

TOWN OF KURE BEACH, NORTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Town Council Members

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

Administrative and Financial Staff

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

TOWN OF KURE BEACH, NORTH CAROLINA
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2017, 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, each major fund and aggregate remaining fund information of the Town of Kure Beach, North Carolina as of June 30, 2017, 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; Other Postemployment Benefits - Schedule of Funding Progress and Schedule of Employer Contributions on page 46; and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and the Schedule of Contributions, on page 47, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 48 through 49 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

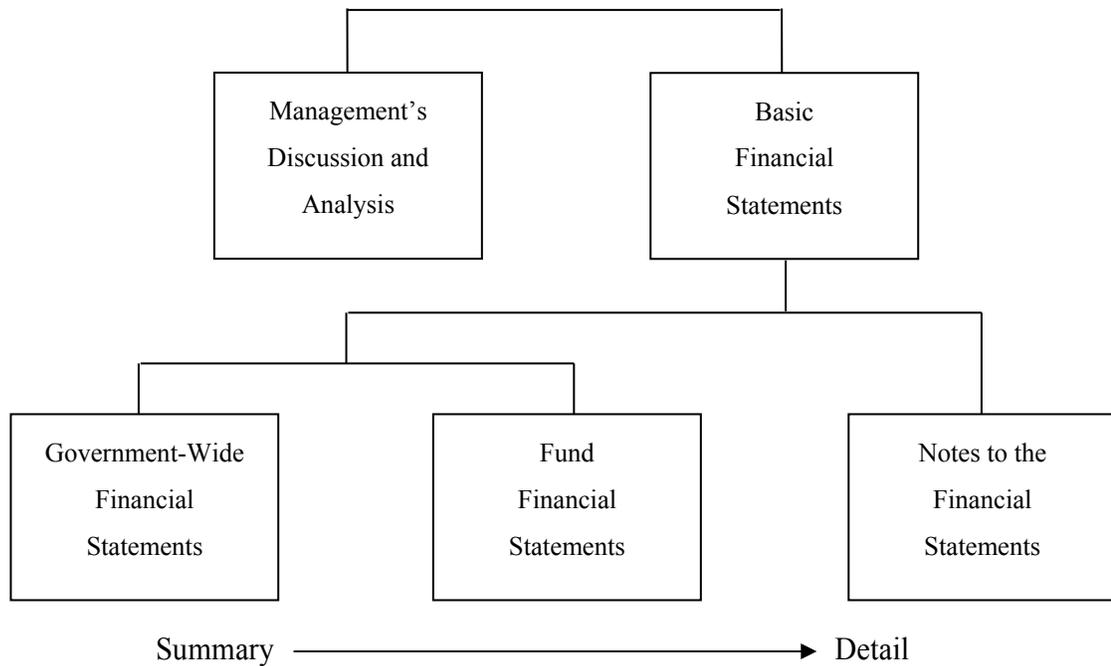
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$15,614,532 (net position).
- The government's total net position increased by \$781,211.
- As of the close of the current fiscal year, the Town's total governmental funds reported combined ending fund balances of \$4,252,523 with a net change of (\$233,915) in fund balance. Approximately 16% of this total amount or \$690,494 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,740,686 or 52% of total General Fund expenditures for the fiscal year. The combined unassigned and assigned fund balance for the General Fund was \$3,494,415 or 67% of total General Fund expenditures for the fiscal year.
- The Town's total long-term liabilities increased by \$1,082,132 during the current fiscal year. The key factors in this increase were a change in the Town's portion of the Local Government Employees' Retirement System (LERS) liability and installment purchase contracts.
- The business-type activities revenue increased by \$86,413 (4%). The most significant component of the increase was a change to the water and sewer rate structure.

Overview of the Financial Statements

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

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, 2017

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, 2017

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 46 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	
	2017	2016	2017	2016	2017	2016
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Assets:						
Current and other assets	\$ 4,462,584	\$ 4,673,306	\$ 3,093,659	\$ 2,686,821	\$ 7,556,243	\$ 7,360,127
Capital assets	7,610,796	6,556,224	5,431,241	5,212,824	13,042,037	11,769,048
Deferred outflows of resources	505,785	126,235	136,061	39,213	641,846	165,448
Total assets	<u>12,579,165</u>	<u>11,355,765</u>	<u>8,660,961</u>	<u>7,938,858</u>	<u>21,240,126</u>	<u>19,294,623</u>
Liabilities:						
Long-term liabilities	3,673,388	3,159,676	1,549,827	1,004,245	5,223,215	4,163,921
Other liabilities	185,992	168,704	186,229	88,245	372,221	256,949
Deferred inflows of resources	23,759	58,209	6,399	18,208	30,158	76,417
Total liabilities	<u>3,883,139</u>	<u>3,386,589</u>	<u>1,742,455</u>	<u>1,110,698</u>	<u>5,625,594</u>	<u>4,497,287</u>
Net Position:						
Net investment in capital						
assets	5,470,359	4,419,645	4,284,286	4,481,242	9,754,645	8,900,887
Restricted	690,494	651,683	-	-	690,494	651,683
Unrestricted	2,535,173	2,897,848	2,634,220	2,346,918	5,169,393	5,244,766
Total net position	<u>\$ 8,696,026</u>	<u>\$ 7,969,176</u>	<u>\$ 6,918,506</u>	<u>\$ 6,828,160</u>	<u>\$ 15,614,532</u>	<u>\$ 14,797,336</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Kure Beach exceeded liabilities by \$15,614,532 as of June 30, 2017. The Town's net position for governmental activities and business-type activities were \$8,696,026 and \$6,918,506, respectively, for the fiscal year ended June 30, 2017. However, the largest portion, \$9,754,645, reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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 \$690,494 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,169,393 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total governmental net position, notably, the continued diligence in the collection of property taxes by accomplishing a tax collection percentage of 99.44% 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	
	2017	2016	2017	2016	2017	2016
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,153,669	\$ 880,908	\$ 2,087,346	\$ 2,002,164	\$ 3,241,015	\$ 2,883,072
Operating grants and contributions	238,167	295,860	-	-	238,167	295,860
Capital grants and contributions	-	2,536	-	-	-	2,536
General revenues:						
Property taxes	2,375,755	2,156,461	-	-	2,375,755	2,156,461
Other taxes	724,148	711,101	-	-	724,148	711,101
Grants and contributions not restricted to specific programs	362,067	352,230	-	-	362,067	352,230
Transfers from other funds	-	-	-	-	-	-
Other	3,113	1,638	2,708	1,477	5,821	3,115
Total revenues	<u>4,856,919</u>	<u>4,400,734</u>	<u>2,090,054</u>	<u>2,003,641</u>	<u>6,946,973</u>	<u>6,404,375</u>
Expenses:						
General government	608,608	579,839	-	-	608,608	579,839
Public safety	2,264,880	2,054,961	-	-	2,264,880	2,054,961
Highways/streets	30,358	27,919	-	-	30,358	27,919
Environmental protection	1,014,595	960,306	-	-	1,014,595	960,306
Parks and recreation	145,942	132,226	-	-	145,942	132,226
Interest on long-term debt	76,429	83,724	-	-	76,429	83,724
Water and sewer	-	-	1,999,708	1,793,401	1,999,708	1,793,401

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
	Other	\$ 25,242	\$ 25,037	\$ -	\$ -	\$ 25,242
Total expenses	4,166,054	3,864,012	1,999,708	1,793,401	6,165,762	5,657,413
Increase in net position	690,865	536,722	90,346	210,240	781,211	746,962
Net position, July 1,	8,005,161	7,432,454	6,828,160	6,617,920	14,833,321	14,050,374
Net position, June 30,	\$ 8,696,026	\$ 7,969,176	\$ 6,918,506	\$ 6,828,160	\$ 15,614,532	\$ 14,797,336

Governmental Activities - Governmental activities increased the Town's net position by \$690,865, thereby accounting for 88% of the total growth in the net position of the Town. The key elements of this increase are as follows:

- Increase in local option sales tax revenues.
- Strong property tax collection rate of 99.44% and continued increase in the tax base.

Business-Type Activities - Business-type activities of the Town reported \$6,918,506 in net position, an increase of \$90,346. The key element of this increase is an increase in water and sewer fees resulting from changes to the rate structure.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Kure Beach. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,740,686, while the total fund balance reached \$4,252,523. 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 78% of total General Fund expenditures.

At June 30, 2017, the governmental funds of the Town of Kure Beach reported a fund balance of \$4,252,523 with a net decrease in fund balance of \$233,915.

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, 2017

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

Proprietary Fund - The Town's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$2,634,220. 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, 2017, totals \$13,042,037 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the additions of equipment and vehicles. There were no significant demolitions or disposals of capital assets.

Town of Kure Beach, North Carolina's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
	Land	\$ 4,213,583	\$ 4,213,583	\$ 20,697	\$ 20,697	\$ 4,234,280
Building	687,448	713,439	113,812	118,641	801,260	832,080
Equipment and vehicles	547,864	345,431	135,578	121,762	683,442	467,193
Improvements other than buildings	432,263	430,259	-	-	432,263	430,259
Plant and Distribution Systems	-	-	5,014,272	4,951,724	5,014,272	4,951,724
Infrastructure	1,547,252	853,512	-	-	1,547,252	853,512
Construction in progress	182,386	-	146,882	-	329,268	-
Total	<u>\$ 7,610,796</u>	<u>\$ 6,556,224</u>	<u>\$ 5,431,241</u>	<u>\$ 5,212,824</u>	<u>\$ 13,042,037</u>	<u>\$ 11,769,048</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, 2017, the Town had total debt outstanding of \$3,287,392. Installment debt for governmental type activities and business-type activities were \$2,140,437 and \$1,146,955, 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, 2017

Economic Factors and Next Year's Budgets and Rates

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

- Tourism to the Town has continued to increase.
- The Town approved a \$4,607,417 General Fund budget for fiscal year 2017-2018. This budget represents a 3.8% decrease from the fiscal year 2016-2017 amended budget. The decrease primarily relates to a non-recurring transfer to a capital project fund that occurred in fiscal year 2016-2017.

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, 2017

Exhibit 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,200,029	\$ 2,801,544	\$ 6,001,573
Investments	547,992	-	547,992
Receivables, net	351,028	292,115	643,143
Restricted cash and cash equivalents	363,535	-	363,535
Total current assets	<u>4,462,584</u>	<u>3,093,659</u>	<u>7,556,243</u>
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements, and construction in progress	4,395,969	167,579	4,563,548
Other capital assets, net of depreciation	3,214,827	5,263,662	8,478,489
Total capital assets	<u>7,610,796</u>	<u>5,431,241</u>	<u>13,042,037</u>
Total assets	<u>12,073,380</u>	<u>8,524,900</u>	<u>20,598,280</u>
Deferred Outflows of Resources			
Pension deferrals	505,785	136,061	641,846
Total deferred outflows of resources	<u>505,785</u>	<u>136,061</u>	<u>641,846</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	185,992	179,869	365,861
Customer deposits	-	6,360	6,360
Current portion of long-term liabilities	458,850	193,803	652,653
Total current liabilities	<u>644,842</u>	<u>380,032</u>	<u>1,024,874</u>
Long-term liabilities:			
Net pension liability	551,699	152,281	703,980
Due in more than one year	2,662,839	1,203,743	3,866,582
Total liabilities	<u>3,859,380</u>	<u>1,736,056</u>	<u>5,595,436</u>
Deferred Inflows of Resources			
Pension deferrals	23,759	6,399	30,158
Total deferred inflows of resources	<u>23,759</u>	<u>6,399</u>	<u>30,158</u>
Net Position			
Net investment in capital assets	5,470,359	4,284,286	9,754,645
Restricted	690,494	-	690,494
Unrestricted	2,535,173	2,634,220	5,169,393
Total net position	<u>\$ 8,696,026</u>	<u>\$ 6,918,506</u>	<u>\$ 15,614,532</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, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
Primary government:				
Governmental activities:				
General government	\$ 608,608	\$ 576,337	\$ -	\$ -
Public safety	2,264,880	3,151	173,088	-
Transportation	30,358	-	65,079	-
Parks and recreation	145,942	18,060	-	-
Special projects	25,242	27,082	-	-
Environmental protection	1,014,595	529,039	-	-
Interest on long-term debt	76,429	-	-	-
Total governmental activities	<u>4,166,054</u>	<u>1,153,669</u>	<u>238,167</u>	<u>-</u>
Business-type activities:				
Water and sewer	<u>1,999,708</u>	<u>2,087,346</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,999,708</u>	<u>2,087,346</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 6,165,762</u>	<u>\$ 3,241,015</u>	<u>\$ 238,167</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes, licenses and fees

Grants and contributions not restricted to specific programs

Investment earnings, unrestricted

Total general revenues, special items, and transfers

Change in net position

Net position, beginning, previously reported

Restatement

Net position, beginning, restated

Net position - ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (32,271)	\$ -	\$ (32,271)
(2,088,641)	-	(2,088,641)
34,721	-	34,721
(127,882)	-	(127,882)
1,840	-	1,840
(485,556)	-	(485,556)
(76,429)	-	(76,429)
<u>(2,774,218)</u>	<u>-</u>	<u>(2,774,218)</u>
-	87,638	87,638
-	87,638	87,638
<u>(2,774,218)</u>	<u>87,638</u>	<u>(2,686,580)</u>
2,375,755	-	2,375,755
712,243	-	712,243
11,905	-	11,905
362,067	-	362,067
3,113	2,708	5,821
<u>3,465,083</u>	<u>2,708</u>	<u>3,467,791</u>
<u>690,865</u>	<u>90,346</u>	<u>781,211</u>
7,969,176	6,828,160	14,797,336
35,985	-	35,985
8,005,161	6,828,160	14,833,321
<u>\$ 8,696,026</u>	<u>\$ 6,918,506</u>	<u>\$ 15,614,532</u>

Balance Sheet

Governmental Funds

June 30, 2017

	Major Governmental Fund	Non-Major Governmental Fund	Total Governmental Funds
	General Fund	Capital Projects Fund	
Assets			
Cash and cash equivalents	\$ 3,120,049	\$ 79,980	\$ 3,200,029
Investments	547,992	-	547,992
Restricted cash	363,535	-	363,535
Taxes receivable, net	24,069	-	24,069
Account receivables, net	326,959	-	326,959
Total assets	<u>\$ 4,382,604</u>	<u>\$ 79,980</u>	<u>\$ 4,462,584</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 173,626	\$ 12,366	\$ 185,992
Total liabilities	<u>173,626</u>	<u>12,366</u>	<u>185,992</u>
Deferred Inflow of Resources			
Property taxes receivable	24,069	-	24,069
	<u>24,069</u>	<u>-</u>	<u>24,069</u>
Fund Balances			
Restricted for:			
State statute	326,959	-	326,959
Streets	290,056	-	290,056
Federal asset forfeitures	73,479	-	73,479
Assigned:			
Beach protection	287,634	-	287,634
Storm water	466,095	-	466,095
Capital Projects	-	67,614	67,614
Unassigned	2,740,686	-	2,740,686
Total fund balances	<u>4,184,909</u>	<u>67,614</u>	<u>4,252,523</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,382,604</u>	<u>\$ 79,980</u>	<u>\$ 4,462,584</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
Governmental Funds
June 30, 2017

Exhibit 4

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

Total Fund Balance, Governmental Funds	\$ 4,252,523
Changes to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	493,851
Changes to the LEO Separation allowance in the current fiscal year are deferred outflows of resources on the Statement of Net Position	11,934
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets at historical costs	11,789,927
Less: accumulated depreciation	<u>4,179,131</u>
Net capital assets used in governmental activities	7,610,796
Net adjustment to increase fund balance-total governmental funds to arrive at net assets - governmental activities	<u>8,116,581</u>
Liabilities for earned but considered deferred inflows of resources in fund statements	<u>24,069</u>
Liabilities owed from governmental activities are not due and payable in the current period and therefore are not reported in the funds	
Installment purchases debt	2,140,437
Net pension obligation	251,424
Other postemployment benefits	591,443
Compensated absences	138,385
Net pension liability	551,699
Pension related deferrals -LEO	4,515
Pension related deferrals - LGERS	<u>19,244</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets - governmental activities	<u>3,697,147</u>
Net position of governmental activities	<u><u>\$ 8,696,026</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

Exhibit 5

	Major Governmental Fund	Non-Major Governmental Fund	Total Governmental Funds
	General Fund	Capital Projects Fund	
Revenues			
Ad valorem taxes	\$ 2,369,850	\$ -	\$ 2,369,850
Other taxes and licenses	17,855	-	17,855
Unrestricted intergovernmental	1,071,892	-	1,071,892
Restricted intergovernmental	281,437	-	281,437
Permits and fees	951,886	-	951,886
Sales and services	154,981	-	154,981
Investment earnings	3,113	-	3,113
Total revenues	<u>4,851,014</u>	<u>-</u>	<u>4,851,014</u>
Expenditures			
Current:			
General government	576,410	-	576,410
Public safety	2,039,927	-	2,039,927
Transportation	30,358	-	30,358
Parks and recreation	134,353	-	134,353
Special projects	25,242	-	25,242
Environmental protection	904,118	-	904,118
Debt service	405,331	-	405,331
Capital outlay	1,119,564	182,386	1,301,950
Total expenditures	<u>5,235,303</u>	<u>182,386</u>	<u>5,417,689</u>
Excess of revenues over expenditures	<u>(384,289)</u>	<u>(182,386)</u>	<u>(566,675)</u>
Other Financing Sources			
Transfers from other funds	-	250,000	250,000
Transfers to other funds	(250,000)	-	(250,000)
Proceeds from installment purchases	332,760	-	332,760
Total other financing sources	<u>82,760</u>	<u>250,000</u>	<u>332,760</u>
Net change in fund balances	<u>(301,529)</u>	<u>67,614</u>	<u>(233,915)</u>
Fund balances, beginning	<u>4,486,438</u>	<u>-</u>	<u>4,486,438</u>
Fund balances, ending	<u>\$ 4,184,909</u>	<u>\$ 67,614</u>	<u>\$ 4,252,523</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, 2017**

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

Net change in fund balances - total governmental funds \$ (233,915)

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	1,301,950
Depreciation expense for governmental assets	(240,943)
Loss on disposal of capital asset	(6,435)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	122,632
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Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities	11,934
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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	5,905

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	(29,739)
Net pension obligation	(173,231)
Total pension obligation	(3,620)
Other postemployment benefits	(59,815)

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.

(3,858)

Total changes in net position of governmental activities	<u>\$ 690,865</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, 2017

Exhibit 7

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 2,328,500	\$ 2,330,500	\$ 2,369,850	\$ 39,350
Other taxes and licenses	12,145	12,145	17,855	5,710
Unrestricted intergovernmental	1,120,250	1,120,250	1,071,892	(48,358)
Restricted intergovernmental	65,550	232,934	281,437	48,503
Permits and fees	859,857	861,789	951,886	90,097
Sales and services	128,708	142,374	154,981	12,607
Investment earnings	1,950	1,950	3,113	1,163
Total revenues	<u>4,516,960</u>	<u>4,701,942</u>	<u>4,851,014</u>	<u>149,072</u>
Expenditures				
Current:				
General government	741,818	728,622	576,410	152,212
Public safety	2,193,541	2,192,133	2,039,927	152,206
Transportation	65,050	65,050	30,358	34,692
Parks and recreation	146,114	146,114	134,353	11,761
Special projects	27,700	27,700	25,242	2,458
Environmental protection	907,175	937,107	904,118	32,989
Debt service	405,335	405,335	405,331	4
Capital outlay	407,500	1,270,956	1,119,564	151,392
Total expenditures	<u>4,894,233</u>	<u>5,773,017</u>	<u>5,235,303</u>	<u>537,714</u>
Revenues over (under) expenditures	<u>(377,273)</u>	<u>(1,071,075)</u>	<u>(384,289)</u>	<u>686,786</u>
Other Financing Sources (Uses)				
Proceeds from installment purchases	352,500	352,500	332,760	(19,740)
Transfers from other funds	(400,000)	(250,000)	(250,000)	-
Total other financing sources (uses)	<u>(47,500)</u>	<u>102,500</u>	<u>82,760</u>	<u>(19,740)</u>
Fund balance appropriated	<u>424,773</u>	<u>968,575</u>	<u>-</u>	<u>(968,575)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(301,529)</u>	<u>\$ (301,529)</u>
Fund balances, beginning			4,486,438	
Fund balances, ending			<u>\$ 4,184,909</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, 2017

Exhibit 8

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and equivalents	\$ 2,801,544
Account receivables, net	292,115
Total current assets	<u>3,093,659</u>
Noncurrent assets:	
Capital assets, net	5,431,241
Total assets	<u>8,524,900</u>
Deferred Outflows of Resources	
Pension deferrals	136,061
Total deferred outflows of resources	<u>136,061</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	179,869
Customer deposits	6,360
Current portion of compensated absences	25,000
Current portion of long-term debt	168,803
Total current liabilities	<u>380,032</u>
Noncurrent liabilities:	
Non-current portion of compensated absences	11,921
Other postemployment benefits payable	213,670
Net pension liability	152,281
Non-current portion of long-term debt	978,152
Total liabilities	<u>1,736,056</u>
Deferred Inflows of Resources	
Pension deferrals	<u>6,399</u>
Net Position	
Net investment in capital assets	4,284,286
Unrestricted	2,634,220
Total Net Position	<u>\$ 6,918,506</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, 2017

Exhibit 9

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 2,051,342
Other operating revenues	36,004
Total operating revenues	<u>2,087,346</u>
Operating expenses:	
Administration	446,145
Water and sewer system operations	1,348,796
Depreciation	185,420
Total operating expenses	<u>1,980,361</u>
Operating income	<u>106,985</u>
Non-operating revenues (expenses):	
Investment earnings	2,708
Interest and fees	(19,347)
Total non-operating revenues (expenses)	<u>(16,639)</u>
Net income	<u>90,346</u>
Transfers to other funds	<u>-</u>
Change in net position	<u>90,346</u>
Total net position, beginning	<u>6,828,160</u>
Total net position, ending	<u>\$ 6,918,506</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2017

Exhibit 10

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 2,097,779
Cash paid for goods and services	(825,616)
Cash paid to employees for services	(849,789)
Net cash provided by operating activities	<u>422,374</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(403,837)
Proceeds from installment purchases	527,637
Principal paid on installment purchases	(112,264)
Interest and fees paid on installment purchases	(19,347)
Net cash used in capital and related financing activities	<u>(7,811)</u>
Cash flows from investing activities:	
Interest	<u>2,708</u>
Net increase in cash and cash equivalents	417,271
Balances, beginning	2,384,273
Balances, ending	<u>\$ 2,801,544</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 106,985</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	185,420
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	10,433
Net pension asset	-
Deferred outflows of resources for pensions	(96,848)
Increase (decrease) in:	
Accounts payable and accrued liabilities	97,984
Compensated absences	(3,707)
Net Pension Liability	117,436
Deferred inflows of resources for pensions	(11,809)
Other postemployment benefits payable	16,480
Total adjustments	<u>315,389</u>
Net cash provided by operating activities	<u>\$ 422,374</u>

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

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TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation

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

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

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

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

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental funds:

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 amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash recorded in the Governmental Fund and General Fund represents unexpended Powell Bill and Federal Asset Forfeiture funds of \$290,056 and \$73,479, 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, 2016. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for Doubtful Accounts

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Capitalization cost for the Town's assets are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of 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 two items that meet this criterion, contributions made to the pension plan in the 2017 fiscal year and deferrals of pension assets that resulted from the implementation of GASB Statement 68. 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 two items that meet the criterion for this category – property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

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 - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]. At year end, restricted for stabilization by state statute was \$326,959.

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 \$290,056.

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 \$73,479.

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

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

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

Assigned 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.

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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, 2017, the Town’s deposits had a carrying amount of \$6,364,860 and a bank balance of \$6,441,057. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral under the pooling method. The Town’s petty cash fund totaled \$200.

Investments

The Town’s investment balances were as follows:

Investment Type	Valuation	Book Value	Maturity	Rating
	Measurement Method			
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$ 9,372	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value - Level 1	538,620	0.09 years	Unrated
		<u>\$ 547,992</u>		

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

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

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

Credit Risk – The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town’s investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town’s investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor’s as of June 30, 2017. 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.

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

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Receivables

Governmental activities – General Fund receivables of \$351,028 consist of \$70,239 for customer accounts; \$24,069 for taxes and related accrued interest and \$256,720 due from other governments. Business-Type activities – Water and Sewer Fund receivables of \$292,115 consist entirely of customer accounts. Based on historical experience an allowance for doubtful accounts has not been established.

Capital Assets

Capital asset activity for the Primary Government was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 4,213,583	\$ -	\$ -	\$ 4,213,583
Construction in progress	-	182,386	-	182,386
Total capital assets not being depreciated	<u>4,213,583</u>	<u>182,386</u>	<u>-</u>	<u>4,395,969</u>
Capital assets being depreciated:				
Buildings	1,304,247	-	-	1,304,247
Equipment and vehicles	3,288,989	360,231	93,651	3,555,569
Improvements	587,832	20,770	-	608,602
Infrastructure	1,186,978	738,562	-	1,925,540
Total capital assets being depreciated	<u>6,368,046</u>	<u>1,119,563</u>	<u>93,651</u>	<u>7,393,958</u>
Less accumulated depreciation for:				
Buildings	590,808	25,991	-	616,799
Equipment and vehicles	2,943,558	151,364	87,217	3,007,705
Improvements	157,573	18,766	-	176,339
Infrastructure	333,466	44,822	-	378,288
Total accumulated depreciation	<u>4,025,405</u>	<u>240,943</u>	<u>87,217</u>	<u>4,179,131</u>
Total capital assets being depreciated, net	<u>2,342,641</u>			<u>3,214,827</u>
Government activity capital assets, net	<u>\$ 6,556,224</u>			<u>\$ 7,610,796</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	\$ 16,529
Public Safety	134,543
Environmental Protection	78,282
Cultural and Recreational	11,589
Total depreciation expense	<u>\$ 240,943</u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 20,697	\$ -	\$ -	\$ 20,697
Construction in process	-	146,882	-	146,882
Total capital assets not being depreciated	<u>20,697</u>	<u>146,882</u>	<u>-</u>	<u>167,579</u>
Capital assets being depreciated:				
Plant and Distribution Systems	8,400,449	204,318	-	8,604,767
Buildings	193,162	-	-	193,162
Equipment and vehicles	634,070	52,637	-	686,707
Total capital assets being depreciated	<u>9,227,681</u>	<u>256,955</u>	<u>-</u>	<u>9,484,636</u>
Less accumulated depreciation for:				
Plant and Distribution Systems	3,448,725	141,770	-	3,590,495
Buildings	74,521	4,829	-	79,350
Equipment and vehicles	512,308	38,821	-	551,129
Total accumulated depreciation	<u>4,035,554</u>	<u>185,420</u>	<u>-</u>	<u>4,220,974</u>
Total capital assets being depreciated, net	<u>5,192,127</u>			<u>5,263,662</u>
Water and Sewer activity capital assets, net	<u>\$ 5,212,824</u>			<u>\$ 5,431,241</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, 2017, was 8.0% 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 7.25% 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 \$156,478 for the year ended June 30, 2017.

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, 2017, the Town reported a liability of \$703,980 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the Town's proportion was 0.033179%, which was an increase of 0.00041% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$197,220. At June 30, 2017, 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	\$ 13,227	\$ 25,643
Changes of assumptions	48,216	-
Net difference between projected and actual earnings on pension plan investments	389,212	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	22,779	-
Town contributions subsequent to the measurement date	156,478	-
	<u>\$ 629,912</u>	<u>\$ 25,643</u>

\$156,478 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018.

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>	
2018	\$ 74,688
2019	74,668
2020	187,087
2021	111,348
	<u>\$ 447,791</u>

Actuarial Assumptions: The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increase	3.50 to 7.75%, including inflation and productivity factor
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 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, 2016 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 2016 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Towns' proportionate share of the net pension liability (asset)	\$ 1,670,869	\$ 703,980	\$ (103,641)

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, 2016, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	2
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	12
	<u>14</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 and refunds are recognized when due and payable in accordance with the terms of the plan.

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

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index as of December 31, 2016.

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 the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths Before Retirement: RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to the valuation date using RP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date 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 \$13,147 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, 2017, the Town reported a total pension liability of \$251,424. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$21,453.

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes of assumptions	\$ -	\$ 4,515
Town benefit payments and plan administrative expenses made subsequent to the measurement date	11,934	-
	<u>\$ 11,934</u>	<u>\$ 4,515</u>

\$11,934 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 ended June 30, 2018.

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>	
2018	\$ 969
2019	969
2020	969
2021	969
2022	639
	<u>\$ 4,515</u>

\$11,763 paid as benefits came due and \$171 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

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 3.86 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 (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	<u>1% Decrease (2.86%)</u>	<u>Discount Rate (3.86%)</u>	<u>1% Increase (4.86%)</u>
Total pension liability	\$ 270,933	\$ 251,424	\$ 233,585

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

Beginning balance	\$ 247,804
Service cost	13,639
Interest on the total pension liability	8,612
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(5,484)
Benefit payments	(13,147)
Other changes	-
Ending balance of the total pension liability	<u>\$ 251,424</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, 2015 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)

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

Plan Description: The Town contributes to the Supplemental Retirement Income Plan (“Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers and other employees employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the State of North Carolina. The State's CAFR includes pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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, 2017 were \$118,013, which consisted of \$99,542 from the Town and \$18,471 from the law enforcement officers and other employees.

Other Postemployment Benefits (OPEB)

Healthcare Benefits

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

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

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

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

The current annual required contribution (ARC) rate is 5.7% of annual covered payroll. For the current year, the Town contributed \$41,960 or 2.0% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the Retiree Health Plan is established and may be amended by the Town Council.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

Annual OPEB Cost and Net OPEB Obligation: The Town's annual OPEB cost (expense) is calculated based on the ARC, an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contributions	\$ 116,952
Interest on net OPEB obligation	29,153
Adjustment to annual required contribution	(27,850)
Annual OPEB cost (expense)	<u>118,255</u>
Contributions made	<u>(41,960)</u>
Increase in net OPEB obligation	76,295
Net OPEB obligation, beginning of year	<u>728,818</u>
Net OPEB obligation, end of year	<u><u>\$ 805,113</u></u>

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

Three Year Trend Information			
For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 118,255	35.5%	\$ 805,113
2016	114,698	26.4%	728,818
2015	149,937	17.0%	644,426

Funded Status and Funding Progress: As of December 31, 2015 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,460,577. The covered payroll (annual payroll of active employees covered by the plan) was \$1,889,038, and the ratio of the UAAL to the covered payroll was 77.3%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

Other Employment Benefits

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

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Long-Term Obligations

Installment Purchases

The Town has entered into the following installment purchase contracts:

Serviced by the General Fund:

\$117,000 loan to finance the Downtown Improvement Project due in annual installments of \$24,719 including interest through June 17, 2018; interest at 1.93 percent	\$ 48,308
\$32,000 loan to finance a police truck due in annual installments of \$8,441 including interest through January 15, 2018; interest at 2.18 percent	8,261
\$3,600,000 loan to acquire the land for Ocean Front Park due in annual installments ranging from \$112,128 to \$67,682 including interest through December 19, 2027; interest at 4.28 percent	713,942
\$875,000 loan to finance the Cutter Court Drainage Project due in monthly installments of \$6,678 including interest through June 23, 2020; interest at 4.40 percent	223,270
\$261,181 of a \$1,187,187 loan to construct a water tower and finance town hall renovations due in semi-annual installments of \$11,598 including interest through May 7, 2022; interest at 3.92 percent	104,395
\$347,000 loan to finance development of Ocean Front Park due in annual installments ranging from \$35,645 to \$21,308 including interest through July 12, 2028; interest at 4.39 percent	244,941
\$63,500 loan to finance two police cars due in annual installments of \$16,515 including interest through November 9, 2020; interest at 1.60 percent	63,500
\$179,756 loan to finance a garbage truck due in annual installments of \$37,805 including interest through August 23, 2021; interest at 1.70 percent	180,989
\$409,471 loan to acquire land on 4th Street and H Avenue due in annual installments ranging from \$41,967 to \$51,143 including interest through March 12, 2025; interest at 2.49 percent	327,577
\$36,867 loan to finance a service truck due in annual installments of \$9,594 including interest through July 26, 2020; interest at 1.60 percent	36,867
\$48,359 loan to finance two police cars due in annual installments of \$12,759 including interest through March 27, 2019; interest at 2.19 percent	24,703

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 to finance a backhoe due in annual installments of \$11,125 including interest through November 9, 2021; interest at 1.87 percent	\$	52,637
\$40,743 loan to finance a HydroJetter due in annual installments of \$8,575 including interest through August 13, 2020; interest at 1.70 percent		32,862
\$103,230 loan to finance equipment and vehicles due in annual installments of \$27,117 including interest through September 14, 2019; interest at 2.01 percent		78,185
	\$	<u>2,140,437</u>

Serviced by the Water and Sewer Fund:

\$432,660 loan to finance the Sewer Rehabilitation Project with 50% principal forgiveness due in annual installments of \$10,556 including interest through May 1, 2030; interest at 0.00 percent	\$	137,221
\$926,006 of a \$1,187,187 loan to construct a water tower and finance town hall renovations due in semi-annual installments of \$41,119 including interest through May 7, 2022; interest at 3.92 percent		370,087
\$32,216 loan to finance a utility truck due in annual installments of \$8,500 including interest through October 24, 2018; interest at 2.19 percent		16,457
\$40,743 loan to finance a HydroJetter due in annual installments of \$8,575 including interest through August 13, 2020; interest at 1.70 percent		32,862
\$82,770 loan to finance equipment and vehicles due in annual installments of \$21,743 including interest through September 14, 2019; interest at 2.01 percent		62,691
\$52,637 of a \$105,273 loan to finance a backhoe due in annual installments of \$11,125 including interest through November 9, 2021; interest at 1.87 percent		52,637
\$475,000 loan to construct a pump station due in semi-annual installments of \$26,508 including interest through June 28, 2027; interest at 2.11 percent		475,000
	\$	<u>1,146,955</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The future minimum payments of the installment purchases:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 388,850	\$ 72,554	\$ 168,803	\$ 25,958
2019	338,393	60,249	173,354	21,598
2020	330,953	49,039	169,548	17,096
2021	229,310	39,526	152,464	12,634
2022	196,888	32,397	148,268	8,462
2023-2027	549,419	84,077	302,901	14,954
2028-2030	106,624	5,466	31,617	-
Total	<u>\$ 2,140,437</u>	<u>\$ 343,308</u>	<u>\$ 1,146,955</u>	<u>\$ 100,702</u>

Changes in Long-Term Liabilities

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

	<u>Beginning</u>			<u>Ending</u>	<u>Current</u>
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>	<u>Portion</u>
Governmental Activities:					
Installment purchases	\$ 2,136,579	\$ 332,760	\$ 328,902	\$ 2,140,437	\$ 388,850
OPEB liability	531,628	59,815	-	591,443	-
Total pension liability (LEO)	247,804	3,620	-	251,424	-
Net pension liability (LGERS)	112,181	439,518	-	551,699	-
Compensated absences	108,646	96,482	66,743	138,385	70,000
Total governmental activity					
long-term liabilities	<u>\$ 3,136,838</u>	<u>\$ 932,195</u>	<u>\$ 395,645</u>	<u>\$ 3,673,388</u>	<u>\$ 458,850</u>
Business-Type Activities:					
Installment purchases	\$ 731,582	\$ 527,637	\$ 112,264	\$ 1,146,955	\$ 168,803
OPEB liability	197,190	16,480	-	213,670	-
Net pension liability (LGERS)	34,845	117,436	-	152,281	-
Compensated absences	40,628	29,024	32,731	36,921	25,000
Total business-type					
long-term liabilities	<u>\$ 1,004,245</u>	<u>\$ 690,577</u>	<u>\$ 144,995</u>	<u>\$ 1,549,827</u>	<u>\$ 193,803</u>

At June 30, 2017, the Town of Kure Beach, North Carolina had a legal debt margin of \$64,463,414.

Deferred Inflows of Resources

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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	\$ 4,184,909
Less:	
Stabilization by State Statute	326,959
Streets- Powell Bill	290,056
Federal Asset Forfeiture	73,479
Assigned	753,729
Fund Balance Policy	<u>1,436,278</u>
Remaining Fund Balance	<u>\$ 1,304,408</u>

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

D. Risk Management

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

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

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

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities increased \$35,985.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

**Other-Post Employment Benefits
 Required Supplementary Information
 Schedule of Funding Progress
 Year Ended June 30, 2017**

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

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2017	\$ 118,255	35.5%
2016	114,698	26.4%
2015	149,937	17.0%

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

Exhibit 13

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset) (%)	0.03317%	0.03276%	0.03123%	0.02790%
Proportion of the net pension liability (asset) (\$)	\$ 703,980	\$ 147,026	\$ (184,179)	\$ 336,302
Covered-employee payroll	2,127,634	2,001,604	1,825,227	1,688,555
Proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	33.09%	7.35%	-10.09%	19.92%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	98.09%	102.64%	94.35%
Contributions				
Contractually required contribution	\$ 156,478	\$ 136,436	\$ 130,407	\$ 119,670
Contributions in relation to the contractually required contribution	<u>156,478</u>	<u>136,436</u>	<u>130,407</u>	<u>119,670</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,127,634	\$ 2,001,604	\$ 1,825,227	\$ 1,688,555
Contributions as a percentage of covered-employee payroll	7.35%	6.82%	7.14%	7.09%

TOWN OF KURE BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Year Ended June 30, 2017

Exhibit 14

	<u>2017</u>
Beginning balance	\$ 247,804
Service cost	13,639
Interest on the total pension liability	8,612
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(5,484)
Benefit payments	(13,147)
Other changes	-
Ending balance of the total pension liability	<u>\$ 251,424</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Year Ended June 30, 2017

Exhibit 15

	<u>2017</u>
Total pension liability	\$ 251,424
Covered payroll	667,133
Total pension liability as a percentage of covered payroll	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.

SUPPLEMENTAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

Statement 1
Page 1 of 4

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,325,500	\$ 2,365,414	\$ 39,914
Penalties and interest	5,000	4,436	(564)
Total	<u>2,330,500</u>	<u>2,369,850</u>	<u>39,350</u>
Other taxes and licenses:			
Motor vehicle licenses	12,000	11,215	(785)
Vehicle re-entry decal sales	-	6,495	6,495
Licenses and fees	145	145	-
Total	<u>12,145</u>	<u>17,855</u>	<u>5,710</u>
Unrestricted intergovernmental:			
Local option sales taxes	707,075	712,243	5,168
ABC revenue	12,300	15,834	3,534
Hold harmless	93,000	100,915	7,915
Utility sales tax	200,000	177,063	(22,937)
Solid Waste Disposal	1,375	1,452	77
Beer and wine tax	10,000	9,786	(214)
Video programming	36,000	37,006	1,006
Telecommunications tax	13,000	12,752	(248)
Refunds	47,500	4,841	(42,659)
Total	<u>1,120,250</u>	<u>1,071,892</u>	<u>(48,358)</u>
Restricted intergovernmental:			
Grants	167,934	215,213	47,279
Federal asset forfeitures	-	1,145	1,145
Powell Bill allocation	65,000	65,079	79
Total	<u>232,934</u>	<u>281,437</u>	<u>48,503</u>
Permits and fees:			
Garbage fees	342,000	369,826	27,826
Building permits	55,640	83,787	28,147
TDA funds	204,517	173,088	(31,429)
Miscellaneous	258,632	322,261	63,629
Police fees	1,000	2,924	1,924
Total	<u>861,789</u>	<u>951,886</u>	<u>90,097</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

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

Page 2 of 4

General Fund (Continued)

For the Fiscal Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Sales and services:			
Rents and concessions	\$ 99,308	\$ 112,135	\$ 12,827
Impact fees	-	-	-
Miscellaneous	43,066	42,846	(220)
Total	<u>142,374</u>	<u>154,981</u>	<u>12,607</u>
Investment earnings	1,950	3,113	1,163
Total Revenues	<u>4,701,942</u>	<u>4,851,014</u>	<u>149,072</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits	7,267	7,295	(28)
Operating expense	28,250	27,390	860
Total	<u>35,517</u>	<u>34,685</u>	<u>832</u>
Administration:			
Salaries and benefits	113,992	114,473	(481)
Operating expense	427,224	319,744	107,480
Capital outlay	7,980	7,980	-
Total	<u>549,196</u>	<u>442,197</u>	<u>106,999</u>
Finance:			
Salaries and benefits	74,085	73,203	882
Operating expense	77,804	34,305	43,499
Total	<u>151,889</u>	<u>107,508</u>	<u>44,381</u>
Total general government	<u>736,602</u>	<u>584,390</u>	<u>152,212</u>
Public Safety:			
Police:			
Salaries and benefits	1,068,946	985,942	83,004
Operating expense	151,770	151,549	221
Capital outlay	95,000	73,666	21,334
Total	<u>1,315,716</u>	<u>1,211,157</u>	<u>104,559</u>
Fire:			
Salaries and benefits	582,045	513,866	68,179
Operating expense	73,800	112,304	(38,504)
Capital outlay	30,000	-	30,000
Total	<u>685,845</u>	<u>626,170</u>	<u>59,675</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, 2017

Statement 1
Page 3 of 4

	Budget	Actual	Variance Positive (Negative)
Life guards:			
Salaries and benefits	\$ 163,317	\$ 138,245	\$ 25,072
Operating expense	27,492	21,357	6,135
Capital outlay	9,500	9,490	10
Total	<u>200,309</u>	<u>169,092</u>	<u>31,217</u>
Building Inspection:			
Salaries and benefits	103,433	104,229	(796)
Operating expense	21,330	12,435	8,895
Capital outlay	-	-	-
Total	<u>124,763</u>	<u>116,664</u>	<u>8,099</u>
Total public safety	<u>2,326,633</u>	<u>2,123,083</u>	<u>203,550</u>
Transportation:			
Operating expense	65,050	30,358	34,692
Capital outlay	-	-	-
Total transportation	<u>65,050</u>	<u>30,358</u>	<u>34,692</u>
Parks and recreation:			
Salaries and benefits	69,364	69,066	298
Operating expense	76,750	65,287	11,463
Total parks and recreation	<u>146,114</u>	<u>134,353</u>	<u>11,761</u>
Special projects:			
Economic development	-	-	-
Community center	23,300	21,704	1,596
Other	4,400	3,538	862
Capital outlay	20,770	20,770	-
Total special projects	<u>48,470</u>	<u>46,012</u>	<u>2,458</u>
Environmental protection:			
Salaries and benefits	549,825	524,626	25,199
Operating expense	387,282	379,492	7,790
Capital outlay	1,107,706	1,007,658	100,048
Total environmental protection	<u>2,044,813</u>	<u>1,911,776</u>	<u>133,037</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, 2017

Statement 1
Page 4 of 4

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service:			
Principal	\$ 328,793	\$ 328,902	\$ (109)
Interest	76,542	76,429	113
Total debt service	<u>405,335</u>	<u>405,331</u>	<u>4</u>
Total expenditures	<u>5,773,017</u>	<u>5,235,303</u>	<u>537,714</u>
Revenue over (under) expenditures	<u>\$ (1,071,075)</u>	<u>\$ (384,289)</u>	<u>\$ 686,786</u>
Other financing sources (uses):			
Proceeds from installment purchases	352,500	332,760	(19,740)
Transfers from other funds	-	-	-
Transfers from other funds	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>102,500</u>	<u>82,760</u>	<u>(19,740)</u>
Fund balance appropriated	<u>968,575</u>	<u>-</u>	<u>(968,575)</u>
Net change in fund balance	<u>\$ -</u>	<u>(301,529)</u>	<u>\$ (301,529)</u>
Fund balances, beginning		<u>4,486,438</u>	
Fund balances, ending		<u>\$ 4,184,909</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, 2017

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Federal and State Grants	\$ -	\$ -	\$ -	\$ -
Interest earnings	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Capital projects:				
Construction	4,554,743	-	-	-
Architectural services and planning	415,257	-	166,964	166,964
Other project costs	30,000	-	15,422	15,422
Total expenditures	<u>5,000,000</u>	<u>-</u>	<u>182,386</u>	<u>182,386</u>
Revenues under expenditures	<u>(5,000,000)</u>	<u>-</u>	<u>(182,386)</u>	<u>(182,386)</u>
Other financing sources (uses):				
Transfers in	5,000,000	-	250,000	250,000
Total other financing sources	<u>5,000,000</u>	<u>-</u>	<u>250,000</u>	<u>250,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	67,614	<u>\$ 67,614</u>
Fund balances, beginning			<u>-</u>	
Fund balances, ending			<u>\$ 67,614</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, 2017

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	\$ 1,915,115	\$ 1,916,782	\$ 1,667
Water and sewer tap fees	74,931	78,000	3,069
Other user fees	41,500	56,560	15,060
Other operating revenues	35,390	36,004	614
Total	<u>2,066,936</u>	<u>2,087,346</u>	<u>20,410</u>
Non-operating revenues			
Interest earnings	<u>1,695</u>	<u>2,708</u>	<u>1,013</u>
Total revenues	<u>2,068,631</u>	<u>2,090,054</u>	<u>21,423</u>
Expenditures:			
Water and sewer administration and operations:			
Salaries and benefits - admin	254,181	244,542	9,639
Salaries and benefits - OPS	422,101	605,247	(183,146)
Utilities	57,000	51,225	5,775
Supplies	112,000	110,405	1,595
Repairs and maintenance	300,715	337,203	(36,488)
Treatment facility charges	350,000	346,153	3,847
Operating expenditures	273,065	289,868	(16,803)
Capital outlay	321,500	403,837	(82,337)
Total	<u>2,090,562</u>	<u>2,388,480</u>	<u>(297,918)</u>
Debt service:			
Interest and fees	19,348	19,347	1
Principal retirement	112,265	112,264	1
Total	<u>131,613</u>	<u>131,611</u>	<u>2</u>
Total expenditures	<u>2,222,175</u>	<u>2,520,091</u>	<u>(297,916)</u>
Revenues under expenditures	<u>(153,544)</u>	<u>(430,037)</u>	<u>(276,493)</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, 2017

Statement 3
Page 2 of 2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Installment purchase proceeds	\$ 102,500	\$ 527,637	\$ 425,137
Transfers to other funds	(336,731)	(811,731)	(475,000)
Fund balance appropriated	387,775	-	(387,775)
Total other financing sources	<u>153,544</u>	<u>(284,094)</u>	<u>(437,638)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	(714,131)	<u>\$ (714,131)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		403,837	
Depreciation		(185,420)	
Transfers to W/S Capital Project fund		811,731	
Installment purchase proceeds		(527,637)	
Principal retirement		112,264	
Decrease in net pension asset		-	
Increase in deferred outflows of resources pensions		96,848	
Decrease in deferred inflows of resources pensions		(11,809)	
Increase in net pension liability		117,436	
Change in OPEB and compensated absences		(12,773)	
Total reconciling items		<u>804,477</u>	
Change in net position		<u>\$ 90,346</u>	

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

Capital Projects Fund - Pump Station

From Inception and for the Fiscal Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Federal and State Grants	\$ -	\$ -	\$ -	\$ -
Interest earnings	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Capital projects:				
Construction	689,731	-	82,782	82,782
Engineering/construction administration	116,000	-	62,850	62,850
Other project costs	6,000	-	1,250	1,250
Total expenditures	<u>811,731</u>	<u>-</u>	<u>146,882</u>	<u>146,882</u>
Revenues under expenditures	<u>(811,731)</u>	<u>-</u>	<u>(146,882)</u>	<u>(146,882)</u>
Other financing sources (uses):				
Transfers in	811,731	-	811,731	811,731
Total other financing sources	<u>811,731</u>	<u>-</u>	<u>811,731</u>	<u>811,731</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	664,849	<u>\$ 664,849</u>
Fund balances, beginning			<u>-</u>	
Fund balances, ending			<u>\$ 664,849</u>	

OTHER SCHEDULES

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 1

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2017

Fiscal Year	Uncollected Balance June 30, 2016	Additions	Collections, Credits and Adjustments	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 2,372,364	\$ 2,359,178	\$ 13,186
2015-2016	6,923	-	3,501	3,422
2014-2015	3,683	-	1,858	1,825
2013-2014	1,871	-	211	1,660
2012-2013	1,074	-	52	1,022
2011-2012	600	-	31	569
2010-2011	549	-	2	547
2009-2010	449	-	11	438
2008-2009	615	-	1	614
2007-2008	788	-	2	786
2006-2007	1,608	-	1,608	-
Prior to 2006	3	-	3	-
Total	\$ 18,163	\$ 2,372,364	\$ 2,366,458	\$ 24,069

Ad valorem taxes receivable - net \$ 24,069

Reconciliation with revenues:

Ad valorem taxes - general fund	\$ 2,369,850
Reconciling items:	
Write offs, collection fees, and discounts	(1,559)
Miscellaneous adjustments	1,867
Interest collected	(3,700)
	\$ 2,366,458

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 2

Analysis of Current Year Tax Levy

Town - Wide Levy

For the Fiscal Year Ended June 30, 2017

	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	\$ 808,290	0.2850	\$ 2,303,628	\$ 2,303,628	\$ -
Registered motor vehicles at prior year rates	5,868	0.2615	15,345	-	15,345
Motor vehicles	18,835	0.2850	53,681	-	53,681
Penalties and interest	-		690	690	-
Total	<u>832,993</u>		<u>2,373,344</u>	<u>2,304,318</u>	<u>69,026</u>
Discoveries:					
Current year taxes	<u>142</u>	0.2850	<u>407</u>	<u>407</u>	<u>-</u>
Abatements:					
Current year taxes	<u>(486)</u>	0.2850	<u>(1,387)</u>	<u>(1,387)</u>	<u>-</u>
Total property value	<u>\$ 832,649</u>				
Net levy			<u>2,372,364</u>	<u>2,303,338</u>	<u>69,026</u>
Uncollected taxes at June 30, 2017			<u>13,186</u>	<u>13,186</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,359,178</u>	<u>\$ 2,290,152</u>	<u>\$ 69,026</u>
Current levy collection percentage			<u>99.44%</u>	<u>99.43%</u>	<u>100.00%</u>