-	4,880	-
Finance	422,481	366,671	-	-	422,481	366,671
Insurance	243,414	201,725	-	-	243,414	201,725
Legal	18,000	18,150	-	-	18,000	18,150
Public buildings	506,912	163,082	-	-	506,912	163,082
Public works	25,265	29,664	-	-	25,265	29,664
Police	2,005,897	1,814,160	-	-	2,005,897	1,814,160
Fire	1,437,018	1,335,172	-	-	1,437,018	1,335,172
Community development	364,944	386,948	-	-	364,944	386,948
Street department	124,601	502,653	-	-	124,601	502,653
Sanitation	941,696	866,634	-	-	941,696	866,634
Parks and recreation	885,633	832,118	-	-	885,633	832,118
Beach and strand	412,084	495,164	-	-	412,084	495,164
Tourism	209,512	220,965	-	-	209,512	220,965
Hurricane	-	1,168	-	-	-	1,168
Interest on long-term debt	142,846	97,087	-	-	142,846	97,087
Water and wastewater	-	-	3,529,355	3,530,576	3,529,355	3,530,576
Total expenses	8,410,986	7,897,563	3,529,355	3,530,576	11,940,341	11,428,139
Increase (decrease) in net position before transfers	3,628,531	3,468,481	1,541,017	1,412,331	5,169,548	4,880,812
Transfers	-	-	-	-	-	-
Change in net position	3,628,531	3,468,481	1,541,017	1,412,331	5,169,548	4,880,812
Net position, beginning, restated	30,045,370	26,576,889	27,161,317	25,748,986	57,206,687	52,325,875
Net position - June 30	\$ 33,673,901	\$ 30,045,370	\$ 28,702,334	\$ 27,161,317	\$ 62,376,235	\$ 57,206,687

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Government-Wide Financial Analysis (continued)

Governmental activities. Governmental activities increased the Town's net position by \$3,628,531.

Business-type activities. Business-type activities increased the Town's net position by \$1,541,017.

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's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the principal operating fund of the Town of Surf City. At the end of the fiscal year, unassigned fund balance for the general fund was \$4,722,049 with a total fund balance of \$5,721,163. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 61.45% of total General Fund expenditures.

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 from external sources, such as federal and State grants.
3. Increases in appropriations that become necessary to maintain services and obligations from prior years not completed.

At June 30, 2018, the governmental funds of Town of Surf City reported a combined fund balance of \$21,733,668; an 18.65% increase over last year. Included in this change in fund balance are increases in fund balance in the General, Accommodation Tax Fund and the Beach Renourishment Fund.

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 \$1,624,826. The total change in net position for the Water and Wastewater Fund was an increase of \$1,541,017.

Capital Assets and Debt Administration Capital Assets

The Town of Surf City's investments in capital assets for its governmental activities as of June 30, 2018, totals \$55,479,541 (net of accumulated depreciation). The investments in capital assets includes land, vehicles, infrastructure, and equipment.

Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018

Town of Surf City's Capital Assets
(net of depreciation)
Figure 4

	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Land	\$ 9,460,532	\$ 9,460,532	\$ 5,245,933	\$ 5,245,933	\$ 14,706,465	\$ 14,706,465
Construction in progress	-	-	1,181,998	-	1,181,998	-
Buildings	3,732,136	3,838,354	-	-	3,732,136	3,838,354
Infrastructure	958,747	1,001,755	-	-	958,747	1,001,755
Vehicles	96,135	245,135	62,020	42,419	158,155	287,554
Plant and distribution	-	-	33,677,164	34,644,829	33,677,164	34,644,829
Equipment	767,118	645,376	297,758	339,233	1,064,876	984,609
Total capital assets, net	\$ 15,014,668	\$ 15,191,152	\$ 40,464,873	\$ 40,272,414	\$ 55,479,541	\$ 55,463,566

Additional information on the Town's capital assets can be found in the notes on page 33 of this report.

Long-term debt. As of June 30, 2018, the Town of Surf City had total installment purchase debt outstanding of \$15,184,365. The installment debt is backed by security interest in the property for which it was issued.

Outstanding Liabilities
Figure 5

	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Installment debt	\$ 1,797,000	\$ 2,286,000	\$ 13,387,365	\$ 15,184,687	\$ 15,184,365	\$ 17,470,687
Capital leases	493,575	690,489	-	-	493,575	690,489
Compensated absences	362,376	224,547	61,890	55,838	424,266	280,385
Pension related debt (LGERS)	945,213	1,127,821	178,886	208,613	1,124,099	1,336,434
Pension related debt (LEO)	400,476	315,688	-	-	400,476	315,688
Total outstanding debt	\$ 3,998,640	\$ 4,644,545	\$ 13,628,141	\$ 15,449,138	\$ 17,626,781	\$ 20,093,683

Town of Surf City Outstanding Debt

The Town of Surf City total debt decreased by \$2,466,902 during the past fiscal year, primarily due to paying off installment debt. The Town does not have any general obligation or revenue bonds.

North Carolina's general statutes limit the amount of general obligation debt that a governmental unit can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Surf City is presently at \$124,339,400 (the amount of additional debt the town could obligate itself to under NC General Statute).

Additional information pertaining to the Town of Surf City's long-term debt can be found in the notes on page 45 of this report.

**Town of Surf City, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2018**

Economic Factors and Next Year's Budgets and Rates

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

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities: Revenues are expected to remain at levels similar to last fiscal year.

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

Request for Information

This financial report is designed to provide a general overview of the Town of Surf City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 19,250,120	\$ 1,733,967	\$ 20,984,087
Restricted cash and cash equivalents	1,985,869	-	1,985,869
Receivables, net:			
Ad valorem taxes	245,116	-	245,116
Accommodations tax	41,939	-	41,939
Accounts	166,282	598,768	765,050
Due from other governments	513,925	-	513,925
Total current assets	22,203,251	2,332,735	24,535,986
Noncurrent assets:			
Capital assets (Note 3):			
Land, non-depreciable improvements, and construction in progress	9,460,532	6,427,931	15,888,463
Other capital assets, net of depreciation	5,554,136	34,036,942	39,591,078
Total capital assets	15,014,668	40,464,873	55,479,541
Total assets	37,217,919	42,797,608	80,015,527
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension deferrals	726,922	129,993	856,915
Total deferred outflows of resources	726,922	129,993	856,915
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued expenses	237,980	180,256	418,236
Customer deposits	-	395,260	395,260
Prepaid utilities	-	16,015	16,015
Current portion of long-term liabilities	612,391	1,709,943	2,322,334
Total current liabilities	850,371	2,301,474	3,151,845
Long-term liabilities:			
Net pension liability	945,213	178,886	1,124,099
Total pension liability	400,476	-	400,476
Due in more than one year	2,040,560	11,739,312	13,779,872
Total liabilities	4,236,620	14,219,672	18,456,292
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension deferrals	34,320	5,595	39,915
Total deferred inflows of resources	34,320	5,595	39,915
<u>NET POSITION</u>			
Net investment in capital assets	12,724,093	27,077,508	39,801,601
Restricted for:			-
Streets	161,017	-	161,017
Stabilization by State Statute	680,207	-	680,207
Tourism	1,848,727	-	1,848,727
Drug forfeitures	7,955	-	7,955
Unrestricted	18,251,902	1,624,826	19,876,728
Total net position	\$ 33,673,901	\$ 28,702,334	\$ 62,376,235

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

Town of Surf City, North Carolina
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
Governing body	\$ 71,223	\$ -	\$ -	\$ -	\$ (71,223)	\$ -	\$ (71,223)
Administration	594,580	-	-	-	(594,580)	-	(594,580)
Elections	4,880	-	-	-	(4,880)	-	(4,880)
Finance	422,481	-	-	-	(422,481)	-	(422,481)
Insurance	243,414	-	-	-	(243,414)	-	(243,414)
Legal	18,000	-	-	-	(18,000)	-	(18,000)
Public buildings	506,912	-	-	-	(506,912)	-	(506,912)
Public works	25,265	-	-	-	(25,265)	-	(25,265)
Police	2,005,897	-	99	-	(2,005,798)	-	(2,005,798)
Fire	1,437,018	-	-	750	(1,436,268)	-	(1,436,268)
Community development	364,944	159,981	-	-	(204,963)	-	(204,963)
Street department	124,601	-	80,427	-	(44,174)	-	(44,174)
Sanitation	941,696	1,109,223	1,427	-	168,954	-	168,954
Parks and recreation	885,633	-	-	-	(885,633)	-	(885,633)
Beach and strand	412,084	-	329,500	-	(82,584)	-	(82,584)
Tourism	209,512	-	-	-	(209,512)	-	(209,512)
Interest on long-term debt	142,846	-	-	-	(142,846)	-	(142,846)
Total governmental activities	<u>8,410,986</u>	<u>1,269,204</u>	<u>411,453</u>	<u>750</u>	<u>(6,729,579)</u>	<u>-</u>	<u>(6,729,579)</u>
Business-type activities:							
Water and Wastewater	<u>3,529,355</u>	<u>4,850,996</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,321,641</u>	<u>1,321,641</u>
Total business-type activities	<u>3,529,355</u>	<u>4,850,996</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,321,641</u>	<u>1,321,641</u>
Total primary government	<u>\$ 11,940,341</u>	<u>\$ 6,120,200</u>	<u>\$ 411,453</u>	<u>\$ 750</u>	<u>(6,729,579)</u>	<u>1,321,641</u>	<u>(5,407,938)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					5,758,078	-	5,758,078
Other taxes and licenses					4,004,576	-	4,004,576
Investment earnings, unrestricted					147,076	118	147,194
Miscellaneous, unrestricted					448,380	219,258	667,638
Total general revenues not including transfers					<u>10,358,110</u>	<u>1,541,017</u>	<u>10,577,486</u>
Transfers					-	-	-
Total general revenues					<u>10,358,110</u>	<u>1,541,017</u>	<u>10,577,486</u>
Change in net position					<u>3,628,531</u>	<u>1,541,017</u>	<u>5,169,548</u>
Net position, beginning					<u>30,045,370</u>	<u>27,161,317</u>	<u>57,206,687</u>
Net position, ending					<u>\$ 33,673,901</u>	<u>\$ 28,702,334</u>	<u>\$ 62,376,235</u>

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

Town of Surf City, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018

	<u>Major Funds</u>			<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Beach Renourishment Fund</u>	<u>Accommodation Tax Fund</u>		
<u>ASSETS</u>					
Cash and cash equivalents	\$ 5,063,263	\$ 13,278,260	\$ -	\$ 908,597	\$ 19,250,120
Restricted cash	161,017	-	1,824,852	-	1,985,869
Receivables, net:					
Ad valorem taxes	245,116	-	-	-	245,116
Accommodations tax	-	-	41,939	-	41,939
Accounts	166,282	-	-	-	166,282
Due from other governments	513,925	-	-	-	513,925
Total assets	<u>\$ 6,149,603</u>	<u>\$ 13,278,260</u>	<u>\$ 1,866,791</u>	<u>\$ 908,597</u>	<u>\$ 22,203,251</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 183,324	\$ 23,079	\$ 18,064	\$ -	\$ 224,467
Total liabilities	<u>183,324</u>	<u>23,079</u>	<u>18,064</u>	<u>-</u>	<u>224,467</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Property taxes receivable	245,116	-	-	-	245,116
Total deferred inflows of resources	<u>245,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>245,116</u>
<u>FUND BALANCES</u>					
Restricted:					
Stabilization by State Statute	680,207	-	-	-	680,207
Streets - Powell Bill	161,017	-	-	-	161,017
Tourism	-	-	1,848,727	-	1,848,727
Drug forfeitures	7,955	-	-	-	7,955
Committed:					
LEO special separation allowance	149,935	-	-	-	149,935
Assigned:					
Beach and strand	-	13,255,181	-	885,000	14,140,181
Public buildings	-	-	-	13,597	13,597
Street department	-	-	-	10,000	10,000
Unassigned	4,722,049	-	-	-	4,722,049
Total fund balances	<u>5,721,163</u>	<u>13,255,181</u>	<u>1,848,727</u>	<u>908,597</u>	<u>21,733,668</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,149,603</u>	<u>\$ 13,278,260</u>	<u>\$ 1,866,791</u>	<u>\$ 908,597</u>	<u>\$ 22,203,251</u>

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

Town of Surf City, North Carolina
Balance Sheet
Governmental Funds (continued)
June 30, 2018

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total Fund Balance, Governmental Funds	\$	21,733,668
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Gross capital assets at historical cost	\$	21,894,610
Accumulated depreciation	<u>(6,879,942)</u>	15,014,668
Deferred outflows of resources related to pensions are not reported in the fund statements.		
		726,922
Earned revenues are considered deferred inflows of resources in fund statements.		
		245,116
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Gross long-term debt beginning	(3,201,036)	
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)	548,085	
Total pension liability	(400,476)	
Net pension liability	<u>(945,213)</u>	(3,998,640)
Deferred inflows of resources related to pensions are not reported in the funds.		
		(35,193)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		
		<u>(12,640)</u>
Net position of governmental activities	\$	<u>33,673,901</u>

Town of Surf City, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Beach Renourishment Fund	Accommodation Tax Fund		
Revenues:					
Ad valorem taxes	\$ 5,727,819	\$ -	\$ -	\$ -	\$ 5,727,819
Other taxes and licenses	616	-	1,351,528	-	1,352,144
Unrestricted intergovernmental	2,652,432	-	-	-	2,652,432
Restricted intergovernmental	82,703	329,500	-	-	412,203
Permits and fees	159,981	-	-	-	159,981
Sales and services	1,109,223	-	-	-	1,109,223
Investment earnings	147,076	-	-	-	147,076
Miscellaneous	406,645	-	2,015	-	408,660
Total revenues	<u>10,286,495</u>	<u>329,500</u>	<u>1,353,543</u>	<u>-</u>	<u>11,969,538</u>
Expenditures:					
Governing body	71,223	-	-	-	71,223
Administration	569,497	-	-	-	569,497
Elections	4,880	-	-	-	4,880
Finance	403,750	-	-	-	403,750
Insurance	243,414	-	-	-	243,414
Legal	18,000	-	-	-	18,000
Public buildings	488,016	-	-	-	488,016
Public works	25,265	-	-	-	25,265
Police	1,621,603	-	-	-	1,621,603
Fire	1,325,413	-	-	-	1,325,413
Community development	345,894	-	-	-	345,894
Street department	96,653	-	-	-	96,653
Sanitation	930,475	-	-	-	930,475
Parks and recreation	876,772	-	-	-	876,772
Beach and strand	-	264,750	140,944	-	405,694
Tourism	-	-	209,512	-	209,512
Debt service:					
Principal retirement	456,914	132,820	96,180	-	685,914
Interest and other charges	39,002	8,560	16,030	-	63,592
Capital outlay:					
Police	168,089	-	-	-	168,089
Fire	-	-	-	-	-
Total expenditures	<u>7,684,860</u>	<u>406,130</u>	<u>462,666</u>	<u>-</u>	<u>8,553,656</u>
Excess (deficiency) of revenues over expenditures	<u>2,601,635</u>	<u>(76,630)</u>	<u>890,877</u>	<u>-</u>	<u>3,415,882</u>
Other financing sources (uses):					
Transfers (to) from other funds	(1,458,268)	1,458,268	-	-	-
Total other financing sources (uses)	<u>(1,458,268)</u>	<u>1,458,268</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,143,367	1,381,638	890,877	-	3,415,882
Fund balances, beginning	4,577,796	11,873,543	957,850	908,597	18,317,786
Fund balances, ending	<u>\$ 5,721,163</u>	<u>\$ 13,255,181</u>	<u>\$ 1,848,727</u>	<u>\$ 908,597</u>	<u>\$ 21,733,668</u>

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

Town of Surf City, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds	\$	3,415,882
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized	\$ 168,089	
Depreciation expense for governmental assets	<u>(344,573)</u>	(176,484)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		231,081
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		30,259
<p>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 an effect on net position. These amounts are the net effect of these differences in the treatment of long-term debt and related items.</p>		
Increase in accrued interest payable	(39,534)	
Principal payments on long-term debt	<u>685,914</u>	646,380
<p>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.</p>		
Compensated absences	(137,829)	
Pension revenue (expense)	<u>(380,758)</u>	<u>(518,587)</u>
Total changes in net position of governmental activities	\$	<u><u>3,628,531</u></u>

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

Town of Surf City, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 5,300,000	\$ 5,465,000	\$ 5,727,819	\$ 262,819
Other taxes and licenses	-	1,250	616	(634)
Unrestricted intergovernmental	2,173,900	2,093,300	2,652,432	559,132
Restricted intergovernmental	80,000	80,750	82,703	1,953
Permits and fees	159,100	159,100	159,981	881
Sales and services	1,275,016	1,110,000	1,109,223	(777)
Investment earnings	18,000	18,000	147,076	129,076
Miscellaneous	296,007	296,007	406,645	110,638
Total revenues	<u>9,302,023</u>	<u>9,223,407</u>	<u>10,286,495</u>	<u>1,063,088</u>
Expenditures:				
Current:				
Governing body	79,400	74,520	71,223	3,297
Administration	462,085	569,585	569,497	88
Elections	-	4,880	4,880	-
Finance	401,288	407,288	403,750	3,538
Insurance	218,866	245,582	243,414	2,168
Legal	20,000	18,500	18,000	500
Public buildings	795,781	798,445	657,731	140,714
Public works	30,100	27,600	25,265	2,335
Police	2,042,385	2,112,937	2,028,268	84,669
Fire	1,351,128	1,342,320	1,341,038	1,282
Community development	354,242	354,242	345,894	8,348
Street department	20,000	103,501	96,653	6,848
Sanitation	855,000	932,000	930,475	1,525
Parks and recreation	885,480	891,116	876,772	14,344
Nondepartmental	72,000	72,000	72,000	-
Total expenditures	<u>7,587,755</u>	<u>7,954,516</u>	<u>7,684,860</u>	<u>269,656</u>
Revenues over (under) expenditures	<u>1,714,268</u>	<u>1,268,891</u>	<u>2,601,635</u>	<u>1,332,744</u>
Other financing sources (uses):				
Transfers to other funds	<u>(1,714,268)</u>	<u>(1,458,268)</u>	<u>(1,458,268)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,714,268)</u>	<u>(1,458,268)</u>	<u>(1,458,268)</u>	<u>-</u>
Fund balance appropriated	<u>-</u>	<u>189,377</u>	<u>-</u>	<u>189,377</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,143,367</u>	<u>\$ 1,143,367</u>
Fund balance, beginning			<u>4,577,796</u>	
Fund balance, ending			<u>\$ 5,721,163</u>	

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 Balances-
Budget and Actual
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Other taxes and licenses	\$ 1,075,000	\$ 1,075,000	\$ 1,351,528	\$ 276,528
Miscellaneous	-	-	2,015	2,015
Total revenues	<u>1,075,000</u>	<u>1,075,000</u>	<u>1,353,543</u>	<u>278,543</u>
Expenditures:				
Beach and strand	214,400	219,400	140,944	78,456
Tourism	375,600	370,600	321,722	48,878
Total expenditures	<u>590,000</u>	<u>590,000</u>	<u>462,666</u>	<u>127,334</u>
Revenues over (under) expenditures	<u>485,000</u>	<u>485,000</u>	<u>890,877</u>	<u>405,877</u>
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(485,000)	(485,000)	-	485,000
Total other financing sources (uses)	<u>(485,000)</u>	<u>(485,000)</u>	<u>-</u>	<u>485,000</u>
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	890,877	<u>\$ 890,877</u>
Fund balance, beginning			<u>957,850</u>	
Fund balance, ending			<u>\$ 1,848,727</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, 2018

	Water and Wastewater Fund
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 1,733,967
Accounts receivable, net	598,768
Total current assets	2,332,735
Noncurrent assets:	
Capital assets:	
Land, nondepreciable improvements, and construction in progress	6,427,931
Other capital assets, net of depreciation	34,036,942
Total capital assets	40,464,873
Total noncurrent assets	40,464,873
Total assets	42,797,608
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension deferrals	129,993
Total deferred outflows of resources	129,993
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable and accrued liabilities	180,256
Customer deposits	395,260
Prepaid utilities	16,015
Installment purchase obligations payable	1,709,943
Total current liabilities	2,301,474
Noncurrent liabilities:	
Net pension liability	178,886
Installment purchase obligations payable	11,677,422
Compensated absences payable	61,890
Total noncurrent liabilities	11,918,198
Total liabilities	14,219,672
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension deferrals	5,595
Total deferred inflows of resources	5,595
<u>NET POSITION</u>	
Net investment in capital assets	27,077,508
Unrestricted	1,624,826
Total net position	\$ 28,702,334

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

Town of Surf City, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2018

	Water and Wastewater Fund
Operating revenues:	
Water charges	\$ 1,626,305
Wastewater charges	2,116,254
Tap fees	336,417
Impact fees	772,020
Total operating revenues	<u>4,850,996</u>
Operating expenses:	
Administration	194,339
Insurance	76,148
Water operations	249,774
Wastewater collection	853,858
Wastewater treatment	764,108
Depreciation	1,022,043
Total operating expenses	<u>3,160,270</u>
Operating income (loss)	<u>1,690,726</u>
Nonoperating revenues (expenses):	
Investment earnings	118
Miscellaneous income	219,258
Interest expense	(369,085)
Total nonoperating revenues (expenses)	<u>(149,709)</u>
Total income (loss) before transfers	1,541,017
Transfers from other funds	<u>-</u>
Change in net position	1,541,017
Total net position, beginning	27,161,317
Total net position, ending	<u>\$ 28,702,334</u>

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

Town of Surf City, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

	Water and Wastewater Fund
Cash flows from operating activities:	
Cash received from customers	\$ 5,075,231
Cash paid for goods and services	(1,445,817)
Cash paid to employees for services	(1,309,658)
Customer deposits returned	(4,124)
Miscellaneous income	219,258
Net cash provided (used) by operating activities	2,534,890
Cash flows from noncapital financing activities:	
Transfers out	-
Net cash provided (used) by noncapital financing activities	-
Cash flows from capital and related financing activities:	
Installment purchase obligations issued	-
Acquisition of capital assets	(767,247)
Interest paid on debt	(369,085)
Principal paid on debt	(1,797,322)
Net cash provided (used) by capital and related financing activities	(2,933,654)
Cash flows from investing activities:	
Interest on investments	118
Net cash provided (used) by investing activities	118
Net increase (decrease) in cash and cash equivalents	(398,646)
Cash and cash equivalents-beginning of year	2,132,613
Cash and cash equivalents-end of year	\$ 1,733,967

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

Town of Surf City, North Carolina
Statement of Cash Flows (continued)
Proprietary Fund
For the Year Ended June 30, 2018

	<u>Water and Wastewater Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ 1,690,726</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,022,043
Miscellaneous income	219,258
Interest expense	(369,085)
Change in assets, deferred outflows and inflows of resources, and liabilities:	
(Increase) decrease in accounts receivable	(126,223)
(Increase) decrease in deferred outflows of resources - pensions	49,065
Increase (decrease) in net pension liability	(29,727)
Increase (decrease) in deferred inflows of resources - pensions	(2,226)
Increase (decrease) in accounts payable and accrued liabilities	83,043
Increase (decrease) in customer deposits	(4,124)
Increase (decrease) in prepaid utilities	(3,912)
Increase (decrease) in compensated absences	6,052
Total adjustments	<u>844,164</u>
Net cash provided (used) by operating activities	<u><u>\$ 2,534,890</u></u>

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

Town of Surf City, North Carolina
Statement of Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

	Agency Fund
<u>Assets:</u>	
Cash and cash equivalents	\$ 731
Total assets	731
 <u>Net position:</u>	
Assets held in trust (Fiduciary net position)	731
Total net position	\$ 731

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

Notes to the Financial Statements

Town of Surf City, North Carolina
Notes to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Surf City, North Carolina conforms 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 financial activity of the Town.

B - Basis of Presentation

Government-wide Statements: The statement of net position and 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 are generally 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 and 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, including the fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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

The Town reports the following major governmental funds:

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - 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 beachfront.

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 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 fiduciary fund types:

Agency Fund - Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town holds on behalf of others. The Town maintains a Benefit Fund – fundraising for the Pretty in Pink Foundation. The Pretty in Pink Foundation is committed to raising funds for breast cancer research.

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.

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.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting (continued)

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

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

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 Fund Project, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Enterprise Capital Projects Fund. The Enterprise Fund projects are consolidated with their respective operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. 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.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances and the North Carolina Capital Management Trust (NCCMT).

All deposits of the Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

Town of Surf City's Restricted Cash

Governmental Activities:

General Fund		
Powell Bill	\$	153,062
Drug forfeitures		7,955
Accommodation Tax Fund		
Tourism		1,824,852
Total Governmental Activities		1,985,869
 Total Restricted Cash	 \$	 1,985,869

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

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 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, 2017. 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 revenue is reported net of such discounts.

5. Allowance for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain threshold and an estimated life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Minimum capitalization costs are as follows: land, \$100,000; buildings, improvements, \$100,000; infrastructure, \$100,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchases or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
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 one item that meet this criterion – pension related deferrals for the 2018 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criteria for this category – property taxes receivable and pension deferrals.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

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. In fund financial statements, governmental fund types show types show the face amount of debt issued as other financing sources.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days of earned vacation leave with such leave being fully vested when earned. For the Town's government-wide funds 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 policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position / Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt, 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.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

10. Net Position / Fund Balances (continued)

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

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

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

Restricted for 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 the Town of Surf City’s governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for LEO pension obligation – Portion of fund balance that will be used for the Law Enforcement Officers’ Separation Allowance obligations.

Assigned fund balance – Portion of fund balance that the Town 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.

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

10. Net Position / Fund Balances (continued)

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

11. Defined Benefit Cost-Sharing Plans

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

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A - Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None.

2. Contractual Violations

None.

B - Deficit in Fund Balance or Net Position of Individual Funds

None.

C - Excess of Expenditures over Appropriations

None.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - 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 its name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2018, the Town's deposits had a carrying amount of \$9,875,259 and a bank balance of \$9,875,991. 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, 2018, the Town's petty cash totaled \$350.

2. Investments

At June 30, 2018, the Town had \$13,094,347 invested with North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables - Allowance for Doubtful Accounts

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

General Fund:		
Taxes receivable	\$	27,500
Total	\$	27,500

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets

Primary Government

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

Governmental activities:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 9,460,532	\$ -	\$ -	\$ 9,460,532
Construction in progress	-	-	-	-
Total capital assets not being depreciated	9,460,532	-	-	9,460,532
Capital assets being depreciated:				
Buildings	6,087,900	-	-	6,087,900
Equipment	2,219,069	168,089	-	2,387,158
Vehicles	2,499,651	-	-	2,499,651
Infrastructure	1,459,369	-	-	1,459,369
Total capital assets being depreciated	12,265,989	168,089	-	12,434,078
Less accumulated depreciation for:				
Buildings	2,249,546	106,218	-	2,355,764
Equipment	1,573,693	46,347	-	1,620,040
Vehicles	2,254,516	149,000	-	2,403,516
Infrastructure	457,614	43,008	-	500,622
Total accumulated depreciation	6,535,369	344,573	-	6,879,942
Total capital assets being depreciated, net	5,730,620			5,554,136
Governmental activities capital assets, net	\$ 15,191,152			\$ 15,014,668

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

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

Fire	\$	56,851
Parks and recreation		8,861
Police		258,255
Street department		13,235
Beach and strand		6,390
Community development		981
Total depreciation expense	\$	344,573

Business-type activities:

Water and wastewater fund

Capital assets not being depreciated:

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$ 5,245,933	\$ -	\$ -	\$ 5,245,933
Construction in progress	-	1,181,998	-	1,181,998
Total capital assets not being depreciated	5,245,933	1,181,998	-	6,427,931

Capital assets being depreciated:

Equipment	499,347	-	-	499,347
Vehicles	189,226	32,504	-	221,730
Water system	48,085,217	-	-	48,085,217
Total capital assets being depreciated	48,773,790	32,504	-	48,806,294

Less accumulated depreciation for:

Equipment	160,114	41,475	-	201,589
Vehicles	146,807	12,903	-	159,710
Water system	13,440,388	967,665	-	14,408,053
Total accumulated depreciation	13,747,309	1,022,043	-	14,769,352
Total capital assets being depreciated, net	35,026,481			34,036,942

Water and wastewater fund capital assets, net

	\$ 40,272,414		\$ 40,464,873
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Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Surf City employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Surf City's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.50% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Surf City were \$268,699 for the year ended June 30, 2018.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

At June 30, 2018, the Town reported a liability of \$1,124,099 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.07358%, which was an increase of 0.01061% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the Town recognized pension expense of \$390,929. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 64,758	\$ 31,820
Changes of assumptions	160,537	-
Net difference between projected and actual earnings on pension plan investment	272,933	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	29,703	2,383
Town contributions subsequent to the measurement date	268,699	-
Total	\$ 796,630	\$ 34,203

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

\$268,699 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2019	\$	67,660
2020		333,603
2021		169,914
2022		(77,448)
2023		-
Thereafter		-
		\$ 493,729

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

Inflation		3.0 percent
Salary increases		3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return		7.20 percent, net of pension plan investment expense, including inflation

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

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

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

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

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

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

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

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Town's proportionate share of the net pension liability (asset)	\$3,374,569	\$1,124,099	\$(754,334)

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

b. Law Enforcement Officers' Special Separation Allowance

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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 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 covers all full-time law enforcement officers of the Town. At December 31, 2016, the Separation Allowance's membership consisted of:

Inactive members receiving benefits	1
Active plan members	19
Total	20

2. Summary of Significant Accounting Policies

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

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

3. Actuarial Assumptions

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

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Investment rate of return	3.16 percent, net of pension plan investment expense, including inflation

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

Mortality rates are based on the RP-2014 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$20,502 for the reporting period.

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

At June 30, 2018, the Town reported a total pension liability of \$400,476. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$43,769.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,748	\$ -
Changes of assumptions	22,537	5,712
County benefit payments and plan administrative expense made subsequent to the measure date	-	-
Total	\$ 60,285	\$ 5,712

No amount was reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 9,765
2020	9,765
2021	9,765
2022	9,765
2023	10,233
Thereafter	5,280
	\$ 54,573

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

	1% Decrease (2.16%)	Discount rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$ 438,289	\$ 400,476	\$ 365,976

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

	2018
Beginning balance	\$ 315,688
Service Cost	22,214
Interest on the total pension liability	11,790
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	44,636
Changes of assumptions or other inputs	26,650
Benefit payments	(20,502)
Other changes	-
Ending balance of the total pension liability	\$ 400,476

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

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

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.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers (continued)

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. In addition to the Town's mandatory five percent contribution, Town policy mandates that the Town provide active law enforcement personnel a match of one percent of their gross salary as a contribution to their 401(k) plan. Contributions for the year ended June 30, 2018 were \$70,754, which consisted of \$49,886 from the Town and \$20,868 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, 2018, total contributions to the plan equaled \$93,099, which consisted of \$30,920 from the Town and \$62,179 from the participating employees.

2. Other Employment Benefits

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

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

3. Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 268,699
Benefit payments made and administrative expenses for LEOSSA	-
Differences between expected and actual experience	102,506
Changes of assumptions	183,074
Net difference between projected and actual	272,933
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,703
Charge on refunding	-
Total	\$ 856,915

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

	<u>Statement of Net Position</u>	<u>General Fund Balance sheet</u>
Taxes Receivable, less penalties (General Fund)	-	245,116
Changes in assumptions	5,712	-
Differences between expected and actual experience	31,820	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,383	-
Total	\$ 39,915	\$ 245,116

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability, law enforcement liability, and auto liability coverage of \$1 million per occurrence; public officials' liability and employee benefits liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to \$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.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

4. Risk Management (continued)

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, Judgements, and Contingent Liabilities

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

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 July 7, 2011 to lease equipment, and requires 12 annual payments of \$47,337. The second agreement was executed on October 4, 2012 to lease vehicles, and requires 3 annual payments of \$52,042. The third agreement was executed on January 1, 2016 to lease radio equipment, and requires 5 annual payments of \$93,677. 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, 2018:

Governmental Activities:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Vehicles	\$ 98,130	\$ -	\$ 98,130
Equipment	108,158	-	108,158
Total	<u>\$ 206,287</u>	<u>\$ -</u>	<u>\$ 206,287</u>

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

a. Capital Leases (continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

Years Ending June 30:		
2019	\$	135,772
2020		138,729
2021		138,998
2022		117,934
2023		7,462
2024-2025		3,495
Total minimum lease payments		542,390
Less: amount representing interest		(48,815)
Present value of the minimum lease payments	\$	493,575

b. Installment Purchases

Serviced by the General Fund:

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%. The outstanding principal balance at June 30, 2018 was \$640,514.

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%. The outstanding principal balance at June 30, 2018 was \$128,491.

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%. The outstanding principal balance at June 30, 2018 was \$630,000.

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%. The outstanding principal balance at June 30, 2018 was \$480,000.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

b. Installment Purchases (continued)

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%. The outstanding principal balance at June 30, 2018 was \$298,161.

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%. The outstanding principal balance at June 30, 2018 was \$1,600,000.

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%. The outstanding principal balance at June 30, 2018 was \$22,866.

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%. The outstanding principal balance at June 30, 2018 was \$424,949.

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%. The outstanding principal balance at June 30, 2018 was \$2,062,546.

In January 2014, the Town entered into \$7,250,000 in certificates of participation to finance the construction of a wastewater treatment facility. The financing contract requires principal payments beginning fiscal year 2015 with an interest rate of 2.81%. The outstanding principal balance at June 30, 2018 was \$5,000,000.

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%. The outstanding principal balance at June 30, 2018 was \$3,978,843.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

b. Installment Purchases (continued)

Annual debt service payments of the installment purchase of the governmental-type activities are as follows:

Years Ending June 30:	Governmental Activities		Business Type-Activities	
	Principal	Interest	Principal	Interest
2019	\$ 489,000	\$ 50,561	\$ 1,709,943	\$ 418,629
2020	489,000	35,139	1,725,298	303,818
2021	489,000	19,717	1,458,704	258,765
2022	260,000	6,546	1,403,853	220,292
2023	70,000	865	1,010,983	185,190
2024-2028	-	-	4,748,492	509,057
2029-2033	-	-	1,330,092	97,681
2034-2038	-	-	-	-
Total	\$ 1,797,000	\$ 112,828	\$ 13,387,365	\$ 1,993,432

c. Changes in Long-Term Liabilities

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

	Beginning Balances	Increases	Decreases	Ending Balance	Current Portion
Governmental activities:					
Installment purchase	\$ 2,286,000	\$ -	\$ (489,000)	1,797,000	\$ 489,000
Capital leases	690,489	-	(196,914)	493,575	123,391
Compensated absences	224,547	137,829	-	362,376	-
Total Pension Liability (LEO)	315,688	84,788	-	400,476	-
Net pension liability (LGERS)	1,127,821	-	(182,608)	945,213	-
Governmental activity long-term liabilities	<u>\$ 4,644,545</u>	<u>\$ 222,617</u>	<u>\$ (868,522)</u>	<u>\$ 3,998,640</u>	<u>\$ 612,391</u>
Business-type activities:					
Installment purchase	\$ 15,184,687	\$ -	\$ (1,797,322)	13,387,365	\$ 1,709,943
Compensated absences	55,838	6,052	-	61,890	-
Net pension liability (LGERS)	208,613	-	(29,727)	178,886	-
Business-type activity long-term liabilities	<u>\$ 15,449,138</u>	<u>\$ 6,052</u>	<u>\$ (1,827,049)</u>	<u>\$ 13,628,141</u>	<u>\$ 1,709,943</u>

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

C - Interfund Balances and Activity

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

	Amount
From the General Fund to the Beach Renourishment Fund	\$ 1,458,268
Total	\$ 1,458,268

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 as matching funds for various grant programs.

D - Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 15,014,668	\$ 40,464,873
less: long-term debt	(2,290,575)	(13,387,365)
Net investment in capital assets	\$ 12,724,093	\$ 27,077,508

E - Fund Balance

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

Total Fund Balance - General Fund	\$ 5,721,163
Less:	
Stabilization by State Statute	680,207
Streets - Powell Bill	161,017
Drug forfeitures	7,955
<i>Committed</i>	
LEO Special Separation Allowance	149,935
Remaining Fund Balance	\$ 4,722,049

There were no encumbrances needed to pay commitments at year end.

Town of Surf City, North Carolina
Notes to the Financial Statements (continued)
June 30, 2018

NOTE 4 - 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 monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 5 - SUBSEQUENT EVENTS

There are no subsequent events that would have a material effect on the financial statements. Subsequent events were evaluated through October 9, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Financial Data

This section contains additional information required by generally accepted accounting principles.

- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll

Town of Surf City, North Carolina
Town of Surf City's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Surf City's proportion of the net pension liability (asset) (%)	0.07358%	0.06297%	0.05965%	0.05577%	0.05380%
Surf City's proportion of the net pension liability (asset) (\$)	\$1,124,099	\$1,336,434	\$ 267,706	\$ (328,901)	\$ 648,497
Surf City's covered-employee payroll	\$3,797,442	\$3,445,352	\$ 3,087,112	\$2,747,515	\$2,682,046
Surf City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	29.60%	38.79%	8.67%	-11.97%	24.18%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

Town of Surf City, North Carolina
Town of Surf City's Contributions
Required Supplementary Information
Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 268,699	\$ 284,733	\$ 238,870	\$ 226,386	\$ 195,037
Contributions in relation to the contractually required contribution	<u>268,699</u>	<u>284,733</u>	<u>238,870</u>	<u>226,386</u>	<u>195,037</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Surf City's covered-employee payroll	\$3,473,351	\$3,797,442	\$3,445,352	\$3,087,112	\$2,747,515
Contributions as a percentage of covered-employee payroll	7.74%	7.50%	6.93%	7.33%	7.10%

Town of Surf City, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2018

	2018	2017
Beginning balance	\$ 315,688	\$ 313,702
Service Cost	22,214	20,642
Interest on the total pension liability	11,790	10,819
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	44,636	-
Changes of assumptions or other inputs	26,650	(8,184)
Benefit payments	(20,502)	(21,291)
Other changes	-	-
Ending balance of the total pension liability	\$ 400,476	\$ 315,688

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

Town of Surf City, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2018

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 400,476	\$ 315,688
Covered payroll	1,027,707	869,216
Total pension liability as a percentage of covered payroll	38.97%	36.32%

Notes to the schedules:

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

Individual Fund Statements and Schedules

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 5,687,370	\$
Penalties and interest		40,449	
Total	<u>5,465,000</u>	<u>5,727,819</u>	<u>262,819</u>
Other taxes and licenses:			
Privilege licenses		616	
Total	<u>1,250</u>	<u>616</u>	<u>(634)</u>
Unrestricted intergovernmental:			
Local option sales taxes		1,815,653	
Utility sales tax		454,920	
Telecommunications sales tax		19,994	
Video franchise fee		87,019	
Beer and wine tax		10,364	
ABC profit distribution		65,177	
Fire district tax		199,305	
Total	<u>2,093,300</u>	<u>2,652,432</u>	<u>559,132</u>
Restricted intergovernmental:			
Powell bill allocation		80,427	
Controlled substance tax		99	
Solid waste disposal tax		1,427	
State grants		750	
Federal grants		-	
Total	<u>80,750</u>	<u>82,703</u>	<u>1,953</u>
Permits and fees:			
Building permits		156,621	
Court cost and fees		-	
Beach access		3,360	
Total	<u>159,100</u>	<u>159,981</u>	<u>881</u>
Sales and services:			
Solid waste		1,109,223	
Total	<u>1,110,000</u>	<u>1,109,223</u>	<u>(777)</u>
Investment earnings	<u>18,000</u>	<u>147,076</u>	<u>129,076</u>

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Miscellaneous:			
Insurance proceeds	\$	\$ 61,096	\$
Other		345,549	
Total	<u>296,007</u>	<u>406,645</u>	<u>110,638</u>
Total revenues	<u>9,223,407</u>	<u>10,286,495</u>	<u>1,063,088</u>
Expenditures:			
Governing body:			
Salaries and employee benefits		35,903	
Other expenditures		35,320	
Total	<u>74,520</u>	<u>71,223</u>	<u>3,297</u>
Administration:			
Salaries and employee benefits		417,541	
Other expenditures		151,956	
Total	<u>569,585</u>	<u>569,497</u>	<u>88</u>
Elections:			
Other expenditures		4,880	
Total	<u>4,880</u>	<u>4,880</u>	<u>-</u>
Finance:			
Salaries and employee benefits		328,681	
Other expenditures		75,069	
Total	<u>407,288</u>	<u>403,750</u>	<u>3,538</u>
Insurance:			
Other expenditures		243,414	
Total	<u>245,582</u>	<u>243,414</u>	<u>2,168</u>
Legal:			
Other expenditures		18,000	
Total	<u>18,500</u>	<u>18,000</u>	<u>500</u>
Public buildings:			
Salaries and employee benefits		373,749	
Other expenditures		114,267	
Debt service:			
Principal retirement		151,560	
Interest and fees		18,155	
Total	<u>798,445</u>	<u>657,731</u>	<u>140,714</u>

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public works:			
Other expenditures	\$	\$ 25,265	\$
Total	<u>27,600</u>	<u>25,265</u>	<u>2,335</u>
Police:			
Salaries and employee benefits		1,498,350	
Other expenditures		123,253	
Capital outlay		168,089	
Debt service:			
Principal retirement		228,245	
Interest and fees		10,331	
Total	<u>2,112,937</u>	<u>2,028,268</u>	<u>84,669</u>
Fire:			
Salaries and employee benefits		1,043,106	
Other expenditures		210,307	
Capital outlay		-	
Debt service:			
Principal retirement		77,109	
Interest and fees		10,516	
Total	<u>1,342,320</u>	<u>1,341,038</u>	<u>1,282</u>
Community development:			
Salaries and employee benefits		327,107	
Other expenditures		18,787	
Total	<u>354,242</u>	<u>345,894</u>	<u>8,348</u>
Street department:			
Salaries and employee benefits		-	
Other expenditures		96,653	
Total	<u>103,501</u>	<u>96,653</u>	<u>6,848</u>
Sanitation:			
Other expenditures		930,475	
Total	<u>932,000</u>	<u>930,475</u>	<u>1,525</u>
Parks and recreation:			
Salaries and employee benefits		546,922	
Other expenditures		329,850	
Capital outlay		-	
Total	<u>891,116</u>	<u>876,772</u>	<u>14,344</u>

Town of Surf City, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Nondepartmental:			
Other expenditures	\$	\$ 72,000	\$
Total	<u>72,000</u>	<u>72,000</u>	<u>-</u>
Total expenditures	<u>7,954,516</u>	<u>7,684,860</u>	<u>269,656</u>
Revenues over (under) expenditures	<u>1,268,891</u>	<u>2,601,635</u>	<u>793,432</u>
Other financing sources (uses):			
Transfers (to) from other funds	(1,458,268)	(1,458,268)	-
Total other financing sources (uses)	<u>(1,458,268)</u>	<u>(1,458,268)</u>	<u>-</u>
Fund balance appropriated	<u>189,377</u>	-	<u>189,377</u>
Net change in fund balance	<u>\$ -</u>	1,143,367	<u>\$ -</u>
Fund balance, beginning		4,577,796	
Fund balance, ending		<u>\$ 5,721,163</u>	

Major Governmental Funds

Capital Project Funds

Town of Surf City, North Carolina
Beach Renourishment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues:</u>			
Ad valorem taxes:			
Taxes	\$	\$ -	\$
Total	<u>4,907,435</u>	<u>-</u>	<u>(4,907,435)</u>
Other taxes and licenses:			
Accommodations tax		-	
Total	<u>3,454,498</u>	<u>-</u>	<u>(3,454,498)</u>
Restricted intergovernmental:			
State grants		-	
County grants		329,500	
Total	<u>1,820,577</u>	<u>329,500</u>	<u>(1,491,077)</u>
Investment earnings	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>10,182,510</u>	<u>329,500</u>	<u>(9,853,010)</u>
<u>Expenditures:</u>			
Beach and Strand:			
Other expenditures		264,750	
Capital outlay		-	
Debt service:			
Principal retirement		132,820	
Interest and other charges		8,560	
	<u>10,775,967</u>	<u>406,130</u>	<u>10,369,837</u>
Total expenditures	<u>10,775,967</u>	<u>406,130</u>	<u>10,369,837</u>
Revenues over (under) expenditures	<u>(593,457)</u>	<u>(76,630)</u>	<u>516,827</u>
<u>Other financing sources (uses):</u>			
Transfers from General Fund		1,458,268	
Total other financing sources (uses)	<u>593,457</u>	<u>1,458,268</u>	<u>864,811</u>
Net change in fund balance	<u>\$ -</u>	<u>1,381,638</u>	<u>\$ 1,381,638</u>
Fund balance, beginning		<u>11,873,543</u>	
Fund balance, ending		<u>\$ 13,255,181</u>	

Major Governmental Funds

Special Revenue Funds

Town of Surf City, North Carolina
Accommodations Tax Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Other taxes and licenses:			
Accommodations tax	\$	\$ 1,351,528	\$
Total	<u>1,075,000</u>	<u>1,351,528</u>	<u>276,528</u>
Investment earnings	<u>-</u>	<u>-</u>	<u>-</u>
Miscellaneous	<u>-</u>	<u>2,015</u>	<u>2,015</u>
Total revenues	<u>1,075,000</u>	<u>1,353,543</u>	<u>278,543</u>
Expenditures:			
Beach and Strand:			
Salaries and employee benefits		3,184	
Other expenditures		137,760	
Capital outlay		-	
Total	<u>219,400</u>	<u>140,944</u>	<u>78,456</u>
Tourism:			
Salaries and employee benefits		137,384	
Other expenditures		72,128	
Capital outlay		-	
Debt service:			
Principal retirement		96,180	
Interest and other charges		16,030	
Total	<u>370,600</u>	<u>321,722</u>	<u>48,878</u>
Total expenditures	<u>590,000</u>	<u>462,666</u>	<u>127,334</u>
Revenues over (under) expenditures	<u>485,000</u>	<u>890,877</u>	<u>405,877</u>
Other financing sources (uses):			
Transfers (to) from other funds		-	
Total other sources (uses)	<u>(485,000)</u>	<u>-</u>	<u>485,000</u>
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>890,877</u>	<u>\$ 890,877</u>
Fund balance, beginning		<u>957,850</u>	
Fund balance, ending		<u>\$ 1,848,727</u>	

Nonmajor Governmental Funds

Capital Project Funds

Town of Surf City, North Carolina
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2018

	Capital Reserve Fund	Sidewalk Capital Project Fund	Community Center Fund	Disaster Recovery Fund	Town Hall Capital Fund	Total Nonmajor Governmental Funds
<u>Assets:</u>						
Cash and cash equivalents	\$ 140,000	\$ 10,000	\$ 1,076	\$ 745,000	\$ 12,521	\$ 908,597
Accounts receivable	-	-	-	-	-	-
Total assets	\$ 140,000	\$ 10,000	\$ 1,076	\$ 745,000	\$ 12,521	\$ 908,597
<u>Liabilities and Fund Balances:</u>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Fund balances:						
Assigned:						
Beach and strand	140,000	-	-	745,000	-	885,000
Street department	-	10,000	-	-	-	10,000
Public buildings	-	-	1,076	-	12,521	13,597
Total fund balances	140,000	10,000	1,076	745,000	12,521	908,597
Total liabilities and fund balances	\$ 140,000	\$ 10,000	\$ 1,076	\$ 745,000	\$ 12,521	\$ 908,597

Town of Surf City, North Carolina
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the Year Ended June 30, 2018

	<u>Capital Reserve Fund</u>	<u>Sidewalk Capital Project Fund</u>	<u>Community Center Fund</u>	<u>Disaster Recovery Fund</u>	<u>Town Hall Capital Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Revenues:</u>						
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Expenditures:</u>						
Beach and strand	-	-	-	-	-	-
Public buildings	-	-	-	-	-	-
Street department	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-
Revenues over (under) expenditures	-	-	-	-	-	-
<u>Other Financing Sources (Uses):</u>						
Transfers in (out)	-	-	-	-	-	-
Revenues and other sources over expenditures and other uses	-	-	-	-	-	-
Fund balance, beginning	<u>140,000</u>	<u>10,000</u>	<u>1,076</u>	<u>745,000</u>	<u>12,521</u>	<u>908,597</u>
Fund balance, ending	<u>\$ 140,000</u>	<u>\$ 10,000</u>	<u>\$ 1,076</u>	<u>\$ 745,000</u>	<u>\$ 12,521</u>	<u>\$ 908,597</u>

Town of Surf City, North Carolina
Capital Reserve Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	\$ -	\$ -
Expenditures:			
Beach and strand:			
Capital outlay	-	-	-
Total	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenditures	-	-	-
Other financing sources (uses):			
Transfers from General Fund	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		140,000	
Fund balance, ending		\$ 140,000	

Town of Surf City, North Carolina
Sidewalk Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
 Restricted intergovernmental:			
State grants	\$ -	\$ -	\$ -
Total revenues	-	-	-
Expenditures:			
 Street department:			
Other expenditures	-	-	-
Capital outlay	-	-	-
Total	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenditures	-	-	-
Other financing sources (uses):			
Transfers to General Fund	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		10,000	
Fund balance, ending		\$ 10,000	

**Town of Surf City, North Carolina
Community Center Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2018**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Restricted intergovernmental:			
State grants	\$ -	\$ -	\$ -
Total	<u>-</u>	<u>-</u>	<u>-</u>
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:			
Beach and Strand:			
Other expenditures	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):			
Transfers from General Fund	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		<u>1,076</u>	
Fund balance, ending		<u>\$ 1,076</u>	

Town of Surf City, North Carolina
Disaster Recovery Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	\$ -	\$ -
Expenditures:			
Beach and strand:			
Operating expenditures	-	-	-
Total	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenditures	-	-	-
Other financing sources (uses):			
Transfers from General Fund	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		745,000	
Fund balance, ending		\$ 745,000	

Town of Surf City, North Carolina
Town Hall Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	\$ -	\$ -
Expenditures:			
Public buildings:			
Operating expenditures	-	-	-
Total	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenditures	-	-	-
Other financing sources (uses):			
Transfers from General Fund	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		12,521	
Fund balance, ending		\$ 12,521	

Enterprise Funds

**Town of Surf City, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Water charges	\$	\$ 1,626,305	\$
Wastewater charges		2,116,254	
Tap fees		336,417	
Total	<u>4,405,250</u>	<u>4,078,976</u>	<u>(326,274)</u>
Investment earnings	<u>-</u>	<u>118</u>	<u>118</u>
Miscellaneous	<u>307,000</u>	<u>219,181</u>	<u>(87,819)</u>
Total revenues	<u>4,712,250</u>	<u>4,298,275</u>	<u>(413,975)</u>
Expenditures:			
Administration:			
Salaries and employee benefits		164,079	
Other expenditures		30,260	
Capital outlay		-	
Total	<u>213,240</u>	<u>194,339</u>	<u>18,901</u>
Insurance:			
Other expenditures		76,148	
Total	<u>77,527</u>	<u>76,148</u>	<u>1,379</u>
Water operations:			
Salaries and employee benefits		84,437	
Other expenditures		136,810	
Repairs and maintenance		28,527	
Capital outlay		-	
Debt service:			
Principal retirement		401,905	
Interest expense		22,080	
Total	<u>726,873</u>	<u>673,759</u>	<u>53,114</u>

Town of Surf City, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP) (continued)
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Wastewater collection:			
Salaries and employee benefits	\$	\$ 363,355	\$
Repairs and maintenance		153,270	
Other expenditures		337,233	
Capital outlay		-	
Debt service:			
Principal retirement		419,964	
Interest expense		25,555	
Total	<u>1,304,902</u>	<u>1,299,377</u>	<u>5,525</u>
Wastewater treatment:			
Salaries and employee benefits		250,531	
Repairs and maintenance		213,887	
Other expenditures		276,526	
Capital outlay		32,504	
Debt service:			
Principal retirement		975,453	
Interest expense		321,450	
Total	<u>2,369,708</u>	<u>2,070,351</u>	<u>299,357</u>
Total expenditures	<u>4,692,250</u>	<u>4,313,974</u>	<u>378,276</u>
Revenues over (under) expenditures	20,000	(15,699)	35,699
Other financing sources (uses):			
Transfers from General Fund	(20,000)	-	(20,000)
Total other financing sources (uses)	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
Revenues and other sources over expenditures and other uses	<u>-</u>	<u>(15,699)</u>	<u>15,699</u>

Town of Surf City, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP) (continued)
For the Year Ended June 30, 2018

**Reconciliation from budgetary basis
(modified accrual) to full accrual:**

Revenues and other sources over expenditures and other uses	\$ (15,699)
Reconciling items:	
Depreciation expense	(1,022,043)
Capital outlay	32,504
Principal retirement	1,797,322
Decrease in deferred outflows of resources-pensions	(49,065)
Decrease in net pension liability	29,727
Decrease in deferred inflows of resources-pensions	2,226
Increase in accrued vacation	(6,052)
Impact fees:	
Water capital reserve fund	340,791
Wastewater capital reserve fund	431,229
Other revenues:	
Water capital reserve fund	53
Wastewater capital reserve fund	24
Total reconciling items	<u>1,556,716</u>
Change in net position	<u><u>\$ 1,541,017</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 Year Ended June 30, 2018

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Impact fees	\$ 3,139,500	\$ 4,588,322	\$ 340,791	\$ 4,929,113	\$ 1,789,613
Assessments	1,850	1,850	-	1,850	-
Investment earnings	44,000	49,291	53	49,344	5,344
Total revenues	3,185,350	4,639,463	340,844	4,980,307	1,794,957
Expenditures:					
Contingency	40,562	-	-	-	40,562
Total expenditures	40,562	-	-	-	40,562
Revenues over (under) expenditures	3,144,788	4,639,463	340,844	4,980,307	1,835,519
Other financing sources (uses):					
Appropriated fund balance	100,000	-	-	-	(100,000)
Transfers from other funds:					
Water and Wastewater Fund	144,260	-	-	-	(144,260)
Wastewater Capital Project Fund	115,000	-	-	-	(115,000)
Transfers to other funds:					
Water and Wastewater Fund	(3,070,048)	(3,850,138)	-	(3,850,138)	(780,090)
Capital Project Fund	(269,000)	283,248	-	283,248	552,248
Installment purchase obligations	(165,000)	-	-	-	165,000
Total other financing sources (uses)	(3,144,788)	(3,566,890)	-	(3,566,890)	(422,102)
Revenues and other sources over expenditures and other uses	\$ -	\$ 1,072,573	\$ 340,844	\$ 1,413,417	\$ 1,413,417

**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 Year Ended June 30, 2018**

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Impact fees	\$ 3,811,485	\$ 5,631,025	\$ 431,229	\$ 6,062,254	\$ 2,250,769
Assessments	409,600	17,728	-	17,728	(391,872)
Investment earnings	86,000	65,763	24	65,787	(20,213)
Total revenues	4,307,085	5,714,516	431,253	6,145,769	1,838,684
Expenditures:					
Contingency	7,006	-	-	-	7,006
Total expenditures	7,006	-	-	-	7,006
Revenues over (under) expenditures	4,300,079	5,714,516	431,253	6,145,769	1,845,690
Other financing sources (uses):					
Transfers from other funds:					
Wastewater Capital Project Fund	379,000	182,000	-	182,000	(197,000)
Transfers to other funds:					
Water and Wastewater Fund	(2,230,379)	(4,707,622)	-	(4,707,622)	(2,477,243)
Wastewater Capital Project Fund	(2,448,700)	-	-	-	2,448,700
Total other financing sources (uses)	(4,300,079)	(4,525,622)	-	(4,525,622)	(225,543)
Revenues and other sources over expenditures and other uses	\$ -	\$ 1,188,894	\$ 431,253	\$ 1,620,147	\$ 1,620,147

**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 Year Ended June 30, 2018**

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-	-
Expenditures:					
Construction	2,888,527	-	702,801	702,801	2,185,726
Professional services	355,560	-	479,197	479,197	(123,637)
Land and Right-of-Way	6,250	-	-	-	6,250
Interest	140,650	-	-	-	140,650
Contingency	289,013	-	-	-	289,013
Total expenditures	3,680,000	-	1,181,998	1,181,998	2,498,002
Revenues over (under) expenditures	(3,680,000)	-	(1,181,998)	(1,181,998)	2,498,002
Other financing sources (uses):					
Transfers from other funds:					
General Fund	100,000	-	-	-	(100,000)
Installment purchase obligations	3,580,000	-	-	-	(3,580,000)
Total other financing sources (uses)	3,680,000	-	-	-	(3,680,000)
Revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (1,181,998)	\$ (1,181,998)	\$ (1,181,998)

Agency Funds

Town of Surf City, North Carolina
Agency Fund
Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2018

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Assets:</u>				
Cash and cash equivalents	\$ 66	\$ 665	\$ -	\$ 731
Total assets	<u>66</u>	<u>665</u>	<u>-</u>	<u>731</u>
<u>Liabilities:</u>				
Accounts payable	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net position:</u>				
Held in trust	66	665	-	731
Total net position	<u>\$ 66</u>	<u>\$ 665</u>	<u>\$ -</u>	<u>\$ 731</u>

Other Schedules

This section contains additional information on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

Town of Surf City, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2018

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2018</u>
2017-2018	\$ -	\$ 5,722,631	\$ 5,627,671	\$ 94,960
2016-2017	81,838	-	31,959	49,879
2015-2016	36,243	-	2,252	33,991
2014-2015	25,068	-	2,250	22,818
2013-2014	28,669	-	6,163	22,506
2012-2013	22,985	-	3,823	19,162
2011-2012	18,503	-	5,115	13,388
2010-2011	18,520	-	4,534	13,986
2009-2010	3,081	-	2,008	1,073
2008-2009	2,447	-	1,594	853
2007-2008	1,503	-	1,503	-
	<u>\$ 238,857</u>	<u>\$ 5,722,631</u>	<u>\$ 5,688,872</u>	<u>272,616</u>

Less: allowance for uncollectible accounts - General Fund 27,500

Ad valorem taxes receivable - net \$ 245,116

Reconciliation to revenues:

Ad valorem taxes - General Fund	\$ 5,727,819
Reconciling items:	
Interest collected	(40,449)
Taxes written off	1,502
	<u>1,502</u>

Total collections and credits \$ 5,688,872

Town of Surf City, North Carolina
Analysis of Current Year Tax Levy
For the Year Ended June 30, 2018

	<u>Town-Wide Levy</u>		<u>Total Levy</u>		
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy					
Property taxed at current year's rate	\$ 1,395,763,659	0.410	\$ 5,722,631	\$ 5,590,726	\$ 131,905
Total	<u>1,395,763,659</u>		<u>5,722,631</u>	<u>5,590,726</u>	<u>131,905</u>
Discoveries	<u>-</u>	0.410	<u>-</u>	<u>-</u>	<u>-</u>
Releases	<u>-</u>	0.410	<u>-</u>	<u>-</u>	<u>-</u>
Total property valuation	<u><u>\$ 1,395,763,659</u></u>				
Net levy			5,722,631	5,590,726	131,905
Uncollected taxes at June 30, 2018			<u>(94,960)</u>	<u>(94,960)</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 5,627,671</u></u>	<u><u>\$ 5,495,766</u></u>	<u><u>\$ 131,905</u></u>
Current levy collection percentage			<u><u>98.34%</u></u>	<u><u>98.30%</u></u>	<u><u>100.00%</u></u>

Compliance Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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, 2018, 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 October 9, 2019.

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.

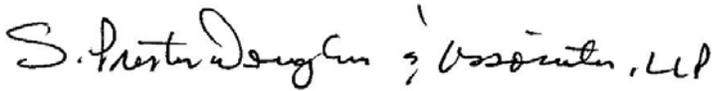
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (items 2018-001, 2018-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Surf City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 items 2018-001 and 2018-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Handwritten signature of S. Preston DeLong in cursive script.

Lumberton, North Carolina
October 9, 2019

**Town of Surf City, North Carolina
 Schedule of Findings and Responses
 For the Fiscal Year Ended June 30, 2018**

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:	
<ul style="list-style-type: none"> • Material weakness(es) identified? _____ <u>X</u> _____ _____ <u>X</u> _____ _____ <u>X</u> _____ 	yes no yes none reported yes no

**Town of Surf City, North Carolina
Schedule of Findings and Responses (continued)
For the Fiscal Year Ended June 30, 2018**

Section II. Financial Statement Findings

MATERIAL WEAKNESS

Finding 2018-001 Bank Reconciliations

- Criteria: Monthly bank reconciliations should be performed on a timely basis.
- Condition: Monthly bank reconciliations were not reconciled on a timely basis for the year ended June 30, 2018.
- Effect: The Town’s bank reconciliation process which is useful in detecting errors did not take place on a timely basis.
- Cause: The software conversion during the year ended June 30, 2017 caused the reconciling issues because the conversion did not roll forward prior year General Ledger balances accurately.
- Repeat Finding: This is not a repeat finding.
- Recommendation: Perform monthly bank reconciliations on a timely basis.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 82.

Town of Surf City, North Carolina
Schedule of Findings and Responses (continued)
For the Fiscal Year Ended June 30, 2018

Section II. Financial Statement Findings (continued)

MATERIAL WEAKNESS

Finding 2018-002 Audit Adjustments

Criteria: The Town should reconcile its subsidiary ledgers to the general ledger during the fiscal year.

Condition: The Town's year-end journal entries were not prepared or not prepared correctly. As a result, several audit adjustments were made to correct them.

Effect: Without error corrections users of the financial statements could be misinformed about the Town's financial condition, including sufficiency and flexibility of resources, asset performance, and operating results.

Cause: The software conversion during the year ended June 30, 2017 caused the reconciling issues because the conversion did not roll forward prior year General Ledger balances accurately.

Repeat Finding: This is a not a repeat finding.

Recommendation: We recommend that the Town reconciles its subsidiary ledger to the general ledger during the fiscal year to reduce the number of audit adjustments.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 82.



Town of Surf City

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Douglas C. Medlin, Mayor
William J. (Buddy) Fowler, Mayor Pro-Tem
Nelva R. Albury, Councilwoman

Jeremy Shugarts, Councilman
Donald R. Helms, Councilman
Teresa B. Batts, Councilwoman

Finding 2018-001

Bank Reconciliations

Name of contact person: Ashley Loftis, Finance Officer

Corrective Action Bank reconciliations will be performed on or by the middle of the following month end. This monthly task has been assigned to our Assistant Finance Director to ensure proper controls are adhered to but to also ensure that these are completed in a timely manner. This was a previous task of the Finance Director.

Proposed Completion Date: The Town will implement the above procedures immediately.

Finding 2018-002

Audit Adjustments

Name of contact person: Ashley Loftis, Finance Officer

Corrective Action The Town will reconcile its subsidiary ledger to the general ledger during the fiscal year. A complete review of the subsidiary ledger and general ledger will occur during the bank reconciliation process. Any journal entries that are needed will be posted at that time. This will ensure that there are no missed entries at year end.

Proposed Completion Date: The Town will implement the above procedures immediately.

Town of Surf City, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2018

Finding: 2017-001
Status: Implementation of additional internal controls are in process to ensure that all purchases go through the preaudit process.