

TOWN OF HOLLY RIDGE

HOLLY RIDGE, NORTH CAROLINA

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

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INTRODUCTORY SECTION

- List of Principal Officials
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TOWN OF HOLLY RIDGE, NORTH CAROLINA

TOWN COUNCIL

Anita Dinger
Mayor

George Lang

Pamala Hall

Carolyn Stanley

Gregory Hines

Rena Bragg
Mayor Pro Tem

ADMINISTRATION

Joseph Pierce
Town Administrator

Betsy Brothers
Finance Director/Officer

John Maiorano
Chief – Police Department

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 June 30, 2016

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 - Management's Discussion and Analysis
 - Basic Financial Statements
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WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the Town Council
Town of Holly Ridge, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Holly Ridge, North Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Holly Ridge' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Holly Ridge, North Carolina as of June 30, 2016, and the respective changes in financial position 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.

2131 S. Glenburnie Rd, Ste 2
PO Box 14008
New Bern, NC 28561-4008

Phone (252) 638-4000
Fax (252) 638-3989

INNOVATIVE · RESPONSIVE · DEDICATED

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824 Gum Branch Rd, Ste K
PO Box 5003
Jacksonville, NC 28540

Phone (910) 455-2196
Fax (910) 455-1943

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress, and the Local Government Employees' Retirement System's Schedules of the proportionate Share of the Net Pension Asset (Liability) and contributions on pages 5 through 12, 42, and 43 and 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Holly Ridge' basic financial statements. The introductory information, individual fund statements and 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 statements and schedules and other schedules, 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, the individual fund statements and schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.



Williams · Scarborough · Smith · Gray, LLP
Jacksonville, North Carolina
January 10, 2017

Management's Discussion and Analysis

As management of the Town of Holly Ridge, we offer readers of the Town of Holly Ridge's financial statements this narrative overview and analysis of the financial activities of the Town of Holly Ridge for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

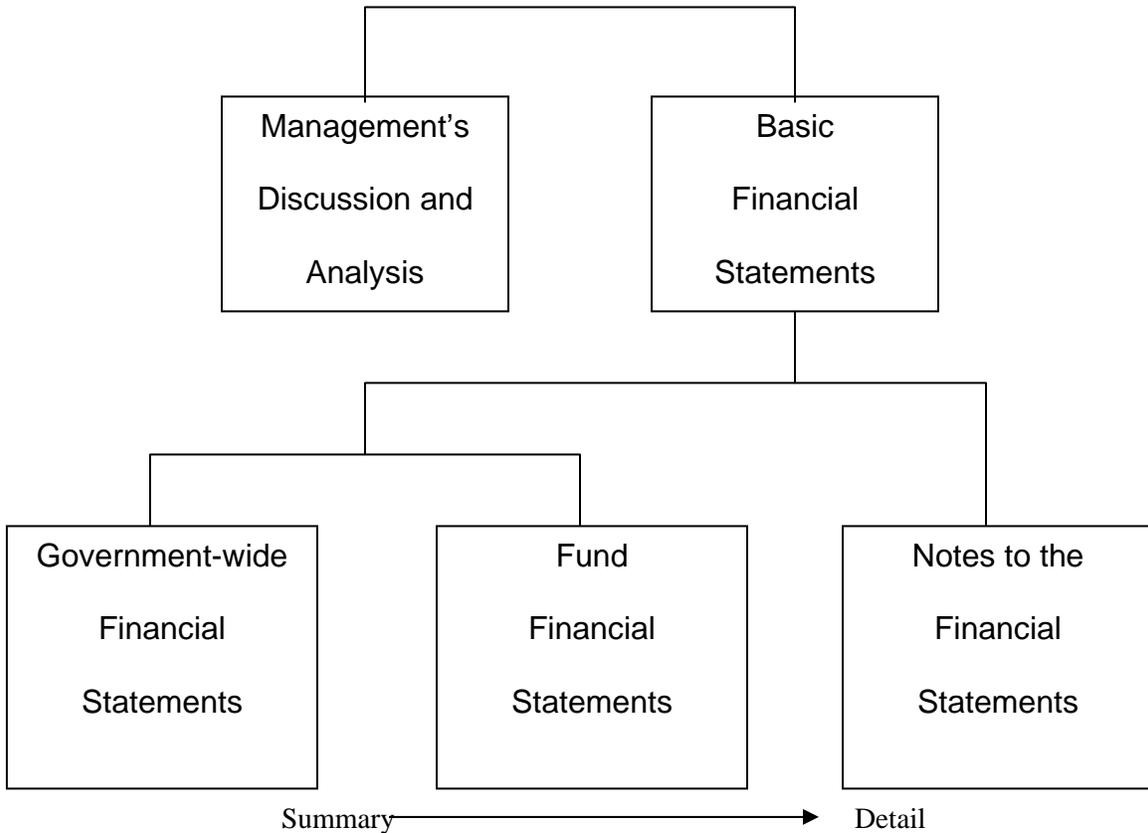
- The assets of the Town of Holly Ridge exceeded its liabilities at the close of the fiscal year by \$2,479,867 (*net position*).
- The government's total net position increased by \$888,041.
- As of the close of the current fiscal year, the Town of Holly Ridge's governmental funds reported ending fund balances of \$1,462,896, an increase of \$235,202 in comparison with the prior year. Approximately 76 percent of this total amount, or \$1,109,228, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,109,228, or 48.1 percent of total general fund expenditures for the fiscal year.
- The Town of Holly Ridge installment purchase debt decreased by \$103,595 during the fiscal year.
- The Town of Holly Ridge received a donation of a parcel of land and building with an appraised value of \$650,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Holly Ridge'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 Holly Ridge.

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 5) 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 two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements.

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, streets, 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. The Town of Holly Ridge does not currently provide services that are considered business-type activities.

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 Holly Ridge, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Holly Ridge 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. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps 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 Holly Ridge 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,

Management Discussion and Analysis
Town of Holly Ridge

language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – Town of Holly Ridge has no proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements.

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 begin on page 23 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain other required schedules concerning the Town of Holly Ridge. The other schedules can be found beginning on page 50 of this report.

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

Government-Wide Financial Analysis

**Town of Holly Ridge Net Position
Figure 2**

	Governmental Activities	
	2016	2015
Current and other assets	\$ 1,650,926	\$ 1,566,203
Capital assets	2,038,156	1,449,708
Deferred outflows of resources	75,417	4,555
Total assets and deferred outflows of resources	3,764,499	3,020,466
Long-term liabilities outstanding	1,029,897	1,090,650
Other liabilities	223,411	152,975
Deferred inflows of resources	31,324	185,015
Total liabilities and deferred inflows of resources	1,284,632	1,428,640
Net position:		
Invested in capital assets, net of related debt	1,414,894	705,726
Restricted	264,116	232,480
Unrestricted	800,857	653,620
Total net position	\$ 2,479,867	\$ 1,591,826

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 Holly Ridge exceeded liabilities and deferred inflows by

Management Discussion and Analysis
Town of Holly Ridge

\$2,479,867 as of June 30, 2016. The Town's net position increased by \$881,041 for the fiscal year ended June 30, 2016. The largest portion of net position (57.1%) 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 items. The Town of Holly Ridge uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Holly Ridge'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, \$264,116, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$800,857 is unrestricted.

Town of Holly Ridge Changes in Net Position
Figure 3

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 449,739	\$ 378,240
Operating grants and contributions	105,863	72,167
General revenues:		
Property taxes	1,175,193	1,022,324
Grants and contributions not restricted to specific programs	680,779	649,723
Other	<u>679,552</u>	<u>38,948</u>
Total revenues	<u>3,091,126</u>	<u>2,161,402</u>
Expenses:		
General government	422,855	364,647
Public safety	1,140,048	1,062,008
Streets	352,390	323,772
Environmental protection	217,380	189,946
Parks and recreation	43,085	24,400
Interest on long-term debt	<u>27,327</u>	<u>34,118</u>
Total expenses	<u>2,203,085</u>	<u>1,998,891</u>
Increase in net position	888,041	162,511
Net position, July 1 (as restated in 2016)	<u>1,591,826</u>	<u>1,429,315</u>
Net position, June 30	<u><u>\$ 2,479,867</u></u>	<u><u>\$ 1,591,826</u></u>

The following aspects of the Town's financial operations resulted in the increase in net position in comparison to the prior year:

- The Town's other income reflected a \$650,000 recorded donation of building and land.
- An increase in garbage and recycling fees greater than the increase in related expenses.

Governmental activities. Governmental activities increased the Town's net position by \$888,041, thereby accounting for 100% of the total increase in the net position of the Town of Holly Ridge.

Business-type activities: There was no business-type activity in the current year.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Holly Ridge's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Holly Ridge'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 Holly Ridge. At the end of the current fiscal year, the Town of Holly Ridge fund balance available in the General Fund was \$1,308,234, while total fund balance was \$1,462,896. The Town currently has an available fund balance of 56.7 percent of total General Fund expenditures, while total fund balance represents 63.4 percent of that same amount.

At June 30, 2016, the governmental funds of Town of Holly Ridge reported a combined fund balance of \$1,462,896, a 19.1 percent increase over last year.

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.

Actual revenues were in line with budget expectations. Various budget amendments were made throughout the year to adjust miscellaneous expenditures related to donated properties and retirement of a police officer.

Proprietary Funds. The Town of Holly Ridge had no proprietary funds in the current year.

Capital Asset and Debt Administration

Capital assets. The Town of Holly Ridge's investment in capital assets for its governmental activities as of June 30, 2016, totals \$2,038,156 (net of accumulated depreciation). These assets include buildings, infrastructure, land, machinery and equipment, park facilities, and vehicles.

During the year, the Town purchased a new mower, camera systems for the police department, and a new vehicle. The Town also received a donation of land and a building.

**Town of Holly Ridge’s Capital Assets
 (net of depreciation)**

Figure 4

	Governmental Activities	
	2016	2015
Land	\$ 191,135	\$ 31,135
Buildings and infrastructure	1,725,317	1,249,285
Machinery and equipment	52,990	50,408
Vehicles and motorized equipment	68,714	118,880
Total	\$ 2,038,156	\$ 1,449,708

Additional information on the Town’s capital assets can be found in note III.A.2 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2016, the Town of Holly Ridge had total debt outstanding of \$1,104,043. The Town’s debt represents installment purchases, a general obligation bond, net pension liabilities and a liability associated with a discontinued OPEB plan, all for government activities.

The Town of Holly Ridge’s total debt decreased by \$31,535 (2.8%) during the past fiscal year. This decrease is attributed to scheduled principal payments offset by increases in pension and discontinued OPEB plan liabilities.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for Town of Holly Ridge is \$21,696,790

Economic Factors and Next Year’s Budgets and Rates

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

The Town’s fiscal condition, much like the State and National economies, has remained stable and modestly improving.

- Population growth: The Town’s population growth can be partially attributed to the expansion of surrounding areas.
- The Town’s tax revenue collection has drastically increased due to Onslow County Tax revenue collection improvement.
- Next year’s user fees and tax rate are stable and not expected to change.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities:

- Property tax revenues are expected to remain the same for FY16-17 at the rate of \$.415 per \$100.00 of tax valued property.
- Property tax, sales taxes, other tax revenues are expected to lead the increase in budgeted revenues. The Town will use these revenues to finance programs currently in place.
- Budgeted expenditures in the General Fund are expected to rise. The largest increments will come from the hiring of a part-time Parks and Recreation Director, replacement of two older patrol units for the Police Department, and contract with new Auditor.

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 Joseph Pierce, Town Manager, PO Box 145, Holly Ridge, NC 28445.

**BASIC
FINANCIAL STATEMENTS**

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Town of Holly Ridge, North Carolina
STATEMENT OF NET POSITION
June 30, 2016

	<u>Primary Government</u> <u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,252,282
Restricted cash	104,734
Taxes receivables (net)	109,841
Accrued interest receivable on taxes	24,687
Accounts receivable (net)	<u>159,382</u>
Total current assets	1,650,926
Non-current assets:	
Capital assets:	
Land	191,135
Other capital assets, net of depreciation	<u>1,847,021</u>
Total capital assets	<u>2,038,156</u>
Total assets	<u>\$ 3,689,082</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 75,417</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 53,316
Accrued interest payable	10,716
Compensated absences	85,047
Customer deposits	186
Current portion of long-term liabilities	<u>74,146</u>
Total current liabilities	223,411
Long-term liabilities:	
Net pension liability	338,982
Due in more than one year	<u>690,915</u>
Total liabilities	<u>\$ 1,253,308</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 31,324</u>
NET POSITION	
Net investment in capital assets	\$ 1,414,894
Restricted for:	
Stabilization by State Statute	154,662
Streets	104,734
Public safety	1,622
Parks and recreation	3,098
Unrestricted	<u>800,857</u>
Total net position	<u>\$ 2,479,867</u>

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

Town of Holly Ridge, North Carolina
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental Activities:				
General government	\$ 422,855	\$ 56,045	\$ 100	\$ -
Public safety	1,140,048	111,656	13,490	-
Streets	352,390	-	47,715	-
Environmental protection	217,380	282,038	942	-
Parks and recreation	43,085	-	43,616	-
Interest on long-term debt	<u>27,327</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>2,203,085</u>	<u>449,739</u>	<u>105,863</u>	<u>-</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Grants and contributions not restricted to specific programs				
Investment earnings				
Miscellaneous				
Extraordinary Item: Donation of land and building				
Total general revenues, special items, and transfers				
Change in net position				
Net position-beginning, previously reported				
Restatement				
Net position-beginning, restated				
Net position-ending				

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	
Governmental	
Activities	Total
\$ (366,710)	\$ (366,710)
(1,014,902)	(1,014,902)
(304,675)	(304,675)
65,600	65,600
531	531
<u>(27,327)</u>	<u>(27,327)</u>
<u>(1,647,483)</u>	<u>(1,647,483)</u>
1,175,193	1,175,193
680,779	680,779
1,041	1,041
28,511	28,511
<u>650,000</u>	<u>650,000</u>
<u>2,535,524</u>	<u>2,535,524</u>
888,041	888,041
1,983,547	1,983,547
(391,721)	(391,721)
<u>1,591,826</u>	<u>1,591,826</u>
<u>\$ 2,479,867</u>	<u>\$ 2,479,867</u>

Town of Holly Ridge, North Carolina
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,252,282
Restricted cash	104,734
Receivables, net:	
Taxes	109,841
Accounts receivable, net	159,382
Total assets	\$ 1,626,239
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	\$ 53,316
Deposits	186
Total liabilities	53,502
Deferred inflows of resources:	
Property taxes receivable	109,841
Total deferred inflows of resources	109,841
Fund balances:	
Restricted	
Stabilization by State Statute	154,662
Streets	104,734
Public safety	1,622
Parks and recreation	3,098
Assigned - subsequent year's expenditures	89,552
Unassigned	1,109,228
Total fund balances	1,462,896
Total liabilities, deferred inflows of resources and fund balances	\$ 1,626,239
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Accrued interest receivable on taxes recorded on net assets but not on fund statements.	24,687
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,038,156
Net pensions liability is not a financial use and therefore is not reported in the fund	(338,982)
Contributions to the pension plan in current fiscal year and other pension related items shown as deferred outflows of resources on the Statement of Net Position	75,417
Liabilities for earned but deferred inflows of resources in fund statements.	109,841
Pension related deferrals	(31,324)
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(860,824)
Net position of governmental activities	\$ 2,479,867

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

Town of Holly Ridge, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

	General Fund
REVENUES	
Ad valorem taxes	\$ 1,275,228
Unrestricted intergovernmental	681,721
Restricted intergovernmental	66,305
Permits and fees	106,925
Sales and services	338,083
Investment earnings	1,041
Miscellaneous	57,835
Total revenues	2,527,138
EXPENDITURES	
Current:	
General government	433,877
Public safety	1,088,694
Streets	341,722
Environmental protection	217,380
Parks and recreation	73,189
Debt service:	
Principal	120,595
Interest and other charges	30,502
Total expenditures	2,305,959
Excess (deficiency) of revenues over expenditures	221,179
OTHER FINANCING SOURCES (USES)	
Sale of fixed assets	14,023
Total other financing sources	14,023
Net change in fund balance	235,202
Fund balances - beginning of year	1,227,694
Fund balances - end of year	\$ 1,462,896

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

Town of Holly Ridge, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

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

Net changes in fund balances - governmental funds	\$ 235,202
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.	(61,554)
Donated assets are not reported as revenues in the funds.	650,000
Contributions to the pension plan in the current fiscal year are not included on the Statement of	67,082
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in unavailable revenue for tax revenues	(100,035)
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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	123,770
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.	
Pension expense	21,341
Net pension obligation (LEO)	(8,049)
Other postemployment benefits	(20,655)
Compensated absences	<u>(19,061)</u>
Total changes in net position of governmental activities	<u>\$ 888,041</u>

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

Town of Holly Ridge, North Carolina
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Ad valorem taxes	\$ 1,105,745	\$ 1,105,745	\$ 1,275,228	\$ 169,483
Unrestricted intergovernmental	653,280	653,280	681,721	28,441
Restricted intergovernmental	57,702	57,702	66,305	8,603
Permits and fees	122,000	122,000	106,925	(15,075)
Sales and services	326,883	326,883	338,083	11,200
Investment earnings	500	500	1,041	541
Miscellaneous	11,441	11,441	57,835	46,394
	<u>2,277,551</u>	<u>2,277,551</u>	<u>2,527,138</u>	<u>249,587</u>
EXPENDITURES				
Current:				
General government	443,743	465,743	433,877	31,866
Public safety	1,087,805	1,097,668	1,088,694	8,974
Streets	454,743	454,743	341,722	113,021
Environmental protection	207,100	207,100	217,380	(10,280)
Parks and recreation	51,213	51,213	73,189	(21,976)
Debt service:				
Principal	113,897	113,897	120,595	(6,698)
Interest and other charges	30,502	30,502	30,502	-
	<u>2,389,003</u>	<u>2,420,866</u>	<u>2,305,959</u>	<u>114,907</u>
Revenues over (under) expenditures	<u>(111,452)</u>	<u>(143,315)</u>	<u>221,179</u>	<u>364,494</u>
OTHER FINANCING SOURCES (USES)				
Sale of fixed assets	21,900	21,900	14,023	(7,877)
Appropriated fund balance	89,552	121,415	-	(121,415)
	<u>111,452</u>	<u>143,315</u>	<u>14,023</u>	<u>(129,292)</u>
Change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>235,202</u>	<u>\$ 235,202</u>
Fund balances - beginning of year			<u>1,227,694</u>	
Fund balances - end of year			<u>\$ 1,462,896</u>	

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

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Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Holly Ridge is a municipal corporation which is governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present the Town, which has no component units.

B. Basis of Presentation - Fund Accounting

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. These statements report the governmental activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues 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.

The Town reports the following major governmental fund:

GENERAL FUND - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State and federal grants and various other taxes and licenses. The primary expenditures are for public safety, general government, streets, sanitation, and parks and recreation.

C. Measurement Focus and Basis of Accounting

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

Government-wide Fund Financial Statements. The government-wide fund financial statements are reported using the economic resources measurement focus. The government-wide 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.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

D. Budgetary Data

The Town's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year end. The budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. The finance officer may transfer amounts between objects of expenditures within a department without limitations and without an official report being requested. Any other transfer or revisions that alter the total expenditures of any fund must be approved by the governing board.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

Powell bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. As of June 30, 2016, \$104,734 was restricted in governmental activities.

Restricted Cash - General Fund	Streets	<u>\$ 104,734</u>
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4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015.

5. Allowances for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs for all assets is \$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. As a Phase 3 government, the Town is not required to report major general infrastructure assets retroactively and, as such, has elected not to include these assets in their basic financial statements.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

As a result, the governmental activities column in the government-wide financial statements does not reflect those infrastructure asset projects completed before July 1, 2003. However, it does reflect those assets that were completed subsequent to that date. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25
Buildings	50
Improvements	25
Vehicles	5
Furniture and equipment	10
Computer equipment	3

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities 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 expense over the life of the 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.

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meets this criterion, contributions made to the pension plan in the 2016 fiscal year and changes in proportion and differences between employer contributions and proportional share of contributions. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only three items that meet the criterion for this category - prepaid taxes, property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

9. Compensated Absences

The vacation policy of the Town is to provide for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town 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 policy provides for an unlimited accumulation of earned sick leave. Employees who separate from the Town in good standing and who have provided at least five (5) years of continued service are eligible to receive a twenty-five percent (25%) pay out of the employee's sick leave total upon separation. All unused sick leave will then be transferred to the State plan for retirement benefit purposes or to the accepting government entity if the employee is not retiring. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. For the year ending June 30, 2016, the Town had no nonspendable fund balance.

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

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

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

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town's governing body. The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. For the year ending June 30, 2016, the Town had no committed fund balance.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

Assigned Fund Balance - portion of fund balance that the Town intends to use for specific purposes. For the year ending June 30, 2016, the Town had \$89,552 assigned for next year's expenditures.

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

11. Pensions

For purposes of measuring the net pension asset, 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's employer contributions are recognized when due and the Town 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.

II. Stewardship, Compliance, and Accountability

A. Noncompliance with North Carolina General Statutes

The Town had four cash accounts which were not accounted and reported in accordance with G.S. 159. State law requires that all accounts must be in custody and supervised by the finance officer. The funds must be included in the Town's budget and expended as appropriated in the budget.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2016, the expenditures made in the Town's general fund exceeded the authorized appropriations made by the governing board for environmental protection, parks and recreation, and debt service by \$10,280, \$21,976 and \$6,698, respectively. These over-expenditure in environmental protection occurred due to unplanned expenditures. The over-expenditure in parks and recreation occurred due to failure to budget for accounts and activity related to the Liberty Fountain. The over-expenditure in debt service occurred due to the failure to record an installment purchase note from the prior fiscal year.

III. Detail Notes on All Funds and Account Groups

A. Assets

1. Deposits

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

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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

At June 30, 2016, the Town's deposits had a bank balance amount of \$1,332,682 and a book balance of \$1,356,891. Of the balance, \$250,000 was covered by federal depository insurance, \$723,277 was covered by collateral held under the dedicated method, and the remainder was covered by collateral held under the pooling method. At June 30, 2016, the Town's change fund totaled \$125.

2. Receivables

The amounts presented in Exhibit 1, the Balance Sheet and the Statement of Net Position are as follows:

	<u>General Fund</u>
Taxes receivable	<u>\$ 109,841</u>
State and county sales tax	91,292
Local government sales tax	6,492
Due from ONWASA	25,113
Due from NCDOT	6,358
Utility franchise tax	24,900
Telecommunication tax	<u>5,227</u>
Accounts receivable	<u>\$ 159,382</u>

3. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Government Activities:				
Capital assets not being depreciated:				
Land	<u>\$ 31,135</u>	<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ 191,135</u>
Total capital assets not being depreciated	<u>31,135</u>	<u>160,000</u>	<u>-</u>	<u>191,135</u>
Capital assets being depreciated:				
Buildings and infrastructure	1,612,302	527,107	-	2,139,409
Machinery and equipment	160,496	23,295	-	183,791
Vehicles and motorized equipment	<u>660,336</u>	<u>18,105</u>	<u>269,999</u>	<u>408,442</u>
Total capital assets being depreciated	<u>2,433,134</u>	<u>568,507</u>	<u>269,999</u>	<u>2,731,642</u>

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

Less accumulated depreciation for:

Buildings and infrastructure	363,017	51,075	-	414,092
Machinery and equipment	110,088	20,713	-	130,801
Vehicles and motorized equipment	<u>541,456</u>	<u>68,271</u>	<u>269,999</u>	<u>339,728</u>
Total capital assets being depreciated	<u>1,014,561</u>	<u>140,059</u>	<u>269,999</u>	<u>884,621</u>
Governmental activity capital assets, net	<u>\$ 1,449,708</u>			<u>\$ 2,038,156</u>

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

General government	\$ 2,028
Public safety	81,660
Streets	49,368
Parks and recreation	<u>7,003</u>
Total depreciation expense	<u>\$ 140,059</u>

In the current fiscal year, the Town received a donation consisting of a building and a parcel of land. The Town recorded the donation at the estimated net acquisition valued of \$650,000.

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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 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's contractually required contribution rate for the year ended June 30, 2016, was 7.41% of compensation for law enforcement officers and 7.07% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$67,081 for the year ended June 30, 2016.

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

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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

At June 30, 2016, the Town reported a liability of \$60,229 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.01342%, which was an increase of 0.00055% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$(21,342). At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 14,157
Net difference between projected and actual earnings on pension plan investments	-	17,147
Changes in proportion and differences between Town contributions and proportionate share of contributions	8,335	20
Town contributions subsequent to measurement date	67,082	-
Total	\$ 75,417	\$ 31,324

The \$67,082 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (17,804)
2018	(17,804)
2019	(17,782)
2020	30,401
2021	-
Thereafter	-

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

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

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100.0%</u>	

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

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

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 419,978	\$ 60,229	\$ (242,854)

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

b. Law Enforcement Officers Special Separation Allowance

(1) Plan Description

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

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

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	8
Total	8

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

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

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

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

(3) Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2015 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2015 was 15 years.

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

Annual required contribution	\$ 22,006
Interest on net pension obligation	9,664
Adjustment to annual required	<u>(23,621)</u>
Annual pension cost	8,049
Contributions made	<u>-</u>
Increase in net pension obligation	8,049
Net pension obligation beginning of fiscal year	<u>270,704</u>
Net pension obligation end of year	<u><u>\$ 278,753</u></u>

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2014	8,948	0.00%	262,217
6/30/2015	8,487	0.00%	270,704
6/30/2016	8,049	0.00%	278,753

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

(4) Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$153,472. The covered payroll (annual payroll of active employees covered by the plan) was \$380,556, and the ratio of the UAAL to the covered payroll was 40.3%.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

(1) Plan description

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

(2) Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 were \$36,428.

The Town has also elected to contribute to the Plan for general employees as well as for law enforcement officers. Contributions for general employees for the year ended June 30, 2016 were \$12,291.

2. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest 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. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 8,335
Changes in proportion and differences between Town contributions and proportionate share of contributions	<u>67,082</u>
	<u>\$ 75,417</u>

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

	<u>Amount</u>
Property taxes receivable	\$ 109,841
Pension deferrals	31,324

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. 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. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. 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. The Town does not hold any flood insurance.

In accordance with General Statue 159-29, employee's with the Town that have access to \$100 or more of Town funds at any given time are required to be insured by means of a performance bond through a commercial bond agency. The Finance Officer shall be bonded in the amount of \$50,000 and all other remaining employees that have access to funds are to be covered under a blanket bond in the amount of \$25,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2016, the Town was a defendant in a lawsuit. In the opinion of the Town's management and the Town's attorney, the ultimate effect of this legal matter will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment Purchases

As of June 30, 2016, the Town has three outstanding installment purchase agreements.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

The first agreement was executed on August 27, 2007 for \$296,400, to finance the construction of a police building and requires principal payments of \$19,760 with an interest rate of 4.17 percent. Ending balance of \$138,320. Final payment due August 2022.

The second agreement was executed on December 19, 2011 for \$400,00, to finance street improvement expenditures and requires principal payments of \$26,667 with an interest rate of 4.03 percent. Ending balance of \$293,333. Final payment due December 2026.

The third agreement was executed on September 29, 2014 for \$29,160, to finance a vehicle purchase and requires payments of \$10,064 with an interest rate of 1.76 percent. Ending balance of \$19,609. Final payment due September 2017.

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2017	56,146	17,934
2018	56,317	15,865
2019	46,427	13,792
2020	46,427	11,893
2021	46,427	9,995
Thereafter	199,518	25,040
Total	\$ 451,262	\$ 94,519

At June 30, 2016 the Town of Holly Ridge had a legal debt margin of \$21,696,790.

b. General Obligation Bonds

General obligation bonds payable at June 30, 2016, are comprised of the following note:

Bond executed on August 2, 2004 for \$325,000, to finance street improvements and requires variable principle payments with an interest rate of 4.75 percent. Ending balance of \$172,000. Final payment due June 2024.

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2017	18,000	8,170
2018	19,000	7,315
2019	20,000	6,412
2020	21,000	5,462
2021	22,000	4,465
Thereafter	72,000	6,935
Total	\$ 172,000	\$ 38,759

At June 30, 2016 the Town of Holly Ridge had a legal debt margin of \$21,696,790.

c. Discontinued OPEB Plan Liability

In 2010, the Town discontinued providing health care benefits to vested employees retiring from Town employment. The Town has one current employee who had vested in the plan before the change. At June 30, 2016, the Town had a liability of \$141,799 related to the benefits payable to this employee.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

d. Changes in Long-Term Liabilities

	Balance at July 1, 2015	Additions	Retirements and Transfers	Balance at June 30, 2016	Current Portion of Balance
Governmental activities					
Installment purchase	\$ 554,857	\$ -	\$ 103,595	\$ 451,262	\$ 56,146
General obligation bond	189,000	-	17,000	172,000	18,000
Net pension obligation (LEO)	270,704	8,049	-	278,753	-
Net pension liability (LGERS)	-	60,229	-	60,229	-
Discontinued OPEB Liability	121,017	20,782	-	141,799	-
Compensated absences	<u>65,986</u>	<u>19,061</u>	<u>-</u>	<u>85,047</u>	<u>85,047</u>
Governmental activity long-term liabilities	<u>\$ 1,201,564</u>	<u>\$ 108,121</u>	<u>\$ 120,595</u>	<u>\$ 1,189,090</u>	<u>\$ 159,193</u>

The LGERS plan had a net pension liability as of June 30, 2016; however, the plan had a net pension asset at the beginning of the fiscal year.

C. Net Investment in Capital Assets

Capital Assets	<u>\$ 2,038,156</u>
less: long-term debt	623,262
Net investment in capital assets	<u>\$ 1,414,894</u>

D. Fund Balance

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

Total fund balance-General Fund	\$ 1,462,896
Less:	
Stabilization by State Statute	154,662
Streets-Powell Bill	104,734
Public Safety	1,622
Parks and Recreation	3,098
Assigned - Subsequent Year's Expenditures	89,552
Remaining Fund Balance	<u>\$ 1,109,228</u>

There were no outstanding encumbrances at June 30, 2016.

Town of Holly Ridge, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

IV. Summary Disclosure Significant Contingencies

Federal and State Assisted Programs

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

V. Prior Period Adjustment

Net position beginning of period was restated in the current year by \$391,721 to reflect recording of the prior year liability balances for the LEO net pension obligation and the liability associated with discontinued OPEB plan. Additionally, an adjustment of \$29,160 was made to the opening balances of the vehicles and installment loan accounts to reflect a vehicle purchase in the prior fiscal year that was not recorded.

VI. Extraordinary Item

The Town received a donation of land and building with an appraised value of \$650,000. The donation has been recorded as revenue at its appraised value and is included in the capital assets at the same value.

VII. Subsequent Events

Subsequent events were evaluated through January 10, 2017, which is the date the financial statements were available to be issued.

Required Supplementary Financial Data

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
 - Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System.
 - Schedule of Contributions to Local Government Employees' Retirement System.
-

Town of Holly Ridge, North Carolina
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING IN PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2015	-	153,472	153,472	0%	380,556	40.33%

Town of Holly Ridge, North Carolina
TOWN OF HOLLY RIDGE'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS*

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Holly Ridge's proportion of the net pension liability (asset) (%)	0.01342%	0.02898%	0.02898%
Holly Ridge's proportion of the net pension liability (asset) (\$)	\$ 60,228	\$ (75,900)	\$ 161,521
Holly Ridge's covered-employee payroll	\$ 961,961	\$ 739,184	\$ 756,699
Holly Ridge's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.26%	-10.27%	21.35%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

Town of Holly Ridge, North Carolina
**TOWN OF HOLLY RIDGE'S CONTRIBUTIONS
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST THREE FISCAL YEARS**

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 67,082	\$ 57,159	\$ 52,238
Contributions in relation to the contractually required contribution	67,082	57,159	52,238
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Holly Ridge' covered-employee payroll	\$ 961,961	\$ 739,184	\$ 756,699
Contributions as a percentage of covered-employee payroll	6.97%	7.73%	6.90%

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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

Town of Holly Ridge, North Carolina
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	2016		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 1,242,818	\$ -
Penalties and interest	-	32,410	-
Total	<u>1,105,745</u>	<u>1,275,228</u>	<u>169,483</u>
Unrestricted intergovernmental:			
Local option sales taxes	-	511,149	-
Utilities sales tax	-	125,235	-
Franchise tax	-	13,798	-
Beer and wine tax	-	6,568	-
ABC profit distribution	-	24,029	-
Solid Waste Tax	-	942	-
Total	<u>653,280</u>	<u>681,721</u>	<u>28,441</u>
Restricted intergovernmental:			
Powell Bill allocation	-	47,715	-
Grants	-	18,590	-
Total	<u>57,702</u>	<u>66,305</u>	<u>8,603</u>
Permits and fees:			
Planning & zoning fees	-	6,680	-
Building permits	-	100,245	-
Total	<u>122,000</u>	<u>106,925</u>	<u>(15,075)</u>
Sales and services:			
Rents and concessions	-	56,045	-
Garbage and recycling fees	-	282,038	-
Total	<u>326,883</u>	<u>338,083</u>	<u>11,200</u>
Investment earnings:	<u>500</u>	<u>1,041</u>	<u>541</u>
Miscellaneous:			
Miscellaneous	-	14,488	-
Donations	-	38,616	-
Court refunds, parking fees	-	4,731	-
Total	<u>11,441</u>	<u>57,835</u>	<u>46,394</u>
Total revenues	<u>2,277,551</u>	<u>2,527,138</u>	<u>249,587</u>

Town of Holly Ridge, North Carolina
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL (continued)
For the Fiscal Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Governing body:			
Fees - elected officials	-	12,600	-
Contracted services	-	26,272	-
Total	-	38,872	-
Administration:			
Salaries and employee benefits	-	231,399	-
Operating expenses	-	141,250	-
Contracted services	-	22,356	-
Total	-	395,005	-
Total general government	465,743	433,877	31,866
Public safety:			
Police:			
Salaries and employee benefits	-	705,562	-
Operating expenses	-	71,017	-
Capital outlay	-	14,395	-
Total	-	790,974	-
Fire:			
Contracted services	-	98,074	-
Total	-	98,074	-
Inspections:			
Salaries and employee benefits	-	189,982	-
Operating expenses	-	9,664	-
Total	-	199,646	-
Total public safety	1,097,668	1,088,694	8,974
Streets:			
Salaries and employee benefits	-	219,598	-
Operating expenses	-	91,589	-
Powell Bill	-	30,535	-
Total streets	454,743	341,722	113,021

Town of Holly Ridge, North Carolina
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL (continued)
For the Fiscal Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Sanitation	-	217,380	-
Total sanitation	<u>207,100</u>	<u>217,380</u>	<u>(10,280)</u>
Parks and recreation:			
Operating expenses	-	36,082	-
Capital outlay	-	37,107	-
Total parks and recreation	<u>51,213</u>	<u>73,189</u>	<u>(21,976)</u>
Debt service:			
Principal retirement	-	120,595	-
Interest and other charges	-	30,502	-
Total debt service	<u>144,399</u>	<u>151,097</u>	<u>(6,698)</u>
Total expenditures	<u>2,420,866</u>	<u>2,305,959</u>	<u>114,907</u>
Revenues over (under) expenditures	<u>(143,315)</u>	<u>221,179</u>	<u>364,494</u>
Other financing sources (uses):			
Sale of fixed assets	21,900	14,023	-
Appropriated fund balance	<u>121,415</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>143,315</u>	<u>14,023</u>	<u>(129,292)</u>
Net change in fund balance	\$ -	235,202	<u>\$ 235,202</u>
Fund balances:			
Beginning of year, July 1		<u>1,227,694</u>	
End of year, June 30		<u>\$ 1,462,896</u>	

OTHER SCHEDULES

- Schedule of Ad Valorem Taxes Receivable
 - Analysis of Current Tax Levy – Town Wide Levy
-

Town of Holly Ridge, North Carolina
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2016

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections And Credits	Uncollected Balance June 30, 2016
2014-2015	\$ -	\$ 1,125,521	\$ 1,083,732	\$ 41,789
2013-2014	78,474	-	61,169	17,305
2012-2013	73,760	-	60,362	13,398
2011-2012	47,225	-	35,223	12,002
2010-2011	8,064	-	1,500	6,564
2009-2010	7,570	-	1,333	6,237
2008-2009	27,987	-	5,762	22,225
2007-2008	19,432	-	2,205	17,227
2006-2007	2,496	-	60	2,436
2005-2006	2,068	-	52	2,016
2004-2005	<u>1,940</u>	<u>-</u>	<u>1,940</u>	<u>-</u>
	<u>\$ 269,016</u>	<u>\$ 1,125,521</u>	<u>\$ 1,253,338</u>	<u>141,199</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>25,000</u>
Ad valorem taxes receivable - net				<u>\$ 116,199</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				1,275,228
Releases and adjustments				8,547
Taxes written off				<u>1,973</u>
Subtotal				1,285,748
Less: Interest collected				<u>(32,410)</u>
Total collections and credits				<u>\$ 1,253,338</u>

Town of Holly Ridge, North Carolina
ANALYSIS OF CURRENT TAX LEVY
For the Fiscal Year Ended June 30, 2016

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Tax Levy - Town-wide	271,712,289	0.42	<u>1,127,606</u>	<u>1,059,545</u>
Total	<u>271,712,289</u>		<u>1,127,606</u>	<u>1,059,545</u>	<u>68,061</u>
Adjustments & Releases	<u>-</u>		<u>(2,085)</u>	<u>(691)</u>	<u>(1,394)</u>
	<u>-</u>		<u>(2,085)</u>	<u>(691)</u>	<u>(1,394)</u>
Total property valuation	<u>\$ 271,712,289</u>				
Net levy			1,125,521	1,058,854	66,667
Uncollected taxes at June 30, 2016			<u>(41,789)</u>	<u>(35,431)</u>	<u>(6,358)</u>
Current year's taxes collected June 30, 2016			<u>\$ 1,083,732</u>	<u>\$ 1,023,423</u>	<u>\$ 60,309</u>
Current levy collected percentage			96.29%	96.65%	90.46%

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WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

To the Town Council and Town Manager
Holly Ridge, North Carolina

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Holly Ridge, North Carolina as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town's internal control. Accordingly, we do not express an opinion on the effectiveness of Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be a material weakness:

Internal Control over Financial Reporting

During the course of the audit, we were required to make material adjustments to various accounts in order to accurately record financial position and activities. It was also noted that several accounts were not recorded in the Town's accounting system or included in the adopted budget as required by North Carolina State Statutes. Additionally, several material prior period adjustments were required that indicated the prior year's financial statements were materially misstated.

These items resulted in additional time required to complete the audit and additional expense to the Town. They also increase the Town's exposure to future material misstatements. Also, continued involvement by our firm in material adjustments may result in impairment of our independence.

We recommend the Town consider engaging an external accounting firm on a periodic basis during the year to provide additional expertise in governmental GAAP accounting consistent with Memorandum #2017-08 issued by the North Carolina Department of State Treasurer.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be significant deficiency:

2131 S. Glenburnie Rd, Ste 2
PO Box 14008
New Bern, NC 28561-4008

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824 Gum Branch Rd, Ste K
PO Box 5003
Jacksonville, NC 28540

Phone (252) 638-4000
Fax (252) 638-3989

www.wssgcpa.com

Phone (910) 455-2196
Fax (910) 455-1943

Segregation of Duties

During the course of the audit, we noted the majority of the financial reporting duties are being conducted by the Finance Director.

Although this is common with small municipalities, it does increase the Town's risk of material misstatement and exposure to fraud or theft. Proper segregation involves separating the custody of assets, authorization of use of assets and recordkeeping of assets.

We recommend the Town review the current level of segregation and consider ways in which further segregation can be accomplished. This can be done through involvement of another external CPA, as recommended above, further involvement of Town management or other Town employees, and/or through further involvement of the Town Council.

This communication is intended solely for the information and use of management, the Town Council, and others within Town and the North Carolina Department of State Treasurer, and is not intended to be, and should not be, used by anyone other than these specified parties.



Williams · Scarborough · Smith · Gray, LLP
Jacksonville, North Carolina
January 10, 2017



WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

January 10, 2017

To the Town Council of
Holly Ridge, North Carolina

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Holly Ridge, North Carolina for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 2, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by Town's during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Town's financial statements were:

Management's estimate of the liabilities associated with various pension and discontinued OPEB plans is based on an actuarial calculation. We evaluated the key factors and assumptions used to develop the liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures of the Stewardship, Compliance, and Accountability in Note I and the Prior Period Adjustments in Note V to the financial statements disclosing various findings during the course of the audit.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We were not able to complete the audit by the originally agreed upon date, due to additional time required to obtain actuarial calculations for various previously undisclosed liabilities and to unanticipated additional time required to make adjustments to various accounts. This resulted in the requirement to submit an amended contract with the NC Department of Treasurer and additional audit fees.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has agreed to correct all such misstatements. The net of all misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. A list of the adjustments has been provided to management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 10, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Town's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

During the course of the audit we discussed a variety of matters, including the application of accounting principles and auditing standards, with management. The following recommendations were made:

- Underlying accounting records (including, but not limited to, bank reconciliation, accounts receivable detail and accounts payable detail), should be reviewed on a monthly basis and agreed to balance reported on the monthly trial balance.
- Fixed assets should be reviewed on a period basis to ensure proper use of and accounting for these assets.
- Other recommendations were included in the internal controls report provided with audited financial statements.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress, and the Local Government Employees' Retirement System's Schedules of the proportionate Share of the Net Pension Asset (Liability) and contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Town Council, management of Town, and the North Carolina Department of Treasurer and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Williams · Scarborough · Smith · Gray, LLP
Jacksonville, North Carolina