

NORTH CAROLINA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2012

TOWN OF SUNSET BEACH

Report of Audit

For the Fiscal Year Ended June 30, 2012



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Financial Section

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- Management's Discussion and Analysis
- Government-wide Financial Statements
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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Sunset Beach, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sunset Beach's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of Sunset Beach ABC Board were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Sunset Beach, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2012 on our consideration of the Town of Sunset Beach's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. Not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplemental 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sunset Beach basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented as for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non Profit Organizations, and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual fund financial statements, budgetary schedules, and other schedules 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 combining and individual fund financial statements, budgetary schedules, other schedules are stated in all material respects in relation to the basic financial statements as a whole.

S. Preston Douglas & Associates, LLP

October 24, 2012

Management's Discussion and Analysis

As management of the Town of Sunset Beach, we offer readers of the Town of Sunset Beach's financial statements this narrative overview and analysis of the financial activities of the Town of Sunset Beach for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Sunset Beach's financial statements, which follow this narrative.

Financial Highlights

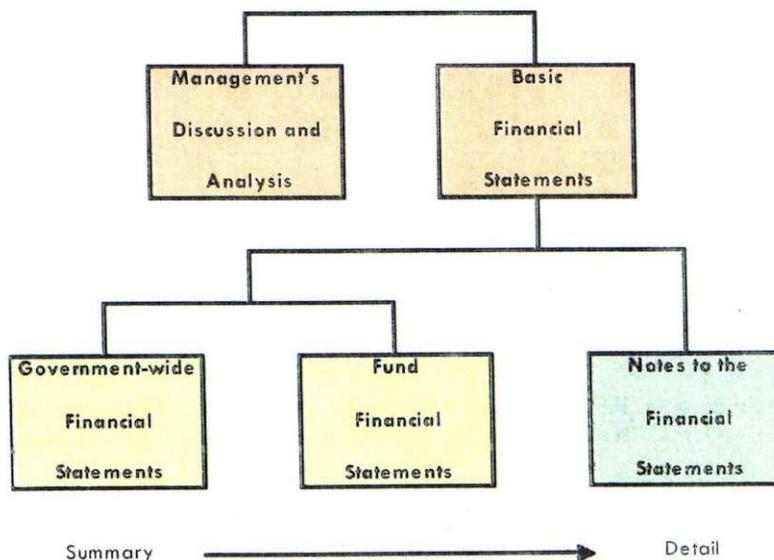
- The assets of the Town of Sunset Beach exceeded its liabilities at the close of the fiscal year by \$19,053,057.
- The government's total net assets increased by \$2,300,516.
- As of the close of the current fiscal year, the Town of Sunset Beach's governmental funds reported combined ending fund balances of \$9,252,892, with a net change of \$(1,995,822) in fund balance. Approximately 12 percent of this total amount, or \$1,109,758, is nonspendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,270,172.
- The Town of Sunset Beach's total debt decreased by \$406,758, in the governmental fund.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Sunset Beach's basic financial statements. The Town of Sunset Beach'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 of Sunset Beach 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 Sunset Beach.

Required Components of Annual Financial Report

Figure 1



Management's Discussion and Analysis (Continued)

Basic Financial Statements

The first two statements (pages 18 through 21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town of Sunset Beach's financial status.

The next statements (pages 22 through 29) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town of Sunset Beach's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the fiduciary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town of Sunset Beach'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 of Sunset Beach'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 of Sunset Beach's financial status as a whole.

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town of Sunset Beach's basic services such as public safety and general administration. Property taxes and state funds finance most of these activities. The final category is the component unit. Although legally separate from the Town of Sunset Beach, the Sunset Beach ABC Board is important to the Town of Sunset Beach because the Town of Sunset Beach exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town of Sunset Beach.

The government-wide financial statements are on pages 18 through 21 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town of Sunset Beach'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 Sunset Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town of Sunset Beach's Budget Ordinance. All of the funds of Town of Sunset Beach can be divided into two categories: governmental funds and fiduciary funds.

Management's Discussion and Analysis (Continued)

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town of Sunset Beach's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town of Sunset Beach's programs. The relationship between government activities (reported in the Statement of Net Assets 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 Sunset Beach adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town of Sunset Beach, the management of the Town of Sunset Beach, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town of Sunset Beach 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 of Sunset Beach complied with the budget ordinance and whether or not the Town of Sunset Beach succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Town of Sunset Beach has two fiduciary funds, a pension trust fund and a agency fund.

The fund financial statements are on pages 22 through 29 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 30 through 51 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Sunset Beach's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 54 of this report.

Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis

The Town of Sunset Beach's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 9,495,397	11,420,902	\$ -	\$ -	\$ 9,495,397	\$ 11,420,902
Capital assets	10,854,317	7,035,054	-	-	10,854,317	7,035,054
Total assets	<u>20,349,714</u>	<u>18,455,956</u>	<u>-</u>	<u>-</u>	<u>20,349,714</u>	<u>18,455,956</u>
Long-term liabilities outstanding	1,281,244	1,684,015	-	-	1,281,244	1,684,015
Other liabilities	15,413	19,400	-	-	15,413	19,400
Total liabilities	<u>1,296,657</u>	<u>1,703,415</u>	<u>-</u>	<u>-</u>	<u>1,296,657</u>	<u>1,703,415</u>
Net assets:						
Invested in capital assets, net of related debt	9,822,410	5,593,756	-	-	9,822,410	5,593,756
Restricted	1,109,758	793,477	-	-	1,109,758	793,477
Unrestricted	8,120,889	10,365,308	-	-	8,120,889	10,365,308
Total net assets	<u>\$ 19,053,057</u>	<u>16,752,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,053,057</u>	<u>\$ 16,752,541</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Sunset Beach exceeded liabilities by \$19,053,057 as of June 30, 2012. The Town of Sunset Beach's net assets increased by \$2,300,516 for the fiscal year ended June 30, 2012. The Town of Sunset Beach's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items is 52% of net assets. The Town of Sunset Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Sunset Beach's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Sunset Beach's net assets \$1,109,758 (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,120,889, (43%) is unrestricted.

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

- The Town of Sunset Beach's tax collection rate of over 95% has been consistent for over ten years.

Management's Discussion and Analysis (Continued)

The Town of Sunset Beach's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 251,968	203,205	\$ -	\$ -	\$ 251,968	\$ 203,205
Operating grants and contributions	183,886	123,012	-	-	183,886	123,012
Capital grants and contributions	2,149,552	144,551	-	-	2,149,552	144,551
General Revenues						
Property taxes	1,937,862	2,286,025	-	-	1,937,862	2,286,025
Other taxes	2,377,972	2,324,145	-	-	2,377,972	2,324,145
Grants and contributions not restricted to specific programs						
	322,642	369,636	-	-	322,642	369,636
Other	39,990	113,266	-	-	39,990	113,266
Total revenues	7,263,872	5,563,840	-	-	7,263,872	5,563,840
Expenses:						
General government	762,659	748,550	-	-	762,659	748,550
Public safety	2,947,608	2,958,112	-	-	2,947,608	2,958,112
Transportation	913,372	447,259	-	-	913,372	447,259
Environmental protection	86,106	125,276	-	-	86,106	125,276
Economic and physical development	178,026	213,924	-	-	178,026	213,924
Human Services	26,100	28,032	-	-	26,100	28,032
Interest on long-term debt	49,485	63,035	-	-	49,485	63,035
Total expenses	4,963,356	4,584,188	-	-	4,963,356	4,584,188
Change in net assets	2,300,516	979,652	-	-	2,300,516	979,652
Net assets, July 1	16,752,541	15,772,889	-	-	16,752,541	15,772,889
Net assets, June 30	\$ 19,053,057	16,752,541	\$ -	\$ -	\$ 19,053,057	\$ 16,752,541

Governmental activities. Governmental activities increased the Town of Sunset Beach's net assets by \$2,300,516, thereby accounting for 100% of the total increase in the net assets of the Town of Sunset Beach. Key elements of this increase are as follows:

- Tax revenues declined from prior year.

Management's Discussion and Analysis (Continued)

Financial Analysis of the Town of Sunset Beach's Funds

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

Governmental Funds. The focus of the Town of Sunset Beach'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 Sunset Beach's financing requirements. Specifically, unreserved 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 Sunset Beach. At the end of the current fiscal year, Town of Sunset Beach's fund balance available in the General Fund was \$8,340,723, while total fund balance reached \$8,932,881.

At June 30, 2012, the governmental funds of Town of Sunset Beach reported a combined fund balance of \$9,252,892, with a net increase in fund balance of \$1,995,822.

General Fund Budgetary Highlights: During the fiscal year, the Town of Sunset Beach 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; 3) increases in appropriations that become necessary to maintain services.

Capital Asset and Debt Administration

Capital assets. The Town of Sunset Beach's investment in capital assets for its governmental activities as of June 30, 2012, totals \$10,854,317. These assets include buildings, roads and land, machinery and equipment, and vehicles.

Major capital asset transactions during the year include the following additions and disposals:

- Increase in construction in progress
- Purchased equipment
- Purchased a vehicle
- Disposed of a vehicle

Management's Discussion and Analysis (Continued)

The Town of Sunset Beach's Capital Assets

Figure 4

	(Net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 5,035,742	2,395,426	\$ -	\$ -	\$ 5,035,742	\$ 2,395,426
Construction in Progress	1,507,154	282,737	-	-	1,507,154	282,737
Buildings	3,327,943	3,302,220	-	-	3,327,943	3,302,220
Land improvements	9,230	10,497	-	-	9,230	10,497
Equipment and furniture	310,228	276,149	-	-	310,228	276,149
Vehicles and motorized equipment	655,028	758,616	-	-	655,028	758,616
Infrastructure	8,992	9,409	-	-	8,992	9,409
Construction in progress	-	-	-	-	-	-
Total	\$ 10,854,317	\$ 7,035,054	\$ -	\$ -	\$ 10,854,317	\$ 7,035,054

Additional information on the Town of Sunset Beach's capital assets can be found in Note II of the Basic Financial Statements.

Long-term Debt. As of June 30, 2012, the Town of Sunset Beach had total long-term debt outstanding of \$1,031,907. Of this, \$1,031,907 is debt backed by the full faith and credit of the Town of Sunset Beach.

The Town of Sunset Beach's Outstanding Debt Installment Purchases and Capital Leases

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Installment purchases	\$ 1,031,907	1,441,299	\$ -	\$ -	\$ 1,031,907	1,441,299
Capital leases	-	-	-	-	-	-
Total	\$ 1,031,907	\$ 1,441,299	\$ -	\$ -	\$ 1,031,907	\$ 1,441,299

The Town of Sunset Beach's total debt decreased by \$409,392 during the past fiscal year.

Management's Discussion and Analysis (Continued)

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 Sunset Beach is \$147,409,107. The Town of Sunset Beach does not have any authorized but un-issued debt at June 30, 2012.

Additional information regarding the Town of Sunset Beach's long-term debt can be found in Note II beginning on page 49 of this report.

Economic Factors and Next Year's Budgets and Rates

- Town of Sunset Beach's General Fund revenues are based on a \$.105 per \$100 ad valorem tax rate.
- Building Permits and Tourism growth is expected to be slow through the majority of the 2012 -2013 year.
- Upon a turnaround in the Economy, we expect to generate increases in Building Permits and Accommodation tax revenues.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities: Taxes and permits and fees are expected to increase during the fiscal year. The Town will use these revenues to finance programs currently in place.

Requests for Information

This report is designed to provide an overview of the Town of Sunset Beach'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 following:

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700 Sunset Boulevard North
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Email: sunsetbeach@atmc.net