

TOWN OF KURE BEACH, NORTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019



Town Council Members

Craig Bloszinsky, Mayor
David Heglar, Mayor Pro Tem
Allen Oliver
John Ellen
Joseph Whitley

Administrative and Financial Staff

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

TOWN OF KURE BEACH, NORTH CAROLINA

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Town of Kure Beach, North Carolina (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund and aggregate remaining fund information of the Town of Kure Beach, North Carolina as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10; Schedule of the Proportionate Share of Net Pension Liability and Schedule of Contributions - Local Government Employees' Retirement System (Exhibit 11) on page 50; Schedule of Changes in Total Pension Liability - Law Enforcement Officers' Special Separation Allowance and Schedule of Total Pension Liability as a Percentage of Covered Payroll (Exhibit 12) on page 51; and the Schedule of Changes in the Total OPEB Liability and Related Ratios (Exhibit 13) on page 52 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Town of Kure Beach, North Carolina. The budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019 on our consideration of the Town of Kure Beach, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and on the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 24, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

As management of the Town of Kure Beach, North Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$16,207,055 (net position).
- The government's total net position increased by \$1,198,316. This increase was attributable to the completion of the Town Hall and Fire Station capital projects and federal and state reimbursements relating to Hurricane Florence.
- As of the close of the current fiscal year, the Town's total governmental funds reported combined ending fund balances of \$4,588,954 with a net decrease of \$2,730,455 in fund balance. This decrease is primarily due to the completion of the Town Hall and Fire Station capital projects. Approximately 18% of fund balance or \$827,977 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,119,557 or 51% of total General Fund expenditures for the fiscal year. The combined unassigned and assigned fund balance for the General Fund was \$3,760,977 or 61% of total General Fund expenditures for the fiscal year.
- The Town's total long-term liabilities decreased by \$263,030 during the current fiscal year. The key factor in this decrease was payments made on outstanding installment purchase debt.
- The business-type activities revenue increased by \$284,752 (15%) due to fee increases in services provided.

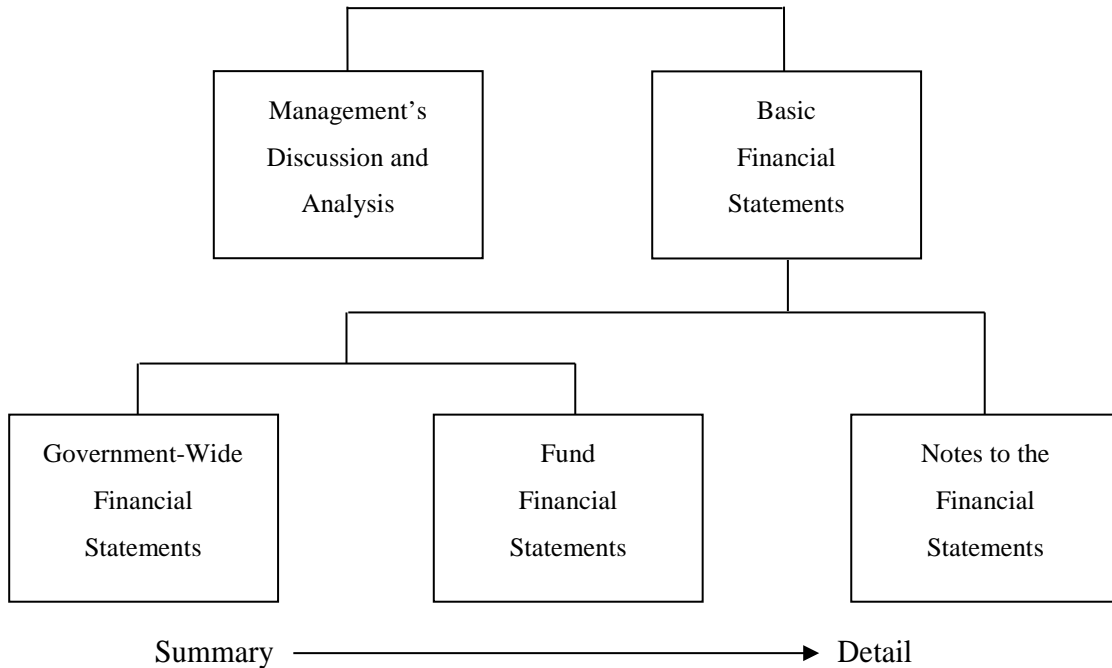
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Kure Beach, North Carolina's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Kure Beach, North Carolina.

June 30, 2019

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-Wide Financial Statements. They provide both short and long-term information about the Town's financial status.

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

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

Government-Wide Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

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

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

Fund Financial Statements

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

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Kure Beach adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

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

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 50 of this report.

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

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

Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 4,859,536	\$ 7,974,848	\$ 2,572,924	\$ 2,400,796	\$ 7,432,460	\$ 10,375,644
Capital assets	12,460,193	9,119,553	6,531,392	6,563,473	18,991,585	15,683,026
Deferred outflows of resources	654,397	442,225	112,713	74,869	767,110	517,094
Total assets	17,974,126	17,536,626	9,217,029	9,039,138	27,191,155	26,575,764
Liabilities:						
Long-term liabilities	8,328,605	8,456,951	2,028,554	2,163,238	10,357,159	10,620,189
Other liabilities	250,394	639,035	87,443	95,798	337,837	734,833
Deferred inflows of resources	224,513	166,250	64,591	45,753	289,104	212,003
Total liabilities	8,803,512	9,262,236	2,180,588	2,304,789	10,984,100	11,567,025
Net Position:						
Net investment in capital						
assets	6,805,308	3,050,893	5,122,713	4,973,235	11,928,021	8,024,128
Restricted	827,977	3,945,368	-	-	827,977	3,945,368
Unrestricted	1,537,329	1,278,129	1,913,728	1,761,114	3,451,057	3,039,243
Total net position	\$ 9,170,614	\$ 8,274,390	\$ 7,036,441	\$ 6,734,349	\$ 16,207,055	\$ 15,008,739

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Kure Beach exceeded liabilities and deferred inflows by \$16,207,055 as of June 30, 2019. The Town's net position for governmental activities and business-type activities were \$9,170,614 and \$7,036,441, respectively. The Town's net position increased by \$1,198,316 for the fiscal year ended June 30, 2019. However, the largest portion, \$11,928,021, reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

equipment); less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position of \$827,977 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,451,057 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total governmental net position, notably, the continued diligence in the collection of property taxes by accomplishing a tax collection percentage over 99% and the continued growth in the tax base.

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

Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,989,889	\$ 1,171,029	\$ 2,144,521	\$ 1,949,498	\$ 4,134,410	\$ 3,120,527
Operating grants and contributions	319,534	327,475	-	-	319,534	327,475
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	2,943,587	2,520,305	-	-	2,943,587	2,520,305
Other taxes	996,368	776,566	-	-	996,368	776,566
Grants and contributions not restricted to specific programs	37,779	391,271	64,028	-	101,807	391,271
Transfers from other funds	-	-	-	-	-	-
Other	17,124	8,666	32,386	6,685	49,510	15,351
Total revenues	<u>6,304,281</u>	<u>5,195,312</u>	<u>2,240,935</u>	<u>1,956,183</u>	<u>8,545,216</u>	<u>7,151,495</u>
Expenses:						
General government	789,004	794,112	-	-	789,004	794,112
Public safety	2,746,892	2,464,462	-	-	2,746,892	2,464,462
Highways/streets	171,248	18,127	-	-	171,248	18,127
Environmental protection	1,313,400	1,081,263	-	-	1,313,400	1,081,263
Economic development	-	-	-	-	-	-
Parks and recreation	193,672	146,697	-	-	193,672	146,697
Interest on long-term debt	169,021	128,442	-	-	169,021	128,442
Water and sewer	-	-	1,938,843	1,926,866	1,938,843	1,926,866

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Other	24,820	24,909	-	-	24,820	24,909
Total expenses	5,408,057	4,658,012	1,938,843	1,926,866	7,346,900	6,584,878
Increase in net position	896,224	537,300	302,092	29,317	1,198,316	566,617
Net position, July 1	8,274,390	8,696,026	6,734,349	6,918,506	15,008,739	15,614,532
Restatement	-	(958,936)	-	(213,474)	-	(1,172,410)
Net position, beginning, restated	8,274,390	7,737,090	6,734,349	6,705,032	15,008,739	14,442,122
Net position, June 30,	\$ 9,170,614	\$ 8,274,390	\$ 7,036,441	\$ 6,734,349	\$ 16,207,055	\$ 15,008,739

Governmental Activities - Governmental activities increased the Town's net position by \$896,224, thereby accounting for 75% of the total increase in the net position of the Town. Positive elements affecting net position were an increase in local option sales tax revenue and a strong property tax collection rate over 99%.

Business-Type Activities - Business-type activities of the Town reported \$7,036,441 in net position, an increase of \$302,092. Positively impacting net position was a \$284,752 increase in revenue relating to changes to the water and sewer rate structure.

Financial Analysis of the Town's Funds

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

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Kure Beach. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,119,557, while the total fund balance reached \$4,588,345. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 51% of total General Fund expenditures, while total fund balance is 74% of total General Fund expenditures.

At June 30, 2019, the governmental funds of the Town of Kure Beach reported a fund balance of \$4,588,954 with a net decrease in fund balance of \$2,730,455. Included in this change in fund balance is a decrease in fund balance in the Capital Projects Fund totaling \$3,091,519.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

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

Proprietary Fund - The Town's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,913,728. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$18,991,585 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the additions of the Town Hall and Fire Station capital project, equipment, vehicles and infrastructure. There were no significant demolitions or disposals of capital assets.

Town of Kure Beach, North Carolina's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
	Land	\$ 4,213,583	\$ 4,213,583	\$ 20,697	\$ 20,697	\$ 4,234,280
Building	5,206,707	661,457	699,154	108,983	5,905,861	770,440
Equipment and vehicles	652,794	501,420	156,313	131,120	809,107	632,540
Improvements other than buildings	392,467	412,365	-	-	392,467	412,365
Plant and Distribution Systems	-	-	5,655,228	5,702,673	5,655,228	5,702,673
Infrastructure	1,994,642	1,691,658	-	-	1,994,642	1,691,658
Construction in progress	-	1,639,070	-	600,000	-	2,239,070
Total	<u>\$ 12,460,193</u>	<u>\$ 9,119,553</u>	<u>\$ 6,531,392</u>	<u>\$ 6,563,473</u>	<u>\$ 18,991,585</u>	<u>\$ 15,683,026</u>

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

Long-Term Debt - As of June 30, 2019, the Town had total debt outstanding of \$7,063,564. Installment debt for governmental type activities and business-type activities was \$5,654,885 and \$1,408,679, respectively.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Economic Factors and Next Year's Budgets and Rates

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

- Tourism to the Town has continued to increase.
- The Town approved a \$5,559,748 General Fund budget for fiscal year 2019-2020. This budget represents a 1.2% increase from the fiscal year 2018-2019 amended budget.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, 117 Settlers Lane, Kure Beach, NC 28449. You can also call (910) 458-8216, visit our website www.townofkurebeach.org or send an email to a.copenhaver@tokb.org for more information.

BASIC FINANCIAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Position
June 30, 2019

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,971,940	\$ 2,208,369	\$ 5,180,309
Investments	1,039,148	-	1,039,148
Receivables, net	510,521	364,555	875,076
Restricted cash and cash equivalents	337,927	-	337,927
Total current assets	<u>4,859,536</u>	<u>2,572,924</u>	<u>7,432,460</u>
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements, and construction in progress	4,213,583	20,697	4,234,280
Other capital assets, net of depreciation	8,246,610	6,510,695	14,757,305
Total capital assets	<u>12,460,193</u>	<u>6,531,392</u>	<u>18,991,585</u>
Total assets	<u>17,319,729</u>	<u>9,104,316</u>	<u>26,424,045</u>
Deferred Outflows of Resources			
Pension deferrals	621,521	95,269	716,790
OPEB deferrals	32,876	17,444	50,320
Total deferred outflows of resources	<u>654,397</u>	<u>112,713</u>	<u>767,110</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	250,394	81,083	331,477
Customer deposits	-	6,360	6,360
Current portion of long-term liabilities	774,785	251,828	1,026,613
Total current liabilities	<u>1,025,179</u>	<u>339,271</u>	<u>1,364,450</u>
Long-term liabilities:			
Net pension liability	982,987	163,568	1,146,555
Total OPEB liability	1,537,220	425,436	1,962,656
Due in more than one year	5,033,613	1,187,722	6,221,335
Total liabilities	<u>8,578,999</u>	<u>2,115,997</u>	<u>10,694,996</u>
Deferred Inflows of Resources			
Pension deferrals	13,659	3,053	16,712
OPEB deferrals	210,854	61,538	272,392
Total deferred inflows of resources	<u>224,513</u>	<u>64,591</u>	<u>289,104</u>
Net Position			
Net investment in capital assets	6,805,308	5,122,713	11,928,021
Restricted	827,977	-	827,977
Unrestricted	1,537,329	1,913,728	3,451,057
Total net position	<u>\$ 9,170,614</u>	<u>\$ 7,036,441</u>	<u>\$ 16,207,055</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Activities
Year Ended June 30, 2019

Exhibit 2

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants	Capital Grants	Primary Government		
Functions/Programs					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 789,004	\$ 656,725	\$ -	\$ -	\$ (132,279)	\$ -	\$ (132,279)
Public safety	2,746,892	5,080	254,579	-	(2,487,233)	-	(2,487,233)
Transportation	171,248	-	64,955	-	(106,293)	-	(106,293)
Parks and recreation	193,672	10,943	-	-	(182,729)	-	(182,729)
Special projects	24,820	117,152	-	-	92,332	-	92,332
Environmental protection	1,313,400	1,199,989	-	-	(113,411)	-	(113,411)
Interest on long-term debt	169,021	-	-	-	(169,021)	-	(169,021)
Total governmental activities	<u>5,408,057</u>	<u>1,989,889</u>	<u>319,534</u>	<u>-</u>	<u>(3,098,634)</u>	<u>-</u>	<u>(3,098,634)</u>
Business-type activities:							
Water and sewer	1,938,843	2,144,521	-	-	-	205,678	205,678
Total business-type activities	<u>1,938,843</u>	<u>2,144,521</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,678</u>	<u>205,678</u>
Total primary government	<u>\$ 7,346,900</u>	<u>\$ 4,134,410</u>	<u>\$ 319,534</u>	<u>\$ -</u>	<u>(3,098,634)</u>	<u>205,678</u>	<u>(2,892,956)</u>
General Revenues:							
Taxes:							
Property taxes, levied for general purpose					2,943,587	-	2,943,587
Local option sales tax					986,023	-	986,023
Other taxes, licenses and fees					10,345	-	10,345
Grants and contributions not restricted to specific programs					37,779	64,028	101,807
Miscellaneous					-	19,764	19,764
Investment earnings, unrestricted					17,124	12,622	29,746
Total general revenues, special items, and transfers					<u>3,994,858</u>	<u>96,414</u>	<u>4,091,272</u>
Change in net position					<u>896,224</u>	<u>302,092</u>	<u>1,198,316</u>
Net position, beginning					<u>8,274,390</u>	<u>6,734,349</u>	<u>15,008,739</u>
Net position, ending					<u>\$ 9,170,614</u>	<u>\$ 7,036,441</u>	<u>\$ 16,207,055</u>

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

Balance Sheet

Governmental Funds

June 30, 2019

	Major Governmental Fund		Total Governmental Funds
	General Fund	Capital Projects Fund	
Assets			
Cash and cash equivalents	\$ 2,954,521	\$ 17,419	\$ 2,971,940
Investments	1,039,148	-	1,039,148
Restricted cash	337,927	-	337,927
Taxes receivable, net	20,188	-	20,188
Account receivables, net	490,333	-	490,333
Total assets	<u>\$ 4,842,117</u>	<u>\$ 17,419</u>	<u>\$ 4,859,536</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 233,584	\$ 16,810	\$ 250,394
Total liabilities	<u>233,584</u>	<u>16,810</u>	<u>250,394</u>
Deferred Inflow of Resources			
Property taxes receivable	20,188	-	20,188
	<u>20,188</u>	<u>-</u>	<u>20,188</u>
Fund Balances			
Restricted for:			
State statute	490,333	-	490,333
Streets	232,604	-	232,604
Federal asset forfeitures	104,431	-	104,431
Capital Projects	-	609	609
Assigned:			
Beach protection	351,597	-	351,597
Stormwater	289,823	-	289,823
Unassigned	3,119,557	-	3,119,557
Total fund balances	<u>4,588,345</u>	<u>609</u>	<u>4,588,954</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,842,117</u>	<u>\$ 17,419</u>	<u>\$ 4,859,536</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
Governmental Funds
June 30, 2019

Exhibit 4

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

Total Fund Balance, Governmental Funds	\$ 4,588,954
Changes to the pension and OPEB plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	654,397
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets at historical costs	17,297,620
Less: accumulated depreciation	<u>4,837,427</u>
Net capital assets used in governmental activities	12,460,193
Net adjustment to increase fund balance-total governmental funds to arrive at net assets - governmental activities	<u>13,114,590</u>
Liabilities for earned but considered deferred inflows of resources in fund statements	<u>20,188</u>
Liabilities owed from governmental activities are not due and payable in the current period and therefore are not reported in the funds	
Installment purchases debt	5,654,885
Net pension obligation	297,731
Other postemployment benefits	1,537,220
Compensated absences	153,513
Net pension liability	685,256
Pension and OPEB related deferrals	<u>224,513</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets - governmental activities	<u>8,553,118</u>
Net position of governmental activities	<u><u>\$ 9,170,614</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

Exhibit 5

	Major Governmental Fund		Total Governmental Funds
	General Fund	Capital Projects Fund	
Revenues			
Ad valorem taxes	\$ 2,939,803	\$ -	\$ 2,939,803
Other taxes and licenses	24,759	-	24,759
Unrestricted intergovernmental	1,355,960	-	1,355,960
Restricted intergovernmental	531,231	-	531,231
Permits and fees	1,222,946	-	1,222,946
Sales and services	208,674	-	208,674
Investment earnings	17,007	117	17,124
Total revenues	<u>6,300,380</u>	<u>117</u>	<u>6,300,497</u>
Expenditures			
Current:			
General government	834,834	-	834,834
Public safety	2,437,212	-	2,437,212
Transportation	9,366	-	9,366
Parks and recreation	174,665	-	174,665
Special projects	24,820	-	24,820
Environmental protection	1,151,989	-	1,151,989
Debt service	816,208	-	816,208
Capital outlay	724,582	3,090,688	3,815,270
Total expenditures	<u>6,173,676</u>	<u>3,090,688</u>	<u>9,264,364</u>
Excess of revenues over expenditures	<u>126,704</u>	<u>(3,090,571)</u>	<u>(2,963,867)</u>
Other Financing Sources (Uses)			
Transfers from other funds	948	-	948
Transfers to other funds	-	(948)	(948)
Proceeds from installment purchases	233,412	-	233,412
Total other financing sources (uses)	<u>234,360</u>	<u>(948)</u>	<u>233,412</u>
Net change in fund balances	<u>361,064</u>	<u>(3,091,519)</u>	<u>(2,730,455)</u>
Fund balances, beginning	<u>4,227,281</u>	<u>3,092,128</u>	<u>7,319,409</u>
Fund balances, ending	<u>\$ 4,588,345</u>	<u>\$ 609</u>	<u>\$ 4,588,954</u>

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

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of the Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2019**

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

Net change in fund balances - total governmental funds	\$ (2,730,455)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	3,735,794
Depreciation expense for governmental assets	(395,154)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	153,157
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Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities	10,379
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OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities	32,876
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in tax receivable	3,784

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

Compensated absences	(13,556)
Net pension obligation	(220,223)
Other postemployment benefits	(94,153)

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

<u>413,775</u>

Total changes in net position of governmental activities	<u>\$ 896,224</u>
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TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Annual Budget and Actual - General Fund
Year Ended June 30, 2019

Exhibit 7

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 2,920,300	\$ 2,920,300	\$ 2,939,803	\$ 19,503
Other taxes and licenses	14,395	17,595	24,759	7,164
Unrestricted intergovernmental	1,196,700	1,196,700	1,355,960	159,260
Restricted intergovernmental	143,923	362,279	531,231	168,952
Permits and fees	1,080,770	1,136,770	1,222,946	86,176
Sales and services	135,524	135,524	208,674	73,150
Investment earnings	11,400	11,400	17,007	5,607
Total revenues	<u>5,503,012</u>	<u>5,780,568</u>	<u>6,300,380</u>	<u>519,812</u>
Expenditures				
Current:				
General government	896,339	902,039	834,834	67,205
Public safety	2,442,492	2,530,029	2,437,212	92,817
Transportation	10,000	10,000	9,366	634
Parks and recreation	187,268	187,268	174,665	12,603
Special projects	31,065	31,065	24,820	6,245
Environmental protection	990,205	1,189,699	1,151,989	37,710
Debt service	816,243	816,243	816,208	35
Capital outlay	493,390	703,570	724,582	(21,012)
Total expenditures	<u>5,867,002</u>	<u>6,369,913</u>	<u>6,173,676</u>	<u>196,237</u>
Revenues over (under) expenditures	<u>(363,990)</u>	<u>(589,345)</u>	<u>126,704</u>	<u>716,049</u>
Other Financing Sources (Uses)				
Proceeds from installment purchases	195,000	275,000	233,412	(41,588)
Transfers from other funds	-	-	948	948
Total other financing sources (uses)	<u>195,000</u>	<u>275,000</u>	<u>234,360</u>	<u>(40,640)</u>
Fund balance appropriated	<u>168,990</u>	<u>314,345</u>	<u>-</u>	<u>(314,345)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>361,064</u>	<u>\$ 361,064</u>
Fund balances, beginning			<u>4,227,281</u>	
Fund balances, ending			<u>\$ 4,588,345</u>	

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Position
Proprietary Fund
June 30, 2019

Exhibit 8

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and equivalents	\$ 2,208,369
Account receivables, net	364,555
Total current assets	<u>2,572,924</u>
Noncurrent assets:	
Capital assets, net	<u>6,531,392</u>
Total assets	<u>9,104,316</u>
Deferred Outflows of Resources	
Pension deferrals	95,269
OPEB deferrals	17,444
Total deferred outflows of resources	<u>112,713</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	81,083
Customer deposits	6,360
Current portion of compensated absences	-
Current portion of long-term debt	251,828
Total current liabilities	<u>339,271</u>
Noncurrent liabilities:	
Non-current portion of compensated absences	5,871
Net pension liability	163,568
Total OPEB liability	425,436
Non-current portion of long-term debt	1,181,851
Total liabilities	<u>2,115,997</u>
Deferred Inflows of Resources	
Pension deferrals	3,053
OPEB deferrals	61,538
Total deferred inflows of resources	<u>64,591</u>
Net Position	
Net investment in capital assets	5,122,713
Unrestricted	1,913,728
Total Net Position	<u>\$ 7,036,441</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2019

Exhibit 9

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 2,138,196
Other operating revenues	<u>6,325</u>
Total operating revenues	<u>2,144,521</u>
Operating expenses:	
Administration	521,818
Water and sewer system operations	1,126,697
Depreciation	<u>252,643</u>
Total operating expenses	<u>1,901,158</u>
Operating income	<u>243,363</u>
Non-operating revenues (expenses):	
Investment earnings	12,622
Grants	64,028
Miscellaneous revenues	19,764
Interest and fees	<u>(37,685)</u>
Total non-operating revenues (expenses)	<u>58,729</u>
Net income	<u>302,092</u>
Change in net position	<u>302,092</u>
Net position, beginning	<u>6,734,349</u>
Total net position, ending	<u><u>\$ 7,036,441</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2019

Exhibit 10

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 2,089,448
Cash paid for goods and services	(985,087)
Cash paid to employees for services	<u>(643,914)</u>
Net cash provided by operating activities	<u>460,447</u>
Cash flows from noncapital financing activities:	
Grants	<u>64,028</u>
Net cash provided noncapital financing activities	<u>64,028</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(200,798)
Proceeds from installment purchases	39,571
Principal paid on installment purchases	(221,130)
Interest and fees paid on installment purchases	<u>(37,685)</u>
Net cash used in capital and related financing activities	<u>(420,042)</u>
Cash flows from investing activities:	
Interest	<u>12,622</u>
Net increase in cash and cash equivalents	117,055
Balance, beginning	<u>2,091,314</u>
Balances, ending	<u>\$ 2,208,369</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 243,363</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	252,643
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(55,073)
Deferred outflows of resources - pensions	(33,360)
Deferred outflows of resources - OPEB	(4,484)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(8,355)
Compensated absences	(1,258)
Net Pension Liability	44,647
Deferred inflows of resources - pensions	(1,032)
Deferred inflows of resources - OPEB	19,870
OPEB liability	<u>3,486</u>
Total adjustments	<u>217,084</u>
Net cash provided by operating activities	<u>\$ 460,447</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

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

Capital Projects Fund – This fund is used to account for the renovation of the Town hall and construction of a new fire station.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reports the following major enterprise fund:

Water and Sewer Fund – This fund is used to account for the Town’s water and sewer operations. Water and Sewer Capital Projects Fund has been consolidated into the Water and Sewer Fund for financial reporting purposes. The budgeting comparison for the Water and Sewer Capital Projects Fund has been included in the supplemental information.

Measurement Focus and Basis of Accounting

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

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

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

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

Governmental Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Budgetary Data

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

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

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by the State law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. State law (G.S. 159-30(c)) authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust ("NCCMT"). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT- Term Portfolio is a bond fund, has no rating and is measured at fair value.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash recorded in the Governmental Fund and General Fund represents unexpended Powell Bill and Federal Asset Forfeiture of \$233,377 and \$104,550, respectively, because their use is completely restricted to the purpose for which the grant or contribution was issued or given which is street improvements and law enforcement equipment or training.

Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. At year end, the Town believes that receivables are fully collectable.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Capitalization cost for the Town's assets are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 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 purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Town are depreciated on a class life basis at the following rates:

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element called deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as expense or expenditure until then. The Town has an item that meets this criterion, deferrals of pension and OPEB. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has three items that meet the criterion for this category – property taxes receivable, pension and OPEB deferrals.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Vacation leave is accumulated at the rate of up to twenty-seven (27) days per year with each leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded within the funds as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Balances

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Restricted for Stabilization by State statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet. At year end, restricted for stabilization by state statute was \$490,333.

Restricted for Streets - Powell Bill - portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds. At year end, restricted for streets – Powell Bill was \$232,604.

Restricted for Federal asset forfeiture - portion of fund balance that is restricted by Federal regulations. This amount represents the balance of total unexpended federal asset forfeiture funds received by the Town. At year end, restricted for Federal asset forfeiture was \$104,431.

Restricted for Capital Projects – portion of fund balance that has been budgeted by Town Council for the construction of a new fire station and renovation of the Town Hall facility. This amount represents the balance of unexpended loan proceeds and at year end totaled \$609.

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

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned for Stormwater – portion of fund balance that has been budgeted by Town Council for maintenance and improvement of the Town’s stormwater system.

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

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

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

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 – DETAIL NOTES ON ALL FUNDS

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits.

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

At June 30, 2019, the Town's deposits had a carrying amount of \$5,518,036 and a bank balance of \$5,658,692. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral under the pooling method. The Town's petty cash fund totaled \$200.

Investments

The Town's investment balances were as follows:

Investment Type	Valuation Measurement		Book Value	Maturity	Rating
	Method				
NC Capital Management Trust - Government Portfolio	Fair Value - Level 1		\$ 479,681	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value - Level 1		559,467	0.11 years	Unrated
			<u>\$ 1,039,148</u>		

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

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Interest Rate Risk - The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's internal investment policy limits the Town's investment portfolio to maturities of 12 months or less.

Credit Risk – The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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

Receivables

Governmental activities – General Fund receivables of \$510,521 consist of \$75,515 for customer accounts; \$20,188 for taxes and related accrued interest, and \$414,818 due from other governments. Business-Type activities – Water and Sewer Fund receivables of \$364,555 consist entirely of customer accounts. Based on historical experience an allowance for doubtful accounts has not been established.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the Primary Government was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 4,213,583	\$ -	\$ -	\$ -	\$ 4,213,583
Construction in progress	1,639,070	600,000	-	(2,239,070)	-
Total capital assets not being depreciated	<u>5,852,653</u>	<u>600,000</u>	<u>-</u>	<u>(2,239,070)</u>	<u>4,213,583</u>
Capital assets being depreciated:					
Buildings	1,304,247	2,374,463	-	2,239,070	5,917,780
Equipment and vehicles	3,675,982	365,934	21,731	-	4,020,185
Improvements	608,602	-	8,686	-	599,916
Infrastructure	2,150,759	395,397	-	-	2,546,156
Total capital assets being depreciated	<u>7,739,590</u>	<u>3,135,794</u>	<u>30,417</u>	<u>2,239,070</u>	<u>13,084,037</u>
Less accumulated depreciation for:					
Buildings	642,790	68,283	-	-	711,073
Equipment and vehicles	3,174,562	214,560	21,731	-	3,367,391
Improvements	196,237	19,898	8,686	-	207,449
Infrastructure	459,101	92,413	-	-	551,514
Total accumulated depreciation	<u>4,472,690</u>	<u>395,154</u>	<u>30,417</u>	<u>-</u>	<u>4,837,427</u>
Total capital assets being depreciated, net	<u>3,266,900</u>				<u>8,246,610</u>
Government activity capital assets, net	<u>\$ 9,119,553</u>				<u>\$ 12,460,193</u>

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

General Government	\$ 27,108
Public Safety	220,653
Environmental Protection	128,386
Cultural and Recreational	19,007
Total depreciation expense	<u>\$ 395,154</u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Business-Type Activities:					
Capital assets not being depreciated:					
Land	\$ 20,697	\$ -	\$ -	\$ -	\$ 20,697
Construction in process	600,000	-	-	(600,000)	-
Total capital assets not being depreciated	<u>620,697</u>	<u>-</u>	<u>-</u>	<u>(600,000)</u>	<u>20,697</u>
Capital assets being depreciated:					
Plant and Distribution Systems	9,446,032	137,102	-	-	9,583,134
Buildings	193,162	-	-	600,000	793,162
Equipment and vehicles	728,900	83,460	-	-	812,360
Total capital assets being depreciated	<u>10,368,094</u>	<u>220,562</u>	<u>-</u>	<u>600,000</u>	<u>11,188,656</u>
Less accumulated depreciation for:					
Plant and Distribution Systems	3,743,359	184,547	-	-	3,927,906
Buildings	84,179	9,829	-	-	94,008
Equipment and vehicles	597,780	58,267	-	-	656,047
Total accumulated depreciation	<u>4,425,318</u>	<u>252,643</u>	<u>-</u>	<u>-</u>	<u>4,677,961</u>
Total capital assets being depreciated, net	<u>5,942,776</u>				<u>6,510,695</u>
Water and Sewer activity capital assets, net	<u>\$ 6,563,473</u>				<u>\$ 6,531,392</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Kure Beach employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Kure Beach's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Kure Beach were \$184,983 for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$848,824 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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 0.03578%, which was a decrease of 0.00017% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$244,658. At June 30, 2019, 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	\$ 130,953	\$ 4,394
Changes of assumptions	225,245	-
Net difference between projected and actual earnings on pension plan investments	116,518	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	11,846	5,150
Town contributions subsequent to the measurement date	184,983	-
	<u>\$ 669,545</u>	<u>\$ 9,544</u>

\$184,983 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 ending June 30, 2020.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

<u>Year Ended June 30:</u>	
2020	\$ 230,261
2021	149,758
2022	28,638
2023	66,361
	<u>\$ 475,018</u>

Actuarial Assumptions: The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increase, including inflation and productivity factor	3.50 to 8.10%
Investment rate of return, net of pension plan investment expense, including inflation	7.00%

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, 2017 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. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 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 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate: The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Towns' proportionate share of the net pension liability (asset)	\$ 2,038,949	\$ 848,824	\$ (145,663)

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

b. Law Enforcement Officers Special Separation Allowance

Plan Description

The Town of Kure Beach, North Carolina administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers 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.

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	1
Active plan members	12
	<u>13</u>

Summary of Significant Accounting Policies

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

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases, including inflation and productivity factor	3.50 to 7.35%
Discount rate	3.64%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Mortality rates are based on the following:

- Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.
- Deaths Before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.
- Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.
- Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

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. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$20,758 as benefits came due for the reporting period.

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

At June 30, 2019, the Town reported a total pension liability of \$297,731. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$32,497.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,571	\$ -
Changes of assumptions	12,295	12,318
Benefit payments and administrative costs made subsequent to the measurement date	10,379	-
Total	\$ 47,245	\$ 12,318

\$10,379 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ending June 30, 2020.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

<u>Year ended June 30:</u>	
2020	\$ 6,914
2021	6,914
2022	7,244
2023	2,762
2024	714
	<u>\$ 24,548</u>

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 3.64 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 (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	<u>1% Decrease (2.64%)</u>	<u>Discount Rate (3.64%)</u>	<u>1% Increase (4.64%)</u>
Total pension liability	\$ 322,994	\$ 297,731	\$ 274,628

Schedule of Changes in Total Pension Liability Law Enforcement Officers' Special Separation Allowance

Beginning balance	\$ 286,452
Service cost	16,859
Interest on the total pension liability	8,724
Differences between expected and actual experience in the measurement of the total pension liability	18,304
Changes of assumptions or other inputs	(11,850)
Benefit payments	(20,758)
Ending balance of the total pension liability	<u>\$ 297,731</u>

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, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 244,658	\$ 32,497	\$ 277,155
Pension Liability	848,824	297,731	1,146,555
Proportionate share of the net pension liability	0.03578%	n/a	
 Deferred Outflows of Resources			
Differences between expected and actual experience	130,953	24,571	155,524
Changes of assumptions	225,245	12,295	237,540
Net difference between projected and actual earnings on plan investments	116,518	-	116,518
Changes in proportion and differences between contributions and proportionate share of contributions	11,846	-	11,846
Benefit payments and administrative costs paid subsequent to the measurement date	184,983	10,379	195,362
 Deferred Inflows of Resources			
Differences between expected and actual experience	4,394	-	4,394
Changes of assumptions	-	12,318	12,318
Changes in proportion and differences between contributions and proportionate share of contributions	5,150	-	5,150

Supplemental Retirement Income Plan for Law Enforcement Officers and Other Employees

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

Funding Policy: Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5.00% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$154,837, which consisted of \$117,190 from the Town and \$37,647 from the law enforcement officers and other employees.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Other Postemployment Benefits (OPEB)

Healthcare Benefits

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

Membership of the Retiree Health Plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Retirees receiving benefits	11
Active plan members	45
	<hr/>
	56
	<hr/>

Total OPEB Liability

The Town's total OPEB liability of \$1,962,656 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5%
Salary increases, including wage inflation	
General employees	3.5 to 7.75%
Law enforcement officers	3.5 to 7.35%
Discount rate	3.89%
Healthcare cost trend rates	
Pre-medicare	7.5% for 2017 decreasing to ultimate rate of 5.0% by 2023
Medicare	5.5% for 2017 decreasing to ultimate rate of 5.0% by 2020

The discount rate is based on the yield of the June average of the Bond Buyer General Obligation 20 year Municipal Bond Index published weekly by The Bond Buyer.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Changes in the Total OPEB Liability

Changes for the year	
Service cost	\$ 120,386
Interest	68,545
Differences between expected and actual experience	(4,480)
Changes in assumptions or other inputs	(118,670)
Benefit payments	(56,594)
Net changes	<u>9,187</u>
Balance, beginning	<u>1,953,469</u>
Balance, ending	<u><u>\$ 1,962,656</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using scale MP-2015.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	<u>1 % Decrease</u>	<u>Discount Rate (3.89%)</u>	<u>1% Increase</u>
Total OPEB liability	\$ 2,357,004	\$ 1,962,656	\$ 1,658,873

Sensitivity to the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>(Pre-medicare - 6.5%, Medicare - 4.5%)</u>	<u>Discount Rate (Pre-medicare - 7.5%, Medicare - 5.5%)</u>	<u>(Pre-medicare - 8.5%, Medicare - 6.5%)</u>
Total OPEB liability	\$ 1,607,200	\$ 1,962,656	\$ 2,443,419

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized OPEB expense of \$145,263. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 15,221
Changes of assumptions	-	257,171
Benefit payments and administrative costs made subsequent to the measurement date	50,320	-
Total	\$ 50,320	\$ 272,392

\$50,320 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2020	\$ (43,668)
2021	(43,668)
2022	(43,668)
2023	(43,668)
2024	(43,668)
Thereafter	(54,052)
	\$ (272,392)

Other Employment Benefits

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

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

Long-Term Obligations

Installment Purchases

The Town has entered into the following installment purchase contracts:

Serviced by the General Fund:

\$3,600,000 loan on December 19, 2007 to acquire the land for Ocean Front Park due in annual installments ranging from \$112,128 to \$67,682 including interest through December 19, 2027; interest at 4.28 percent	\$ 584,135
\$875,000 loan on July 23, 2005 to finance the Cutter Court Drainage Project due in monthly installments of \$6,678 including interest through June 23, 2020; interest at 4.40 percent	78,223
\$261,181 of a \$1,187,187 loan on April 11, 2007 to construct a water tower and finance town hall renovations due in semi-annual installments of \$11,598 including interest through May 7, 2022; interest at 3.92 percent	65,051
\$347,000 loan on July 12, 2011 to finance development of Ocean Front Park due in annual installments ranging from \$35,645 to \$21,308 including interest through July 12, 2028; interest at 4.39 percent	204,118
\$63,500 loan on November 9, 2016 to finance two police cars due in annual installments of \$16,515 including interest through November 9, 2020; interest at 1.60 percent	32,254
\$179,756 loan on August 23, 2016 to finance a garbage truck due in annual installments of \$37,805 including interest through August 23, 2021; interest at 1.70 percent	109,665
\$409,471 loan on March 12, 2015 to acquire land on 4th Street and H Avenue due in annual installments ranging from \$51,143 to \$41,967 including interest through March 12, 2025; interest at 2.49 percent	245,683
\$36,867 loan on July 26, 2016 to finance a service truck due in annual installments of \$9,594 including interest through July 26, 2020; interest at 1.60 percent	18,726

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$52,637 of a \$105,273 loan on November 9, 2016 to finance a backhoe due in annual installments of \$11,125 including interest through November 9, 2021; interest at 1.87 percent	\$ 32,165
\$40,743 of a \$81,485 loan on August 13, 2015 to finance a HydroJetter due in annual installments of \$8,575 including interest through August 13, 2020; interest at 1.70 percent	16,710
\$103,230 of a \$186,000 loan on September 14, 2015 to finance equipment and vehicles due in annual installments of \$27,117 including interest through September 14, 2019; interest at 2.01 percent	26,583
\$4,400,000 of a \$5,000,000 loan on December 11, 2017 to finance renovations of fire station and town hall due in semi-annual installments ranging from \$203,427 to \$148,559 including interest through December 11, 2032; interest at 2.58 percent	3,960,000
\$31,958 of a \$63,915 loan on July 28, 2017 to finance a compact excavator due in annual installments of \$8,357 including interest through July 28, 2021; interest at 1.80 percent	24,181
\$31,668 loan on October 19, 2017 to finance a vehicle due in annual installments of \$8,312 including interest through October 19, 2021; interest at 1.95 percent	23,979
\$233,412 loan on October 30, 2018 to finance equipment and vehicle due in annual installments of \$51,346 including interest through October 30, 2023; interest at 3.26 percent	233,412
	<u>\$ 5,654,885</u>

Serviced by the Water and Sewer Fund:

\$432,660 loan on May 1, 2010 to finance the Sewer Rehabilitation Project with 50% principal forgiveness due in annual installments of \$10,556 including interest through May 1, 2030; interest at 0.00 percent	\$ 116,113
\$926,006 of a \$1,187,187 loan on April 11, 2007 to construct a water tower and finance town hall renovations due in semi-annual installments of \$41,119 including interest through May 7, 2022; interest at 3.92 percent	230,716
\$40,743 of a \$81,485 loan on August 13, 2015 to finance a HydroJetter due in annual installments of \$8,575 including interest through August 13, 2020; interest at 1.70 percent	16,710

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$82,770 of a \$186,000 loan on September 14, 2015 to finance equipment and vehicles due in annual installments of \$21,743 including interest through September 14, 2019; interest at 2.01 percent	\$ 21,314
\$52,637 of a \$105,273 loan on November 9, 2016 to finance a backhoe due in annual installments of \$11,125 including interest through November 9, 2021; interest at 1.87 percent	32,165
\$475,000 loan on June 28, 2017 to construct a pump station due in semi-annual installments of \$26,508 including interest through June 28, 2027; interest at 2.11 percent	387,909
\$600,000 of a \$5,000,000 loan on December 11, 2017 to finance renovations of fire station and town hall due in semi-annual installments ranging from \$27,740 to \$20,258 including interest through December 11, 2032; interest at 2.58 percent	540,000
\$31,958 of a \$63,915 loan on July 28, 2017 to finance a compact excavator due in annual installments of \$8,357 including interest through July 28, 2021; interest at 1.80 percent	24,181
\$39,571 loan on August 23, 2018 to finance a vehicle due in annual installments of \$10,819 including interest through August 23, 2022; interest at 3.68 percent	39,571
	\$ 1,408,679

The future minimum payments of the installment purchases:

<u>Year Ending June 30</u>	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 684,785	\$ 157,831	\$ 226,829	\$ 36,884
2021	583,858	139,028	210,233	31,209
2022	553,205	122,556	206,535	25,573
2023	467,751	106,761	108,910	20,221
2024	469,321	92,930	99,505	15,675
2025-2029	1,869,288	278,740	406,034	47,267
2030-2033	1,026,677	52,976	150,633	11,610
Total	\$ 5,654,885	\$ 950,822	\$ 1,408,679	\$ 188,439

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Changes in Long-Term Liabilities

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

	Beginning Balances	Increases	Decreases	Ending Balances	Current Portion
Governmental Activities:					
Installment purchases	\$ 6,068,660	\$ 233,412	\$ 647,187	\$ 5,654,885	\$ 684,785
Total OPEB liability	1,531,519	5,701	-	1,537,220	-
Total pension liability (LEO)	286,452	11,279	-	297,731	-
Net pension liability (LGERS)	430,363	254,893	-	685,256	-
Compensated absences	139,957	106,986	93,430	153,513	90,000
Total governmental activity long-term liabilities	<u>\$ 8,456,951</u>	<u>\$ 612,271</u>	<u>\$ 740,617</u>	<u>\$ 8,328,605</u>	<u>\$ 774,785</u>
Business-Type Activities:					
Installment purchases	\$ 1,590,238	\$ 39,571	\$ 221,130	\$ 1,408,679	\$ 226,829
Total OPEB liability	421,950	3,486	-	425,436	-
Net pension liability (LGERS)	118,921	44,647	-	163,568	-
Compensated absences	32,129	22,896	24,154	30,871	25,000
Total business-type long-term liabilities	<u>\$ 2,163,238</u>	<u>\$ 110,600</u>	<u>\$ 245,284</u>	<u>\$ 2,028,554</u>	<u>\$ 251,829</u>

At June 30, 2019, the Town of Kure Beach, North Carolina had a legal debt margin of \$66,621,091.

Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources, which is comprised of the following at year end:

	<u>Statement of Net Position</u>
Benefit payments and administrative expenses for plans made subsequent to measurement date	\$ 245,682
Changes in assumptions	237,540
Differences between expected and actual experience	272,042
Changes in proportion and difference between employer contributions and proportionate share of contributions	11,846
	<u>\$ 767,110</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Deferred inflows of resources are comprised of the following at year end:

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Tax Receivables	\$ -	\$ 20,188
Changes in assumptions	269,489	-
Differences between expected and actual experience	<u>19,615</u>	<u>-</u>
Total	<u>\$ 289,104</u>	<u>\$ 20,188</u>

C. Fund Balance

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

Total fund balance - General Fund	\$ 4,588,345
Less:	
Stabilization by State Statute	490,333
Streets- Powell Bill	232,604
Federal Asset Forfeiture	104,431
Assigned	641,420
Fund Balance Policy	<u>1,689,610</u>
Remaining Fund Balance	<u>\$ 1,429,947</u>

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

D. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in 2 self-funded risk financing pools administered by the NC League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

The Town carries flood insurance through NCLM-Interlocal Risk Financing Fund of NC. The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

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

Exhibit 11

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset) (%)	0.03578%	0.03595%	0.03317%	0.03276%	0.03123%	0.02790%
Proportion of the net pension liability (asset) (\$)	\$ 848,824	\$ 549,216	\$ 703,980	\$ 147,026	\$ (184,179)	\$ 336,302
Covered-employee payroll	2,246,227	2,127,634	2,001,604	1,825,227	1,688,555	1,538,320
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	37.79%	25.81%	35.17%	8.06%	-10.91%	21.86%
Plan fiduciary net position as a percentage of the total pension liability	92.00%	94.18%	91.47%	98.09%	102.64%	94.35%
Contributions						
Contractually required contribution	\$ 184,983	\$ 170,180	\$ 156,792	\$ 136,436	\$ 130,407	\$ 119,670
Contributions in relation to the contractually required contribution	<u>184,983</u>	<u>170,180</u>	<u>156,792</u>	<u>136,436</u>	<u>130,407</u>	<u>119,670</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,341,597	\$2,246,227	\$ 2,127,634	\$ 2,001,604	\$ 1,825,227	\$ 1,688,555
Contributions as a percentage of covered-employee payroll	7.90%	7.58%	7.37%	6.82%	7.14%	7.09%

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

TOWN OF KURE BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Year Ended June 30, 2019

Exhibit 12

Schedule of Changes in Total Pension Liability

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 286,452	\$ 251,424	\$ 247,804
Service cost	16,859	13,363	13,639
Interest on the total pension liability	8,724	9,263	8,612
Differences between expected and actual experience in the measurement of the total pension liability	18,304	15,404	-
Changes of assumptions or other inputs	(11,850)	19,885	(5,484)
Benefit payments	<u>(20,758)</u>	<u>(22,887)</u>	<u>(13,147)</u>
Ending balance of the total pension liability	<u>\$ 297,731</u>	<u>\$ 286,452</u>	<u>\$ 251,424</u>

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

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Total pension liability	\$ 297,731	\$ 286,452	\$ 251,424
Covered payroll	734,343	659,186	667,133
Total pension liability as a percentage of covered payroll	40.54%	43.46%	37.69%

Notes to the Schedules:

The Town of Kure Beach has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 73 to pay related benefits.

TOWN OF KURE BEACH, NORTH CAROLINA
Other-Post Employment Benefits
Required Supplementary Information
Schedule of Changes in the Total OPEB Liability and Related Ratios
Year Ended June 30, 2019

Exhibit 13

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 120,386	\$ 136,734
Interest	68,545	60,160
Differences between expected and actual experience	(4,480)	(15,156)
Changes of assumptions	(118,670)	(205,793)
Benefit payments	(56,594)	(41,960)
Net change in total OPEB liability	<u>9,187</u>	<u>(66,015)</u>
Total OPEB liability - beginning	<u>1,953,469</u>	<u>2,019,484</u>
Total OPEB liability - ending	<u>\$ 1,962,656</u>	<u>\$ 1,953,469</u>
Covered payroll	2,084,679	2,084,679
Total OPEB liability as a percentage of covered payroll	94.15%	93.71%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal year</u>	<u>Rate</u>
2019	3.89%
2018	3.56%

SUPPLEMENTAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

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

Page 1 of 4

General Fund

For the Fiscal Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,916,500	\$ 2,934,677	\$ 18,177
Penalties and interest	3,800	5,126	1,326
Total	<u>2,920,300</u>	<u>2,939,803</u>	<u>19,503</u>
Other taxes and licenses:			
Motor vehicle licenses	9,750	10,185	435
Vehicle re-entry decal sales	7,700	14,449	6,749
Licenses and fees	145	125	(20)
Total	<u>17,595</u>	<u>24,759</u>	<u>7,164</u>
Unrestricted intergovernmental:			
Local option sales taxes	780,000	864,829	84,829
ABC revenue	15,900	24,318	8,418
Hold harmless	106,000	121,194	15,194
Utility sales tax	177,500	201,276	23,776
Solid Waste Disposal	1,500	1,653	153
Beer and wine tax	9,300	9,610	310
Video programming	36,000	35,029	(971)
Telecommunications tax	11,500	10,879	(621)
Refunds	59,000	87,172	28,172
Total	<u>1,196,700</u>	<u>1,355,960</u>	<u>159,260</u>
Restricted intergovernmental:			
Grants	297,279	466,276	168,997
Powell Bill allocation	65,000	64,955	(45)
Total	<u>362,279</u>	<u>531,231</u>	<u>168,952</u>
Permits and fees:			
Garbage fees	492,080	500,985	8,905
Building permits	70,940	117,508	46,568
TDA funds	235,000	254,579	19,579
Miscellaneous	337,100	345,702	8,602
Police fees	1,650	4,172	2,522
Total	<u>1,136,770</u>	<u>1,222,946</u>	<u>86,176</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Sales and services:			
Rents and concessions	\$ 110,824	\$ 117,403	\$ 6,579
Miscellaneous	24,700	91,271	66,571
Total	<u>135,524</u>	<u>208,674</u>	<u>73,150</u>
Investment earnings	<u>11,400</u>	<u>17,007</u>	<u>5,607</u>
Total Revenues	<u>5,780,568</u>	<u>6,300,380</u>	<u>519,812</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits	7,494	7,439	55
Operating expense	34,700	31,190	3,510
Total	<u>42,194</u>	<u>38,629</u>	<u>3,565</u>
Administration:			
Salaries and benefits	145,106	123,881	21,225
Operating expense	556,802	552,952	3,850
Capital outlay	92,450	83,895	8,555
Total	<u>794,358</u>	<u>760,728</u>	<u>33,630</u>
Finance:			
Salaries and benefits	83,096	81,529	1,567
Operating expense	74,841	37,843	36,998
Total	<u>157,937</u>	<u>119,372</u>	<u>38,565</u>
Total general government	<u>994,489</u>	<u>918,729</u>	<u>75,760</u>
Public Safety:			
Police:			
Salaries and benefits	1,174,207	1,143,439	30,768
Operating expense	232,720	208,577	24,143
Capital outlay	60,000	85,773	(25,773)
Total	<u>1,466,927</u>	<u>1,437,789</u>	<u>29,138</u>
Fire:			
Salaries and benefits	653,346	629,968	23,378
Operating expense	110,306	115,945	(5,639)
Total	<u>763,652</u>	<u>745,913</u>	<u>17,739</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

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

Page 3 of 4

General Fund (Continued)

For the Fiscal Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Life guards:			
Salaries and benefits	\$ 169,948	\$ 163,335	\$ 6,613
Operating expense	50,337	39,029	11,308
Capital outlay	-	10,000	(10,000)
Total	<u>220,285</u>	<u>212,364</u>	<u>7,921</u>
Building Inspection:			
Salaries and benefits	115,770	115,543	227
Operating expense	23,395	21,376	2,019
Total	<u>139,165</u>	<u>136,919</u>	<u>2,246</u>
Total public safety	<u>2,590,029</u>	<u>2,532,985</u>	<u>57,044</u>
Transportation:			
Operating expense	10,000	9,366	634
Capital outlay	165,000	161,882	3,118
Total transportation	<u>175,000</u>	<u>171,248</u>	<u>3,752</u>
Parks and recreation:			
Salaries and benefits	117,418	108,279	9,139
Operating expense	69,850	66,386	3,464
Total parks and recreation	<u>187,268</u>	<u>174,665</u>	<u>12,603</u>
Special projects:			
Economic development	-	-	-
Community center	23,300	21,414	1,886
Other	7,765	3,406	4,359
Total special projects	<u>31,065</u>	<u>24,820</u>	<u>6,245</u>
Environmental protection:			
Salaries and benefits	602,308	565,884	36,424
Operating expense	587,391	586,105	1,286
Capital outlay	386,120	383,032	3,088
Total environmental protection	<u>1,575,819</u>	<u>1,535,021</u>	<u>40,798</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service:			
Principal	\$ 647,635	\$ 647,487	\$ 148
Interest	168,608	168,721	(113)
Total debt service	<u>816,243</u>	<u>816,208</u>	<u>35</u>
Total expenditures	<u>6,369,913</u>	<u>6,173,676</u>	<u>196,237</u>
Revenue over (under) expenditures	<u>(589,345)</u>	<u>126,704</u>	<u>716,049</u>
Other financing sources (uses):			
Proceeds from installment purchases	275,000	233,412	(41,588)
Transfers from other funds	-	948	948
Total other financing sources (uses)	<u>275,000</u>	<u>234,360</u>	<u>(40,640)</u>
Fund balance appropriated	<u>314,345</u>	<u>-</u>	<u>(314,345)</u>
Net change in fund balance	<u>\$ -</u>	<u>361,064</u>	<u>\$ 361,064</u>
Fund balances, beginning		<u>4,227,281</u>	
Fund balances, ending		<u>\$ 4,588,345</u>	

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Projects Fund - Fire Station and Town Hall Renovations
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Federal and State Grants	\$ -	\$ -	\$ -	\$ -
Interest earnings	-	239	117	356
Total revenues	<u>-</u>	<u>239</u>	<u>117</u>	<u>356</u>
Expenditures:				
Capital projects:				
Construction	4,026,652	1,158,957	2,885,246	4,044,203
Architectural services and planning	415,257	390,049	42,124	432,173
Furniture	136,900	-	116,225	116,225
Project management	100,000	49,512	41,708	91,220
Other project costs	52,150	40,552	5,385	45,937
Total expenditures	<u>4,730,959</u>	<u>1,639,070</u>	<u>3,090,688</u>	<u>4,729,758</u>
Revenues under expenditures	<u>(4,730,959)</u>	<u>(1,638,831)</u>	<u>(3,090,571)</u>	<u>(4,729,402)</u>
Other financing sources (uses):				
Installment sale proceeds	4,400,000	4,400,000	-	4,400,000
Transfers in (out)	330,959	330,959	(948)	330,011
Total other financing sources (uses)	<u>4,730,959</u>	<u>4,730,959</u>	<u>(948)</u>	<u>4,730,011</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 3,092,128</u>	<u>(3,091,519)</u>	<u>\$ 609</u>
Fund balances, beginning			<u>3,092,128</u>	
Fund balances, ending			<u>\$ 609</u>	

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Water and Sewer Fund
For the Fiscal Year Ended June 30, 2019

Statement 3
Page 1 of 2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services:			
Water sales and sewer charges:			
Residential and commercial	\$ 2,021,265	\$ 2,093,799	\$ 72,534
Water and sewer tap fees	66,000	97,610	31,610
Other user fees	1,500	1,860	360
Other operating revenues	6,300	6,325	25
Total	<u>2,095,065</u>	<u>2,199,594</u>	<u>104,529</u>
Non-operating revenues			
Grants	-	64,028	64,028
Miscellaneous	-	19,764	19,764
Interest earnings	7,020	12,622	5,602
Total revenues	<u>2,102,085</u>	<u>2,296,008</u>	<u>193,923</u>
Expenditures:			
Water and sewer administration and operations:			
Salaries and benefits - admin	318,746	287,989	30,757
Salaries and benefits - OPS	401,917	355,925	45,992
Utilities	59,400	56,085	3,315
Supplies	108,000	115,427	(7,427)
Repairs and maintenance	175,688	217,308	(41,620)
Treatment facility charges	325,000	350,415	(25,415)
Operating expenditures	316,214	284,880	31,334
Capital outlay	238,300	220,562	17,738
Total	<u>1,943,265</u>	<u>1,888,591</u>	<u>54,674</u>
Debt service:			
Interest and fees	37,689	37,685	4
Principal retirement	221,131	221,130	1
Total	<u>258,820</u>	<u>258,815</u>	<u>5</u>
Total expenditures	<u>2,202,085</u>	<u>2,147,406</u>	<u>54,679</u>
Revenues over (under) expenditures	<u>(100,000)</u>	<u>148,602</u>	<u>248,602</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual (Non-GAAP) - Water and Sewer Fund (Continued)
For the Fiscal Year Ended June 30, 2019

Statement 3
Page 2 of 2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Installment purchase proceeds	\$ 100,000	\$ 39,571	\$ (60,429)
Total other financing sources (uses)	<u>100,000</u>	<u>39,571</u>	<u>(60,429)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	188,173	<u>\$ 188,173</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		220,562	
Depreciation		(252,643)	
Installment purchase proceeds		(39,571)	
Principal retirement		221,130	
Changes in assets and liabilities:			
Accounts receivable		(55,073)	
Deferred outflows of resources - pensions		(33,360)	
Deferred outflows of resources - OPEB		(4,484)	
Accounts payable and accrued liabilities		(8,355)	
Compensated absences		(1,258)	
Net Pension Liability		44,647	
Deferred inflows of resources - pensions		(1,032)	
Deferred inflows of resources - OPEB		19,870	
OPEB liability		3,486	
Total reconciling items		<u>113,919</u>	
Change in net position		<u>\$ 302,092</u>	

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

Capital Projects Fund - Water Meter

From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Expenditures:				
Capital projects:				
Construction	\$ 1,301,415	\$ -	\$ -	\$ -
Engineering/construction administration	31,500	-	9,500	9,500
Other project costs	1,250	-	1,250	1,250
Total expenditures	1,334,165	-	10,750	10,750
Other financing sources:				
Installment sale proceeds	1,325,000	-	-	-
Transfers in	9,165	-	-	-
Total other financing sources	1,334,165	-	-	-
Net change in fund balance	\$ -	\$ -	(10,750)	\$ (10,750)
Fund balances, beginning			-	
Fund balances, ending			\$ (10,750)	

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

Capital Projects Fund - Utility Renovations

From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Expenditures:				
Capital projects:				
Construction	\$ 600,000	\$ 600,000	\$ -	\$ 600,000
Total expenditures	<u>600,000</u>	<u>600,000</u>	<u>-</u>	<u>600,000</u>
Other financing sources (uses):				
Installment sale proceeds	600,000	600,000	-	600,000
Total other financing sources	<u>600,000</u>	<u>600,000</u>	<u>-</u>	<u>600,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances, beginning			<u>-</u>	
Fund balances, ending			<u>\$ -</u>	

OTHER SCHEDULES

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections, Credits and Adjustments	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 2,940,853	\$ 2,934,942	\$ 5,911
2017-2018	3,738	-	1,062	2,676
2016-2017	3,313	-	238	3,075
2015-2016	2,930	-	186	2,744
2014-2015	1,641	-	25	1,616
2013-2014	1,660	-	19	1,641
2012-2013	1,017	-	-	1,017
2011-2012	553	-	2	551
2010-2011	547	-	-	547
2009-2010	410	-	-	410
2008-2009	595	-	595	-
Prior to 2008	-	-	-	-
Total	<u>\$ 16,404</u>	<u>\$ 2,940,853</u>	<u>\$ 2,937,069</u>	<u>\$ 20,188</u>

Ad valorem taxes receivable - net \$ 20,188

Reconciliation with revenues:

Ad valorem taxes - general fund	2,939,803
Reconciling items:	
Write offs, collection fees, and discounts	(2,174)
Miscellaneous adjustments	3,656
Interest collected	(4,216)
	<u>\$ 2,937,069</u>

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 2

Analysis of Current Year Tax Levy

Town - Wide Levy

For the Fiscal Year Ended June 30, 2019

	Town-wide		Total Levy		
	Property Valuation (in Thousand)	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxes at current year rate	\$ 865,673	0.3300	\$ 2,856,721	\$ 2,856,721	\$ -
Registered motor vehicles at prior year rates	5,653	0.2850	16,110	-	16,110
Motor vehicles	20,796	0.3300	68,627	-	68,627
Penalties and interest	-		657	657	-
Total	<u>892,122</u>		<u>2,942,115</u>	<u>2,857,378</u>	<u>84,737</u>
Discoveries:					
Current year taxes	<u>-</u>	0.3300	<u>149</u>	<u>149</u>	<u>-</u>
Abatements:					
Current year taxes	<u>(428)</u>	0.3300	<u>(1,411)</u>	<u>(1,411)</u>	<u>-</u>
Total property value	<u>\$ 891,694</u>				
Net levy			<u>2,940,853</u>	<u>2,856,116</u>	<u>84,737</u>
Uncollected taxes at June 30, 2018			<u>5,911</u>	<u>5,911</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,934,942</u>	<u>\$ 2,850,205</u>	<u>\$ 84,737</u>
Current levy collection percentage			<u>99.80%</u>	<u>99.79%</u>	<u>100.00%</u>

COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the aggregated remaining fund information of the Town of Kure Beach, North Carolina (the "Town") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 24, 2019