

TOWN OF SUNSET BEACH

Report of Audit

For the Fiscal Year Ended June 30, 2010





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S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and the Future Development Special Revenue 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 20, 2010 on our consideration of Town of Sunset Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sunset Beach's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Sunset Beach, North Carolina. Such information has been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

S. Preston Douglas & Associates, LLP

October 20, 2010



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, 2010. 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

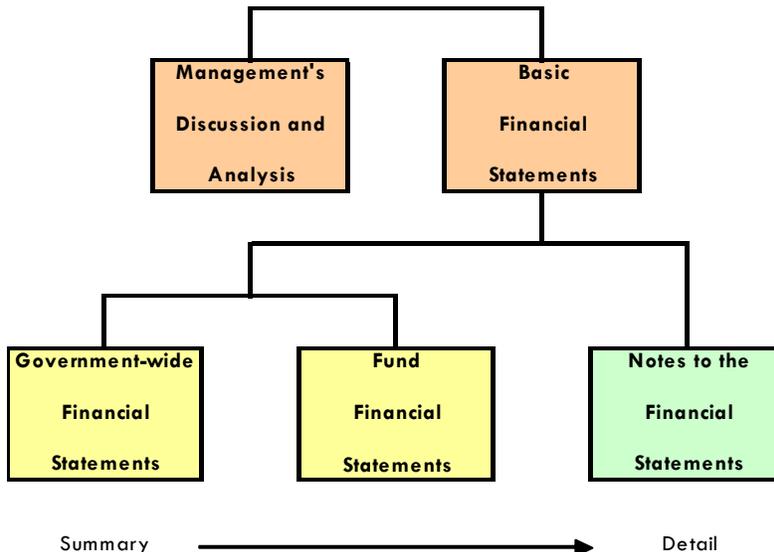
- The assets of the Town of Sunset Beach exceeded its liabilities at the close of the fiscal year by \$15,772,889.
- The government's total net assets increased by \$1,218,437, primarily due to decreased expenditures.
- As of the close of the current fiscal year, the Town of Sunset Beach's governmental funds reported combined ending fund balances of \$10,756,295 a increase of \$769,521 in comparison with the prior year. Approximately 93.5% of this total amount, or \$10,054,532, is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,302,051, or 158.9% of total general fund expenditures for the fiscal year.
- The Town of Sunset Beach's total debt decreased by \$404,547 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 one fiduciary fund, which is a pension trust 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 50 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Sunset Beach's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 52 of this report.

Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis

The Town of Sunset Beach's Net Assets

Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 10,849,866	\$ 10,206,852	\$ -	\$ -	\$ 10,849,866	\$ 10,206,852
Capital assets	6,995,848	6,972,082	-	-	6,995,848	6,972,082
Total assets	<u>17,845,714</u>	<u>17,178,934</u>	<u>-</u>	<u>-</u>	<u>17,845,714</u>	<u>17,178,934</u>
Long-term liabilities outstanding	2,065,144	2,475,057	-	-	2,065,144	2,475,057
Other liabilities	7,681	149,335	-	-	7,681	149,335
Total liabilities	<u>2,072,825</u>	<u>2,624,392</u>	<u>-</u>	<u>-</u>	<u>2,072,825</u>	<u>2,624,392</u>
Net assets:						
Invested in capital assets, net of related debt	5,147,609	4,719,296	-	-	5,147,609	4,719,296
Restricted	302,491	135,095	-	-	302,491	135,095
Unrestricted	<u>10,322,789</u>	<u>9,700,061</u>	<u>-</u>	<u>-</u>	<u>10,322,789</u>	<u>9,700,061</u>
Total net assets	<u>\$ 15,772,889</u>	<u>\$ 14,554,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,772,889</u>	<u>\$ 14,554,452</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 \$15,772,889 as of June 30, 2010. The Town of Sunset Beach's net assets increased by \$1,218,437 for the fiscal year ended June 30, 2010. 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 33% 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 \$302,491 (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,322,789, (65%) 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 98% has been consistent for over ten years.
- The Town of Sunset Beach purchased land for \$388,696.

Management's Discussion and Analysis (Continued)

The Town of Sunset Beach's Changes in Net Assets

Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 198,782	\$ 216,956	\$ -	\$ -	\$ 198,782	\$ 216,956
Operating grants and contributions	264,512	636,853	-	-	264,512	636,853
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	2,286,065	2,268,148	-	-	2,286,065	2,268,148
Other taxes	2,245,038	2,449,691	-	-	2,245,038	2,449,691
Grants and contributions not restricted to specific programs						
Other	321,784	264,391	-	-	321,784	264,391
Other	63,010	150,147	-	-	63,010	150,147
Total revenues	5,379,191	5,986,186	-	-	5,379,191	5,986,186
Expenses:						
General government	777,021	1,132,850	-	-	777,021	1,132,850
Public safety	2,632,223	2,358,285	-	-	2,632,223	2,358,285
Transportation	452,598	372,583	-	-	452,598	372,583
Environmental protection	106,294	101,279	-	-	106,294	101,279
Economic and physical development	83,677	79,002	-	-	83,677	79,002
Human Services	32,416	35,720	-	-	32,416	35,720
Interest on long-term debt	76,525	89,957	-	-	76,525	89,957
Total expenses	4,160,754	4,169,676	-	-	4,160,754	4,169,676
Change in net assets	1,218,437	1,816,510	-	-	1,218,437	1,816,510
Net assets, July 1	14,554,452	12,737,942	-	-	14,554,452	12,737,942
Net assets, June 30	\$ 15,772,889	\$ 14,554,452	\$ -	\$ -	\$ 15,772,889	\$ 14,554,452

Governmental activities. Governmental activities increased the Town of Sunset Beach's net assets by \$1,218,437, 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:

- The Town increased capital assets by \$361,325.
- There was a decrease in the amount expenditures for the fiscal 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, unreserved fund balance of the General Fund was \$7,302,051, while total fund balance reached \$8,003,814. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 158.9% of total General Fund expenditures.

At June 30, 2010, the governmental funds of Town of Sunset Beach reported a combined fund balance of \$10,756,295, a 7.7% increase from last year.

General Fund Budgetary Highlights: During the fiscal year, the Town of Sunset Beach revised the budget on one particular occasion. 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.

- Budgeted expenditures were revised to include the purchase of land for future use by the town.

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, 2010, totals \$6,995,848. 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:

- Purchased land
- Purchased equipment
- Disposed of equipment

Management's Discussion and Analysis (Continued)

The Town of Sunset Beach's Capital Assets

Figure 4

(Net of depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Land	\$ 2,395,426	\$ 2,006,730	\$ -	\$ -	\$ 2,395,426	\$ 2,006,730
Buildings	3,378,300	3,454,381	-	-	3,378,300	3,454,381
Land improvements	11,764	13,184	-	-	11,764	13,184
Equipment and furniture	308,042	398,277	-	-	308,042	398,277
Vehicles and motorized equipment	892,490	1,089,267	-	-	892,490	1,089,267
Infrastructure	9,826	10,243	-	-	9,826	10,243
Construction in progress	-	-	-	-	-	-
Total	\$ 6,995,848	\$ 6,972,082	\$ -	\$ -	\$ 6,995,848	\$ 6,972,082

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, 2010, the Town of Sunset Beach had total long-term debt outstanding of \$1,848,239. Of this, \$1,848,239 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		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2008
Installment purchases	\$ 1,848,239	\$ 2,252,786	\$ -	\$ -	\$ 1,848,239	\$ 2,252,786
Capital leases	-	-	-	-	-	-
Total	\$ 1,848,239	\$ 2,252,786	\$ -	\$ -	\$ 1,848,239	\$ 2,252,786

The Town of Sunset Beach's total debt decreased by \$404,547 (18%) 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 \$202,798,088. The Town of Sunset Beach does not have any authorized but un-issued debt at June 30, 2010.

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 \$.09 per \$100 ad valorem tax rate.
- Building Permits and Tourism growth is expected to be slow through the majority of the 2010 - 2011 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, 2011

Governmental Activities: Ad valorem 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.

The Town will increase its control over expenditures to increase net assets. Budgeted expenditures in the General Fund are expected to remain constant.

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:

**Donna Rogers
Finance Director
Town of Sunset Beach
700 Sunset Boulevard North
Sunset Beach NC 28468
Telephone: (910)579-6297
Email: sunsetbeach@atmc.net**



Basic Financial Statements

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Net Assets

June 30, 2010

	Primary Government			Sunset Beach ABC Board
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Investments	\$ 10,364,704	\$ -	\$ 10,364,704	\$ 53,607
Receivables (net):				
Taxes	49,209	-	49,209	-
Fire District Fees	32,393	-	32,393	-
Accommodations Tax	158,656	-	158,656	-
Vendors	19,929	-	19,929	-
Accrued Interest - Taxes	4,288	-	4,288	-
Inventory	-	-	-	106,825
Due from Other Governments	219,141	-	219,141	-
Due from Component Unit	1,546	-	1,546	-
Capital Assets				
Land, Nondepreciable Improvements, and Construction in Progress	2,395,426	-	2,395,426	220,572
Other Capital Assets, Net of Depreciation	4,600,422	-	4,600,422	645,950
Total Assets	\$ 17,845,714	\$ -	\$ 17,845,714	\$ 1,026,954

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Net Assets (Continued)

June 30, 2010

	Primary Government			Sunset Beach ABC Board
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 7,681	\$ -	\$ 7,681	\$ 46,359
Due to Primary Government	-	-	-	1,546
Distributions Payable	-	-	-	2,061
Long-Term Liabilities				
Due Within One Year	406,939	-	406,939	29,173
Due In More Than One Year	1,658,205	-	1,658,205	546,627
Total Liabilities	2,072,825	-	2,072,825	625,766
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	5,147,609	-	5,147,609	290,722
Restricted For:				
Transportation	302,491	-	302,491	-
Working Capital	-	-	-	38,487
Unrestricted	10,322,789	-	10,322,789	71,979
Total Net Assets	\$ 15,772,889	\$ -	\$ 15,772,889	\$ 401,188

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 777,021	\$ 2,183	\$ -	\$ -
Public Safety	2,632,223	182,732	-	-
Transportation	452,598	13,867	121,643	-
Environmental Protection	106,294	-	142,869	-
Economic and Physical Development	83,677	-	-	-
Human Services	32,416	-	-	-
Interest on Long-Term Debt	76,525	-	-	-
Total Governmental Activities	4,160,754	198,782	264,512	-
Business-Type Activities:				
Water	-	-	-	-
Total Business-Type Activities	-	-	-	-
Total Primary Government	4,160,754	198,782	264,512	-
Component Units:				
Sunset Beach ABC Board	1,270,784	1,287,991	-	-
Total Component Units	\$ 1,270,784	\$ 1,287,991	\$ -	\$ -

General Revenues:

Taxes:

Property Taxes, Levied for General Purpose

Fire District Taxes

Local Option Sales and Use Taxes

Accommodations Taxes

Grants and Contributions not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Sunset Beach ABC Board
\$ (774,838)	\$ -	\$ (774,838)	\$ -
(2,449,491)	-	(2,449,491)	-
(317,088)	-	(317,088)	-
36,575	-	36,575	-
(83,677)	-	(83,677)	-
(32,416)	-	(32,416)	-
(76,525)	-	(76,525)	-
<u>(3,697,460)</u>	<u>-</u>	<u>(3,697,460)</u>	<u>-</u>
-	-	-	-
-	-	-	-
<u>(3,697,460)</u>	<u>-</u>	<u>(3,697,460)</u>	<u>-</u>
-	-	-	17,207
-	-	-	<u>17,207</u>
2,286,065	-	2,286,065	-
859,090	-	859,090	-
658,231	-	658,231	-
727,717	-	727,717	-
321,784	-	321,784	-
15,205	-	15,205	360
47,805	-	47,805	-
<u>4,915,897</u>	<u>-</u>	<u>4,915,897</u>	<u>360</u>
1,218,437	-	1,218,437	17,567
14,554,452	-	14,554,452	383,621
<u>\$ 15,772,889</u>	<u>\$ -</u>	<u>\$ 15,772,889</u>	<u>\$ 401,188</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Balance Sheet
 Governmental Funds
 June 30, 2010

	<u>Major Funds</u>		<u>Total Non-Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Future Development</u>		
ASSETS				
Cash and Investments	\$ 7,612,223	\$ 1,252,664	\$ 1,499,817	\$ 10,364,704
Receivables (net):				
Taxes	49,209	-	-	49,209
Fire District Fees	32,393	-	-	32,393
Accommodations Tax	158,656	-	-	158,656
Vendors	19,929	-	-	19,929
Due from Component Unit	1,546	-	-	1,546
Due from Other Governments	219,141	-	-	219,141
Total Assets	<u>\$ 8,093,097</u>	<u>\$ 1,252,664</u>	<u>\$ 1,499,817</u>	<u>\$ 10,845,578</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 7,681	\$ -	\$ -	\$ 7,681
Deferred Revenues	81,602	-	-	81,602
Total Liabilities	<u>89,283</u>	<u>-</u>	<u>-</u>	<u>89,283</u>
Fund Balances:				
Reserved For:				
State Statute	399,272	-	-	399,272
Streets - Powell Bill	302,491	-	-	302,491
Unreserved, General Fund				
Designated for Subsequent Year's Expenditures	560,000	-	-	560,000
Undesignated	6,742,051	-	-	6,742,051
Unreserved, Reported In:				
Special Revenue Funds	-	1,252,664	1,499,817	2,752,481
Total Fund Balances	<u>8,003,814</u>	<u>1,252,664</u>	<u>1,499,817</u>	<u>10,756,295</u>
Total Liabilities and Fund Balances	<u>\$ 8,093,097</u>	<u>\$ 1,252,664</u>	<u>\$ 1,499,817</u>	<u>\$ 10,845,578</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Balance Sheet (Continued)

Governmental Funds

June 30, 2010

	Total Governmental Funds
Total Fund Balances	\$ 10,756,295
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,995,848
Other long-term assets (accrued interest receivable from taxes and assessments) are not available to pay for current-period expenditures and therefore are deferred.	4,288
Liabilities for earned but deferred revenues in fund statements.	81,602
Some liabilities, including installment obligations payable, net pension obligations, and accrued vacation, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,065,144)</u>
Net assets of governmental activities.	<u>\$ 15,772,889</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2010

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	Future Development		
Revenues				
Ad Valorem Taxes	\$ 2,274,104	\$ -	\$ -	\$ 2,274,104
Other Taxes and Licenses	1,626,375	-	-	1,626,375
Unrestricted Intergovernmental	937,261	-	-	937,261
Restricted Intergovernmental	264,512	-	-	264,512
Sales and Services	16,050	-	-	16,050
Permits and Fees	144,607	-	-	144,607
Public Safety	38,125	-	-	38,125
Investment Earnings	10,970	1,984	2,251	15,205
Miscellaneous	47,805	-	-	47,805
Total Revenues	5,359,809	1,984	2,251	5,364,044
Expenditures				
General Government	666,511	-	-	666,511
Public Safety	2,440,696	-	-	2,440,696
Transportation	395,161	-	-	395,161
Environmental Protection	106,294	-	-	106,294
Economic and Physical Development	472,373	-	-	472,373
Human Services	32,416	-	-	32,416
Debt Service Principal	404,547	-	-	404,547
Interest	76,525	-	-	76,525
Total Expenditures	4,594,523	-	-	4,594,523
Excess (Deficiency) of Revenues Over (Under) Expenditures	765,286	1,984	2,251	769,521
Other Financing Sources (Uses)				
Transfers from Other Funds	262,282	100,000	470,000	832,282
Transfers to Other Funds	(570,000)	-	(262,282)	(832,282)
Total Other Financing Sources (Uses)	(307,718)	100,000	207,718	-
Net Change in Fund Balance	457,568	101,984	209,969	769,521
Fund Balance - Beginning	7,546,246	1,150,680	1,289,848	9,986,774
Fund Balance - Ending	\$ 8,003,814	\$ 1,252,664	\$ 1,499,817	\$ 10,756,295

TOWN OF SUNSET BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2010

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

Net changes in fund balances - total governmental funds	\$ 769,521
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	23,766
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Change in deferred revenue for tax revenues	11,153
Change in deferred revenue for other taxes	(3,698)
Change in deferred revenue for fire district fees	6,884
Change in accrued interest on tax revenues	808

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.	404,547
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	7,390
Net pension obligation	(1,934)

Total changes in net assets of governmental activities	<u>1,218,437</u>
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TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2010

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad Valorem Taxes	\$ 2,188,403	\$ 2,199,253	\$ 2,274,104	\$ 74,851
Other Taxes and Licenses	2,281,315	1,462,891	1,626,375	163,484
Unrestricted Intergovernmental	4,000	862,022	937,261	75,239
Restricted Intergovernmental	83,140	83,140	264,512	181,372
Sales and Services	10,000	11,400	16,050	4,650
Permits and Fees	153,510	152,160	144,607	(7,553)
Public Safety	32,000	32,000	38,125	6,125
Investment Earnings	61,000	61,000	10,970	(50,030)
Miscellaneous	263,110	5,000	47,805	42,805
Total Revenues	5,076,478	4,868,866	5,359,809	490,943
Expenditures				
General Government	1,096,948	721,230	666,511	54,719
Public Safety	2,645,072	2,597,858	2,440,696	157,162
Transportation	403,563	424,289	395,161	29,128
Environmental Protection	187,116	187,116	106,294	80,822
Economic and Physical Development	705,829	495,546	472,373	23,173
Human Services	37,950	38,450	32,416	6,034
Debt Service				
Principal	-	404,548	404,547	1
Interest	-	76,526	76,525	1
Total Expenditures	5,076,478	4,945,563	4,594,523	351,040
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(76,697)	765,286	841,983
Other Financing Sources (Uses)				
Transfers from Other Funds	-	262,282	262,282	-
Transfers to Other Funds	(570,000)	(570,000)	(570,000)	-
Total Other Financing Sources (Uses)	(570,000)	(307,718)	(307,718)	-
Appropriated Fund Balance	570,000	384,415	-	(384,415)
Net Change in Fund Balance	\$ -	\$ -	457,568	\$ 457,568
Fund Balance - Beginning of Year			<u>7,546,246</u>	
Fund Balance - End of Year			<u>\$ 8,003,814</u>	

TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2010

	Future Development Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Investment Earnings	\$ -	\$ -	\$ 1,984	\$ 1,984
Other Financing Sources (Uses)				
Transfers In:				
General Fund	100,000	100,000	100,000	-
Transfers Out:				
General Fund	-	-	-	-
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Appropriated Fund Balance	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>101,984</u>	<u>\$ 101,984</u>
Fund Balance - Beginning of Year			<u>1,150,680</u>	
Fund Balance - End of Year			<u>\$ 1,252,664</u>	

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	Pension Trust Fund	Agency Funds
Assets		
Cash and Cash Equivalents	\$ 63,934	\$ -
Total Assets	<u>\$ 63,934</u>	<u>\$ -</u>
Liabilities and Net Assets		
Liabilities		
Due to Other Governments	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>
Net Assets		
Assets Held in Trust for Pension Benefits	63,934	-
Total Net Assets	<u>\$ 63,934</u>	<u>\$ -</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

	Pension Trust Fund
Additions	
Employer Contributions	\$ 31,000
Investment Earnings	
Interest	<u>4,472</u>
Total Additions	35,472
Deductions	
Benefits	<u>19,228</u>
Change in Net Assets	16,244
Net Assets - Beginning of Year	<u>47,690</u>
Net Assets - End of Year	<u><u>\$ 63,934</u></u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Sunset Beach and its discretely presented component unit 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 Sunset Beach is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Sunset Beach ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Sunset Beach ABC Board, 303 Sunset Boulevard, Sunset Beach, NC 28468.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental 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 for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Town reports the following major governmental funds:

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

Future Development Fund. This fund is used to account for funds held for expected future costs associated with future development.

The Town reports the following non-major governmental funds:

Beach Erosion Fund. This fund is used to account for funds held for expected future costs associated with beach erosion.

Future Street Paving Fund. This fund is used to account for funds held for expected future costs associated with street paving.

Fire Station 2 Fund. This fund is used to account for funds held for future costs associated with the purchase of a ladder truck.

Bike and Walk Paths Fund. This fund is used to account for funds held for expected future costs associated with bike and walk paths.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Town reports the following fund types:

Pension Trust Fund. The Town has a Pension Trust Fund, the Special Separation Allowance Fund, that accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

Agency Funds. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Town holds on behalf of others. The Town maintains the following agency funds: the Brunswick County – Accommodation Taxes Fund, which accounts for accommodations taxes that are collected by the Town on behalf of Brunswick County.

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

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

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Brunswick County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Sunset Beach. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Brunswick County from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. 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. 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 assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Future Development Special Revenue Fund, Beach Erosion Special Revenue Fund, the Future Street Paving Special Revenue Fund, Ladder Truck Special Revenue Fund, and Bike and Walk Paths Special Revenue Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The Town Administrator may transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000, must be approved by the governing board. All amendments must be approved by the governing board and must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Town and the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board 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 and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and the ABC Board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT – Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

3. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2008.

4. 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.

5. Inventory and Prepaid Items

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures when purchased.

The inventories of the Town and those of the ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government – wide and fund financial statements and expensed as the items are used.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

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 are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 are not recorded. 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:

Asset Class	Estimated Useful Lives
Infrastructure	25
Buildings	50
Improvements	25
Vehicles	5
Furniture and Fixtures	10
Equipment	5
Computer Equipment	3
Software	3

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Land Improvements	20
Buildings	40
Furniture and fixtures	10
Equipment	5

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. 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 are reported as deferred charges and amortized over the term of the related debt.

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

8. Compensated Absences

The vacation policy of the Town provides for an accumulation of up to 240 hours annual vacation leave. Vacation leave is 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. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

9. Net Assets

Net assets in government-wide 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.

10. Fund Balances

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for Inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for Encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved by State Statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

Reserved for Streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Unreserved:

Designated for Subsequent Year's Expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2010 - 2011 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town and the ABC Board 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 or the ABC Board'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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial 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. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2010, the Town's deposits had a carrying amount of \$4,671,698 and a bank balance of \$4,794,846. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$52,707 and the bank balance was \$109,878. All of the bank balance was covered by federal depository insurance. At June 30, 2010, the Town's petty cash funds totaled \$500.

2. Investments

The investments in the North Carolina Capital Management Trust are exempt from risk categorization because neither the Town nor the ABC Board own any identifiable securities, but are shareholders of a percentage of the fund.

At June 30, 2010, the Town of Sunset Beach had \$5,756,941 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

Fund	06/30/2010
General Fund:	
Taxes Receivable	\$ 6,000
Fire District Fees	4,000
Total	\$ <u>10,000</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,006,730	\$ 388,696	\$ -	\$ 2,395,426
Total capital assets not being Depreciated	<u>2,006,730</u>	<u>388,696</u>	<u>-</u>	<u>2,395,426</u>
Capital assets being depreciated:				
Buildings	3,798,690	-	-	3,798,690
Land improvements	36,969	-	-	36,969
Computer Equipment	100,937	-	-	100,937
Equipment	570,253	5,645	9,250	566,648
Office furniture	146,948	-	-	146,948
Vehicles and motorized equip	2,275,592	-	-	2,275,592
Infrastructure	12,500	-	-	12,500
Total capital assets being Depreciated	<u>6,941,889</u>	<u>5,645</u>	<u>9,250</u>	<u>6,938,284</u>
Less accumulated depreciation for:				
Buildings	344,309	76,081	-	420,390
Land improvements	23,785	1,420	-	25,205
Computer Equipment	43,866	20,187	-	64,053
Equipment	287,826	46,303	9,250	324,879
Office furniture	88,169	29,390	-	117,559
Vehicles and motorized equip	1,186,325	196,777	-	1,383,102
Infrastructure	2,257	417	-	2,674
Total accumulated depreciation	<u>1,976,537</u>	<u>370,575</u>	<u>9,250</u>	<u>2,337,862</u>
Total capital assets being depreciated, net	<u>4,965,352</u>			<u>4,600,422</u>
Governmental activity capital assets, net	<u>\$ 6,972,082</u>			<u>\$ 6,995,848</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

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

General Government	\$	134,609
Public Safety		182,538
Transportation		53,428
Total	\$	<u>370,575</u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2010, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 220,572	\$ -	\$ -	220,572
Total capital assets not being depreciated	<u>220,572</u>	<u>-</u>	<u>-</u>	<u>220,572</u>
Capital assets being depreciated:				
Land Improvements	\$ -	\$ -	\$ -	-
Buildings	670,536	-	-	670,536
Furniture and Fixtures	-	-	-	-
Equipment	-	-	-	-
Total capital assets being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less accumulated depreciation for:				
Land Improvements	-	-	-	-
Buildings	11,176	13,410	-	24,586
Furniture and Fixtures	-	-	-	-
Equipment	-	-	-	-
Total accumulated depreciation	<u>11,176</u>	<u>13,410</u>	<u>-</u>	<u>24,586</u>
Total capital assets being depreciated, net	<u>659,360</u>			<u>645,950</u>
ABC capital assets, net	<u>\$ 879,932</u>			<u>\$ 866,522</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Sunset Beach contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 5.27%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Sunset Beach are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2010, 2009, and 2008 were \$95,747, \$49,661, and \$69,859, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

The Town of Sunset Beach 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. The Separation Allowance is reported in the Town's report as a pension trust fund.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2009, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>12</u>
Total	<u><u>13</u></u>

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan

Method Used to Value Investments. Investments are reported at fair value. Short-term money market debt instruments, deposits, and repurchase agreements, are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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 amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the Town contributed \$31,000, or 4.48% of annual covered payroll. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

The annual required contribution for the current year was determined as part of the December 31, 2009 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 of 4.5 – 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 was 21 years.

3 Year Trend Information

<u>Year Ending June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	27,044	105.58%	65,447
2009	31,664	94.74%	67,111
2010	32,934	91.09%	69,045

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was 10.45 percent funded. The actuarial accrued liability for benefits was \$433,413, and the actuarial value of assets was \$45,308, resulting in an unfunded actuarial accrued liability (UAAL) of \$388,105. The covered payroll (annual payroll of active employees covered by the plan) was \$691,770, and the ratio of the UAAL to the covered payroll was 56.10 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the 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

Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan. In addition to the Town's mandatory five percent contribution, Town policy also mandates that the Town provide active law enforcement personnel a match of one percent of their gross salary as a contribution to their 401(k) plan. Contributions for the year ended June 30, 2010 were \$48,272, which consisted of \$38,912 from the Town and \$9,360 from the law enforcement officers.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

All Other Employees

Plan Description. All other employees have the option of contributing to the Supplemental Retirement Plan of North Carolina 401(k). This plan is a defined contribution pension plan and participation is optional.

Funding Policy. The Town matches up to 6 percent of employees' wages. For the year ended June 30, 2010, total contributions to the plan equaled \$71,512, which consisted of \$33,853 from the Town and \$37,659 from the participating employees.

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Sunset Beach, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Postemployment Benefits

Plan Description. The postemployment healthcare benefits are provided through a cost-sharing, multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employees and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Funding Policy. The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2010, 2009, and 2008, the Town paid all annual required contributions to the Plan for postemployment healthcare benefits of \$88,506, \$45,914, and \$64,588, respectively. These contributions represented 4.90%, 4.10%, and 4.10% of covered payroll, respectively.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

2. Pension Plan Obligations (Continued)

f. Other Employment Benefits

The Town has also 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.

C. Deferred / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	Deferred Revenue
Taxes receivable (General Fund)	49,209
Fire District Fees (General Fund)	32,393
Total	\$ 81,602

D. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through the North Carolina League of Municipalities, the Town obtains general liability, law enforcement liability and auto liability coverage of \$2 million per occurrence; public officials' liability and employee benefits liability coverage of \$1 million per occurrence; property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits and employee health coverage up to a \$1 million lifetime limit. The Town also carries commercial flood insurance of \$5 million per occurrence.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

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

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

E. Long-Term Obligations

1. Installment Purchases

- a. In October 2004, the Town entered into an installment loan in the amount of \$3,100,000 for a new fire station, police station and renovation of Town hall. The financing contract required principal payments beginning October 2005. Principal installments are due annually on October 15 at an annual interest rate of 3.58%.
- b. In April 2008, the Town entered into an installment loan in the amount of 485,000 for a new fire ladder truck. The financing contract required payments of \$104,485 beginning in April 2009. Principal installments are due annually on April 14 at an annual interest rate of 2.53%.

The future minimum payments of the installment purchases as of June 30, 2010, are as follows:

Year Ending June 30	Governmental Type Activities	
	Principal	Interest
2011	406,939	63,035
2012	409,392	49,485
2013	411,908	35,872
2014	310,000	22,196
2015	310,000	11,098
Present value of the minimum lease payments	\$ 1,848,239	
Total interest payments		\$ 181,686

2. Changes in Long-Term Liabilities

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 155,250	\$ -	\$ 7,390	\$ 147,860	\$ -
Installment purchases	2,252,786	-	404,547	1,848,239	406,939
Net pension obligation	67,111	32,934	31,000	69,045	-
Governmental activity long-term Liabilities	\$ 2,475,147	\$ 32,934	\$ 442,937	\$ 2,065,144	\$ 406,939

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave as it is earned.

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2010

II. DETAIL NOTES ON ALL FUNDS (Continued)

F. Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2010, consist of the following:

From the General Fund to the Future Development Special Revenue Fund for future development expenditures	\$	100,000
From the General Fund to the Future Street Paving Special Revenue Fund for future street paving expenditures		150,000
From the General Fund to the Beach Erosion Fund for future beach erosion expenditures		10,000
From the General Fund to the Fire Station 2 Fund for future fire department expenditures		300,000
From the General Fund to the Bike and Walk Paths Fund for future construction expenditures		10,000
From the Fire Station 2 Fund to the General Fund		<u>262,282</u>
Total	\$	<u><u>832,282</u></u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

III. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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.

Required Supplementary Financial Data

TOWN OF SUNSET BEACH, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding 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)
12/31/1996	\$ -	\$ 21,949	\$ 21,949	0.00%	\$ 196,956	11.14%
12/31/1997	-	27,934	27,934	0.00%	234,851	11.89%
12/31/1998	-	26,116	26,116	0.00%	292,836	8.92%
12/31/1999	-	24,775	24,775	0.00%	344,729	7.19%
12/31/2000	-	56,465	56,465	0.00%	403,703	13.99%
12/31/2001	-	65,473	65,473	0.00%	419,724	15.60%
12/31/2002	-	84,126	84,126	0.00%	464,946	18.09%
12/31/2003	10,732	102,825	92,093	10.44%	477,744	19.28%
12/31/2004	10,840	131,913	121,073	8.22%	530,982	22.80%
12/31/2005	32,979	143,084	110,105	23.05%	572,234	19.24%
12/31/2006	34,106	298,162	264,056	11.44%	527,865	50.02%
12/31/2007	16,135	328,786	312,651	4.91%	624,247	50.08%
12/31/2008	34,559	352,085	317,526	9.82%	670,912	47.33%
12/31/2009	\$ 45,308	\$ 433,413	\$ 388,105	10.45%	\$ 691,770	56.10%

TOWN OF SUNSET BEACH, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions

<u>Year Ended</u> <u>June 30</u>	<u>Annual Pension</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>
2000	\$ 4,643	0.00%
2001	4,869	0.00%
2002	10,166	0.00%
2003	11,434	0.00%
2004	13,973	76.50%
2005	15,492	69.00%
2006	19,066	56.07%
2007	18,816	102.94%
2008	27,044	105.58%
2009	31,664	94.74%
2010	\$ 32,934	94.18%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	12/31/2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Pay Closed
Remaining Amortization Period	21 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Projected Salary Increases	4.5% - 12.3%
Includes Inflation at	3.75%
Cost of Living Adjustments	N/A



Major Governmental Funds

General Fund

TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 2,268,856	
Penalties and Interest		5,248	
Total Ad Valorem Taxes	\$ 2,199,253	2,274,104	\$ 74,851
Other Taxes and Licenses			
Fire District Fees		852,206	
Cable Television Franchise Tax		45,837	
Privilege Licenses		615	
Accommodations Tax		727,717	
Total Other Taxes and Licenses	1,462,891	1,626,375	163,484
Unrestricted Intergovernmental			
Local Option Sales Tax		658,231	
Utility Franchise Tax		225,406	
Telecommunications Tax		37,235	
Cama Permit Reimbursements		415	
Beer and Wine Tax		4,844	
Gasoline Excise Tax		3,197	
Solid Waste Disposal Tax		2,340	
ABC Profit Distribution		5,593	
Total Unrestricted Intergovernmental	862,022	937,261	75,239
Restricted Intergovernmental			
Powell Bill Allocation		121,643	
Repetitive Loss Program		109,300	
Disaster Recovery		33,569	
ABC Revenue for Law Enforcement		-	
Total Restricted Intergovernmental	83,140	264,512	181,372
Sales and Services			
Street Maintenance		13,867	
Accommodations Tax Collection Fee		2,183	
Total Sales and Services	11,400	16,050	4,650

TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Permits and Fees			
Zoning Permits		1,410	
Court Facilities		173	
Cama Permit Fees		500	
Building Permits		140,899	
Certificate of Occupancy		1,625	
Total Permits and Fees	152,160	144,607	(7,553)
Public Safety			
Police Fines		12,275	
Fire Inspections		25,850	
Total Public Safety	32,000	38,125	6,125
Investment Earnings			
General Fund		10,332	
Powell Bill		638	
Total Investment Earnings	61,000	10,970	(50,030)
Miscellaneous			
Proceeds from Sales of Fixed Assets		2,500	
Other		45,305	
Total Miscellaneous	5,000	47,805	42,805
Total Revenues	4,868,866	5,359,809	490,943
Expenditures			
General Government			
Governing Body			
Council Fees		15,079	
Other Operating Expenditures		18,152	
Total Governing Body		33,231	
Administration			
Salaries, Wages and Employee Benefits		325,762	
Repairs and Maintenance		14,398	
Capital Outlay		5,645	
Other Operating Expenditures		97,770	
Total Administration		443,575	

TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Finance			
Salaries, Wages and Employee Benefits		93,423	
Professional Services		23,500	
Other Operating Expenditures		2,601	
Total Finance		<u>119,524</u>	
Taxes			
Operating Expenditures		<u>21,746</u>	
Legal			
Professional Services		<u>20,271</u>	
Elections			
Operating Expenditures		<u>1,829</u>	
Public Buildings			
Repairs and Maintenance		25,884	
Other Operating Expenditures		<u>451</u>	
Total Public Buildings		<u>26,335</u>	
Total General Government	<u>721,230</u>	<u>666,511</u>	<u>54,719</u>
Public Safety			
Police Department			
Salaries, Wages and Employee Benefits		952,955	
Repairs and Maintenance		21,957	
Other Operating Expenditures		<u>76,356</u>	
Total Police Department		<u>1,051,268</u>	
Fire Department			
Salaries, Wages and Employee Benefits		762,947	
Repairs and Maintenance		45,925	
Other Operating Expenditures		<u>158,641</u>	
Total Fire Department		<u>967,513</u>	
Inspections			
Salaries, Wages and Employee Benefits		353,083	
Repairs and Maintenance		15,284	
Other Operating Expenditures		<u>53,548</u>	
Total Inspections		<u>421,915</u>	
Total Public Safety	<u>2,597,858</u>	<u>2,440,696</u>	<u>157,162</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Transportation			
Streets and Highways			
Salaries, Wages and Employee Benefits		202,541	
Street Lights and Power Lines		79,627	
Other Operating Expenditures		53,425	
Total Streets and Highways		<u>335,593</u>	
Powell Bill Expenditures			
Street Repairs and Maintenance		45,780	
Equipment Repairs and Maintenance		10,790	
Traffic Control		1,472	
Other Operating Expenditures		1,526	
Total Powell Bill Expenditures		<u>59,568</u>	
Total Transportation	<u>424,289</u>	<u>395,161</u>	<u>29,128</u>
Environmental Protection			
Sanitation		104,907	
Drainage and Watershed Protection		1,387	
Total Environmental Protection	<u>187,116</u>	<u>106,294</u>	<u>80,822</u>
Economic and Physical Development			
Planning and Zoning			
Professional Services		656	
Other Operating Expenditures		7,249	
Total Planning and Zoning		<u>7,905</u>	
Economic Development			
Chamber of Commerce		15,000	
Community Development			
Twin Lakes Project		3,000	
Other Operating Expenditures		19	
Capital Outlay		388,696	
Total Community Development		<u>391,715</u>	
Beach and Strand			
Salaries, Wages, and Employee Benefits		30,262	
Repairs and Maintenance		18,972	
Other Operating Expenditures		8,519	
Total Beach and Strand		<u>57,753</u>	
Total Economic and Physical Development	<u>495,546</u>	<u>472,373</u>	<u>23,173</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Human Services			
Social Services			
Donations		31,500	
Total Social Services		<u>31,500</u>	
Environmental Health			
Repairs and Maintenance		64	
Other Operating Expenditures		852	
Total Environmental Health		<u>916</u>	
Total Human Services	<u>38,450</u>	<u>32,416</u>	<u>6,034</u>
Debt Service			
Principal Retirement	404,548	404,547	1
Interest Expense	76,526	76,525	1
Total Debt Service	<u>481,074</u>	<u>481,072</u>	<u>2</u>
Total Expenditures	<u>4,945,563</u>	<u>4,594,523</u>	<u>351,040</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(76,697)</u>	<u>765,286</u>	<u>841,983</u>
Other Financing Sources (Uses)			
Transfers In			
Fire Station 2 Fund	262,282	262,282	-
Transfers Out			
Future Development Fund	(100,000)	(100,000)	-
Future Street Paving Fund	(150,000)	(150,000)	-
Beach Erosion Fund	(10,000)	(10,000)	-
Fire Station 2 Fund	(300,000)	(300,000)	-
Bike and Walk Paths Fund	(10,000)	(10,000)	-
Total Other Financing Sources (Uses)	<u>(307,718)</u>	<u>(307,718)</u>	<u>-</u>
Fund Balance Appropriated	<u>384,415</u>	-	<u>(384,415)</u>
Net Change in Fund Balance	<u>\$ -</u>	457,568	<u>\$ 457,568</u>
Fund Balance - Beginning of Year		<u>7,546,246</u>	
Fund Balance - End of Year		<u>\$ 8,003,814</u>	

Major Governmental Funds

Special Revenue Funds

TOWN OF SUNSET BEACH, NORTH CAROLINA
 Future Development Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ 1,984	\$ 1,984
Other Financing Sources (Uses)			
Transfers in:			
General Fund	100,000	100,000	-
Total Other Financing Sources (Uses)	100,000	100,000	-
Appropriated Fund Balance	(100,000)	-	100,000
Net Change in Fund Balances	<u>\$ -</u>	101,984	<u>\$ 101,984</u>
Fund Balance - Beginning of Year		<u>1,150,680</u>	
Fund Balance - End of Year		<u>\$ 1,252,664</u>	

Nonmajor Governmental Funds

TOWN OF SUNSET BEACH, NORTH CAROLINA

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2010

	Special Revenue Funds	Capital Project Funds	Total
Assets			
Cash and Cash Equivalents	\$ 1,499,817	\$ -	\$ 1,499,817
Total Assets	\$ 1,499,817	\$ -	\$ 1,499,817
Fund Balances			
Unreserved	\$ 1,499,817	\$ -	\$ 1,499,817
Total Fund Balances	\$ 1,499,817	\$ -	\$ 1,499,817

TOWN OF SUNSET BEACH, NORTH CAROLINA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2010

	Special Revenue Funds	Capital Project Funds	Total
Revenues			
Investment Earnings	\$ 2,251	\$ -	\$ 2,251
Expenditures			
Capital Outlay	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,251</u>	<u>-</u>	<u>2,251</u>
Other Financing Sources (Uses)			
Transfers from Other Funds	470,000	-	470,000
Transfers to Other Funds	(262,282)	-	(262,282)
Total Other Financing Sources (Uses)	<u>207,718</u>	<u>-</u>	<u>207,718</u>
Net Change in Fund Balances	209,969	-	209,969
Fund Balance - Beginning of Year	<u>1,289,848</u>	<u>-</u>	<u>1,289,848</u>
Fund Balance - End of Year	<u>\$ 1,499,817</u>	<u>\$ -</u>	<u>\$ 1,499,817</u>



Nonmajor Governmental Funds

Special Revenue Funds

TOWN OF SUNSET BEACH, NORTH CAROLINA

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2010

	Beach Erosion Fund	Future Street Paving Fund	Fire Station 2 Fund
Assets			
Cash and Cash Equivalents	\$ 224,510	\$ 791,820	\$ 352,228
Total Assets	\$ 224,510	\$ 791,820	\$ 352,228
Fund Balances			
Unreserved	\$ 224,510	\$ 791,820	\$ 352,228
Total Fund Balances	\$ 224,510	\$ 791,820	\$ 352,228



**Bike
and
Walk Paths
Fund**

Total

\$ 131,259 \$ 1,499,817

\$ 131,259 \$ 1,499,817

\$ 131,259 \$ 1,499,817

\$ 131,259 \$ 1,499,817

TOWN OF SUNSET BEACH, NORTH CAROLINA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2010

	Beach Erosion Fund	Future Street Paving Fund	Fire Station 2 Fund
Revenues			
Investment Earnings	\$ 370	\$ 1,268	\$ 381
Expenditures			
Capital Outlay	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>370</u>	<u>1,268</u>	<u>381</u>
Other Financing Sources (Uses)			
Transfers from Other Funds	10,000	150,000	300,000
Transfers to Other Funds	-	-	(262,282)
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>150,000</u>	<u>37,718</u>
Net Change in Fund Balances	10,370	151,268	38,099
Fund Balance - Beginning of Year	<u>214,140</u>	<u>640,552</u>	<u>314,129</u>
Fund Balance - End of Year	<u>\$ 224,510</u>	<u>\$ 791,820</u>	<u>\$ 352,228</u>

Bike and Walk Paths	
Fund	Total
\$ 232	\$ 2,251
-	-
232	2,251
10,000	470,000
-	(262,282)
10,000	207,718
10,232	209,969
121,027	1,289,848
<u>\$ 131,259</u>	<u>\$ 1,499,817</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA
 Beach Erosion Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ 370	\$ 370
Other Financing Sources			
Transfers in:			
General Fund	10,000	10,000	-
Total Other Financing Sources	10,000	10,000	-
Appropriated Fund Balance	(10,000)	-	10,000
Net Change in Fund Balances	<u>\$ -</u>	10,370	<u>\$ 10,370</u>
Fund Balance - Beginning of Year		<u>214,140</u>	
Fund Balance - End of Year		<u>\$ 224,510</u>	

TOWN OF SUNSET BEACH, NORTH CAROLINA
 Future Street Paving Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ 1,268	\$ 1,268
Other Financing Sources			
Transfers in:			
General Fund	150,000	150,000	-
Total Other Financing Sources	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Appropriated Fund Balance	<u>(150,000)</u>	<u>-</u>	<u>150,000</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>151,268</u>	<u>\$ 151,268</u>
Fund Balance - Beginning of Year		<u>640,552</u>	
Fund Balance - End of Year		<u>\$ 791,820</u>	

TOWN OF SUNSET BEACH, NORTH CAROLINA

Fire Station 2 Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ 381	\$ 381
Other Financing Uses			
Transfers in:			
General Fund	300,000	300,000	-
Transfers out:			
General Fund	-	(262,282)	(262,282)
Total Other Financing Uses	<u>300,000</u>	<u>37,718</u>	<u>(262,282)</u>
Appropriated Fund Balance	<u>(300,000)</u>	<u>-</u>	<u>300,000</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>38,099</u>	<u>\$ 38,099</u>
Fund Balance - Beginning of Year		<u>314,129</u>	
Fund Balance - End of Year		<u>\$ 352,228</u>	

TOWN OF SUNSET BEACH, NORTH CAROLINA

Bike and Walk Paths Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

For the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ 232	\$ 232
Other Financing Sources			
Transfers in:			
General Fund	10,000	10,000	-
Total Other Financing Sources	10,000	10,000	-
Appropriated Fund Balance	(10,000)	-	10,000
Net Change in Fund Balances	<u>\$ -</u>	10,232	<u>\$ 10,232</u>
Fund Balance - Beginning of Year		<u>121,027</u>	
Fund Balance - End of Year		<u>\$ 131,259</u>	



Agency Funds

TOWN OF SUNSET BEACH, NORTH CAROLINA
 Agency Funds
 Combining Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<u>Brunswick County - Accommodation Taxes</u>				
Assets				
Cash and Investments	\$ -	\$ 145,521	\$ 145,521	\$ -
Liabilities				
Due to Other Governments	\$ -	\$ 145,521	\$ 145,521	\$ -
<u>Totals - All Agency Funds</u>				
Assets				
Cash and Investments	\$ -	\$ 145,521	\$ 145,521	\$ -
Liabilities				
Due to Other Governments	\$ -	\$ 145,521	\$ 145,521	\$ -

Other Schedules

TOWN OF SUNSET BEACH, NORTH CAROLINA

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2010

Fiscal Year	Uncollected Balance 7-1-09	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-10
2009-10	\$ -	\$ 2,281,479	\$ 2,237,408	\$ 44,071
2008-09	37,108	-	29,086	8,022
2007-08	3,045	-	2,446	599
2006-07	445	-	33	412
2005-06	472	-	-	472
2004-05	311	-	3	308
2003-04	246	-	5	241
2002-03	519	-	6	513
2001-02	346	-	3	343
2000-01	230	-	2	228
1999-00	334	-	334	-
	<u>\$ 43,056</u>	<u>\$ 2,281,479</u>	<u>\$ 2,269,326</u>	55,209
Less: Allowance for Uncollectible Accounts: General Fund				<u>6,000</u>
Ad Valorem Taxes Receivable - Net				<u><u>49,209</u></u>
 <u>Reconciliation with Revenues</u>				
Ad Valorem Taxes - General Fund				2,274,104
Reconciling Items:				
Interest and Penalties Collected				(5,248)
Taxes Released				136
Taxes Written Off				<u>334</u>
Total Collections and Credits				<u><u>\$ 2,269,326</u></u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2010

	Town-Wide			Total Levy	
				Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate Per \$100	Amount of Levy		
Original Levy:					
Property Taxed at Current Year's Rate	\$ 2,532,844,099	0.090	\$ 2,279,560	\$ 2,246,050	\$ 33,510
Discoveries:					
Current Year Taxes	2,132,002	0.090	1,919	1,919	-
Penalties	-		-	-	-
Abatements:					
Property Taxes - Current Year's Rate	-	0.090	-	-	-
Total Property Valuations	<u>\$ 2,534,976,101</u>				
Net Levy			2,281,479	2,247,969	33,510
Uncollected Taxes at June 30, 2010			(44,071)	(42,452)	(1,619)
Current Year's Taxes Collected			<u>\$ 2,237,408</u>	<u>\$ 2,205,517</u>	<u>\$ 31,891</u>
Current Levy Collection Percentage			<u>98.07%</u>	<u>98.11%</u>	<u>95.17%</u>



Compliance Section



S. Preston Douglas & Associates, LLP
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Sunset Beach, North Carolina, as of and for the year ended June 30, 2010, which collectively comprises the Town of Sunset Beach's basic financial statements, and have issued our report thereon dated October 20, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Sunset Beach's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Sunset Beach's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the organization, members of Town Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

S. Preston Douglas & Associates, LLP

October 20, 2009

TOWN OF SUNSET BEACH, NORTH CAROLINA

Schedule of Findings and Responses

For the Fiscal Year Ended June 30, 2010

SECTION I. SUMMARY OF AUDITOR'S RESULTS
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Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(s) identified that are
not considered to be material weaknesses

_____ Yes X No

Noncompliance material to financial statements noted

_____ Yes X No

TOWN OF SUNSET BEACH, NORTH CAROLINA

Schedule of Findings and Responses

For the Fiscal Year Ended June 30, 2010

SECTION II. FINANCIAL STATEMENT FINDINGS

None

