

Basic Financial Statements

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Net Assets

June 30, 2012

	Primary Government			Sunset Beach ABC Board
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Investments	\$ 8,158,446	\$ -	\$ 8,158,446	\$ 82,403
Receivables (net):				
Taxes	146,585	-	146,585	-
Fire District Fees	63,967	-	63,967	-
Accommodations Tax	141,867	-	141,867	-
Accrued Interest - Taxes	16,540	-	16,540	-
Inventory	-	-	-	114,315
Security Deposits	-	-	-	-
Due from Other Governments	447,388	-	447,388	-
Due from Component Unit	3,004	-	3,004	-
Restricted Cash and Investments	517,600	-	517,600	-
Capital Assets				
Land, Nondepreciable Improvements, and Construction in Progress	6,542,896	-	6,542,896	220,572
Other Capital Assets, Net of Depreciation	4,311,421	-	4,311,421	619,128
Total Assets	\$ 20,349,714	\$ -	\$ 20,349,714	\$ 1,036,418

TOWN OF SUNSET BEACH, NORTH CAROLINA
Statement of Net Assets (Continued)
June 30, 2012

	Primary Government			Sunset Beach ABC Board
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 15,413	\$ -	\$ 15,413	\$ -
Due to Primary Government	-	-	-	3,004
Distributions Payable	-	-	-	-
Long-Term Liabilities				
Due Within One Year	411,907	-	411,907	13,272
Due In More Than One Year	869,337	-	869,337	476,819
Total Liabilities	1,296,657	-	1,296,657	493,095
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	9,822,410	-	9,822,410	349,609
Restricted For:				
Transportation	517,600	-	517,600	-
Working Capital	-	-	-	41,292
Stabilization by State Statute	592,158	-	592,158	-
Unrestricted	8,120,889	-	8,120,889	152,422
Total Net Assets	\$ 19,053,057	\$ -	\$ 19,053,057	\$ 543,323

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 762,659	\$ 46,400	\$ -	\$ -
Public Safety	2,947,608	196,238	3,004	1,349,552
Transportation	913,372	-	129,006	-
Environmental Protection	86,106	9,330	-	-
Economic and Physical Development	178,026	-	51,876	800,000
Human Services	26,100	-	-	-
Interest on Long-Term Debt	49,485	-	-	-
Total Governmental Activities	4,963,356	251,968	183,886	2,149,552
Business-Type Activities:				
Water	-	-	-	-
Total Business-Type Activities	-	-	-	-
Total Primary Government	4,963,356	251,968	183,886	2,149,552
Component Units:				
Sunset Beach ABC Board	1,303,584	1,395,021	-	-
Total Component Units	\$ 1,303,584	\$ 1,395,021	\$ -	\$ -

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
\$ (716,259)	\$ -	\$ (716,259)	\$ -
(1,398,814)	-	(1,398,814)	-
(784,366)	-	(784,366)	-
(76,776)	-	(76,776)	-
673,850	-	673,850	-
(26,100)	-	(26,100)	-
(49,485)	-	(49,485)	-
<u>(2,377,950)</u>	<u>-</u>	<u>(2,377,950)</u>	<u>-</u>
-	-	-	-
-	-	-	-
<u>(2,377,950)</u>	<u>-</u>	<u>(2,377,950)</u>	<u>-</u>
-	-	-	91,437
-	-	-	91,437
1,937,862	-	1,937,862	-
874,071	-	874,071	-
730,158	-	730,158	-
773,743	-	773,743	-
322,642	-	322,642	-
6,916	-	6,916	304
33,074	-	33,074	-
<u>4,678,466</u>	<u>-</u>	<u>4,678,466</u>	<u>304</u>
2,300,516	-	2,300,516	91,741
16,752,541	-	16,752,541	451,582
<u>\$ 19,053,057</u>	<u>\$ -</u>	<u>\$ 19,053,057</u>	<u>\$ 543,323</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Balance Sheet

Governmental Funds

June 30, 2012

	Major Funds			
	General	Capital Improvement Project Fund	Total Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 7,838,536	\$ 286,848	\$ 33,062	\$ 8,158,446
Receivables (net):				
Taxes	146,585	-	-	146,585
Fire District Fees	63,967	-	-	63,967
Accommodations Tax	141,867	-	-	141,867
Due from Component Unit	3,004	-	-	3,004
Due from Other Governments	447,287	101	-	447,388
Restricted Cash and Investments	517,600	-	-	517,600
Total Assets	\$ 9,158,846	\$ 286,949	\$ 33,062	\$ 9,478,857
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 15,413	\$ -	\$ -	\$ 15,413
Deferred Revenues	210,552	-	-	210,552
Total Liabilities	225,965	-	-	225,965
Fund Balances:				
Restricted				
Stabilization by State Statute	592,158	-	-	592,158
Streets	517,600	-	-	517,600
Committed				
Development	1,555,715	-	-	1,555,715
Beach Erosion	246,819	-	-	246,819
Street Paving	1,093,330	-	-	1,093,330
Bike and Walk Paths	331,551	-	-	331,551
Economic and Physical Development	-	-	33,062	33,062
Assigned				
Public Safety	-	286,949	-	-
Subsequent Year's Expenditures	325,536	-	-	325,536
Unassigned	4,270,172	-	-	4,270,172
Total Fund Balances	8,932,881	286,949	33,062	9,252,892
Total Liabilities and Fund Balances	\$ 9,158,846	\$ 286,949	\$ 33,062	\$ 9,478,857

TOWN OF SUNSET BEACH, NORTH CAROLINA

Balance Sheet (Continued)

Governmental Funds

June 30, 2011

	<u>Total Governmental Funds</u>
Total Fund Balances	\$ 9,252,892
<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.	10,854,317
Other long-term assets (accrued interest receivable from taxes and assessments) are not available to pay for current-period expenditures and therefore are deferred.	16,540
Liabilities for earned but deferred revenues in fund statements.	210,552
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>(1,281,244)</u>
Net assets of governmental activities.	<u><u>\$ 19,053,057</u></u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended June 30, 2012

	Major Funds			
	General	Capital Improvement Project Fund	Total Non-Major Funds	Total Governmental Funds
Revenues				
Ad Valorem Taxes	\$ 1,882,435	\$ -	\$ -	\$ 1,882,435
Other Taxes and Licenses	1,673,384	-	-	1,673,384
Unrestricted Intergovernmental	1,052,800	-	-	1,052,800
Restricted Intergovernmental	983,886	1,349,552	-	2,333,438
Sales and Services	11,283	-	-	11,283
Permits and Fees	163,313	-	-	163,313
Public Safety	32,925	-	-	32,925
Investment Earnings	6,916	-	-	6,916
Miscellaneous	5,701	-	27,373	33,074
Total Revenues	5,812,643	1,349,552	27,373	7,189,568
Expenditures				
Current				
General Government	661,141	-	-	661,141
Public Safety	2,767,274	-	-	2,767,274
Transportation	858,906	-	-	858,906
Environmental Protection	81,756	-	-	81,756
Economic and Physical Development	161,935	-	16,091	178,026
Human Services	26,100	-	-	26,100
Debt Service				
Principal	409,392	-	-	409,392
Interest	49,485	-	-	49,485
Capital Outlay	2,928,893	1,224,417	-	4,153,310
Total Expenditures	7,944,882	1,224,417	16,091	9,185,390
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,132,239)	125,135	11,282	(1,995,822)
Other Financing Sources (Uses)				
Transfers from Other Funds	-	-	-	-
Transfers to Other Funds	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(2,132,239)	125,135	11,282	(1,995,822)
Fund Balance - Beginning	11,065,120	161,814	21,780	11,248,714
Fund Balance - Ending	\$ 8,932,881	\$ 286,949	\$ 33,062	\$ 9,252,892

TOWN OF SUNSET BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

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

Net changes in fund balances - total governmental funds \$ (1,995,822)

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. 3,819,263

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 46,376
Change in deferred revenue for fire district fees 18,877
Change in accrued interest on tax revenues 9,051

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. 409,392

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 (1,904)
Net pension obligation (4,717)

Total changes in net assets of governmental activities 2,300,516

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, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad Valorem Taxes	\$ 1,930,000	\$ 1,962,600	\$ 1,882,435	\$ (80,165)
Other Taxes and Licenses	2,631,568	1,711,730	1,673,384	(38,346)
Unrestricted Intergovernmental	642,816	1,074,005	1,052,800	(21,205)
Restricted Intergovernmental	126,980	376,880	983,886	607,006
Sales and Services	15,000	17,000	11,283	(5,717)
Permits and Fees	152,100	149,700	163,313	13,613
Public Safety	35,000	35,000	32,925	(2,075)
Investment Earnings	20,500	20,500	5,279	(15,221)
Miscellaneous	276,600	27,000	5,701	(21,299)
Total Revenues	5,830,564	5,374,415	5,811,006	436,591
Expenditures				
General Government	961,147	661,141	661,141	-
Public Safety	3,132,195	3,060,209	2,912,269	147,940
Transportation	944,690	914,560	891,433	23,127
Environmental Protection	218,400	218,400	192,811	25,589
Economic and Physical Development	540,632	2,802,252	2,802,251	1
Human Services	33,500	33,500	26,100	7,400
Debt Service				
Principal	-	409,393	409,392	1
Interest	-	49,485	49,485	-
Total Expenditures	5,830,564	8,148,940	7,944,882	204,058
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(2,774,525)	(2,133,876)	640,649
Other Financing Sources (Uses)				
Transfers from Other Funds	-	13,000	-	(13,000)
Transfers to Other Funds	(260,000)	(260,000)	(260,000)	-
Total Other Financing Sources (Uses)	(260,000)	(247,000)	(260,000)	(13,000)
Appropriated Fund Balance	260,000	3,021,525	-	(3,021,525)
Net Change in Fund Balance	\$ -	\$ -	(2,393,876)	\$ (2,393,876)
Fund Balance - Beginning of Year			8,099,342	
Fund Balance - End of Year			\$ 5,705,466	

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, 2012

Fund Balance - End of Year	<u>\$ 5,705,466</u>
A Legally Budgeted Future Development Fund is	
Consolidated into the General Fund for Reporting Purposes	
Investment Earnings	843
Transfers from General Fund	-
Expenditures	-
Fund Balance - Beginning	<u>1,554,872</u>
	<u>1,555,715</u>
A Legally Budgeted Beach Erosion Fund is	
Consolidated into the General Fund for Reporting Purposes	
Investment Earnings	127
Transfers from General Fund	10,000
Expenditures	-
Fund Balance - Beginning	<u>236,692</u>
	<u>246,819</u>
A Legally Budgeted Future Street Paving Fund is	
Consolidated into the General Fund for Reporting Purposes	
Investment Earnings	536
Transfers from General Fund	150,000
Expenditures	-
Fund Balance - Beginning	<u>942,794</u>
	<u>1,093,330</u>
A Legally Budgeted Bike and Walk Paths Fund is	
Consolidated into the General Fund for Reporting Purposes	
Investment Earnings	131
Transfers from General Fund	100,000
Expenditures	-
Fund Balance - Beginning	<u>231,420</u>
	<u>331,551</u>
Fund Balance - End of Year (Consolidated)	<u><u>\$ 8,932,881</u></u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
Assets		
Cash and Cash Equivalents	\$ 63,717	\$ 23,642
Total Assets	<u>\$ 63,717</u>	<u>\$ 23,642</u>
Liabilities and Net Assets		
Liabilities		
Due to Other Governments	\$ -	\$ 23,642
Total Liabilities	<u>-</u>	<u>23,642</u>
Net Assets		
Assets Held in Trust for Pension Benefits	<u>63,717</u>	<u>-</u>
Total Net Assets	<u>\$ 63,717</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, 2012

	<u>Pension Trust Fund</u>
Additions	
Employer Contributions	\$ 32,500
Investment Earnings	
Interest	<u>27</u>
Total Additions	32,527
Deductions	
Benefits	<u>42,158</u>
Change in Net Assets	(9,631)
Net Assets - Beginning of Year	<u>73,348</u>
Net Assets - End of Year	<u><u>\$ 63,717</u></u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2012

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.

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.

The Town reports the following non-major governmental funds:

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

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.

Festival Fund. This fund is used to account for funds held for the Town festival.

Capital Improvement Project Fund. This fund is used to account for funds held for future costs associated with capital improvements.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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.

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, Fire Station 2 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 Budget Officer 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 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, 2011.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Allowances for Doubtful Accounts

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

6. 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.

7. 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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. Capital Assets (Continued)

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

8. 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.

9. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

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

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Sunset Beach's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

 Committed for Development – portion of fund balance committed by the board for development.

 Committed for Beach Erosion – portion of fund balance committed by the board for beach erosion.

 Committed for Street Paving – portion of fund balance committed by the board for street paving.

 Committed for Bike and Walk Paths – portion of fund balance committed by the board for bike and walk paths.

 Committed for Festival – portion of fund balance committed by the board for the festival.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Net Assets/Fund Balances (Continued)

Assigned Fund Balance – portion of fund balance that Leland Tourism Development Authority intends to use for specific purposes.

Assigned for Public Safety – portion of fund balance that has been budgeted by the Board for public safety expenditures.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

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.

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

1. Deposits (Continued)

At June 30, 2012, the Town's deposits had a carrying amount of \$3,001,156 and a bank balance of \$3,403,178. 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 \$81,503 and the bank balance was \$170,209. All of the bank balance was covered by federal depository insurance. At June 30, 2012, 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, 2012, the Town of Sunset Beach had \$5,761,749 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.

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	06/30/2012
General Fund:	
Taxes Receivable	\$ 17,000
Fire District Fees	7,000
Total	\$ <u>24,000</u>

TOWN OF SUNSET BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,395,426	\$ 2,640,316	\$ -	\$ 5,035,742
Construction in Progress	282,737	1,224,417	-	1,507,154
Total capital assets not being Depreciated	<u>2,678,163</u>	<u>3,864,733</u>	<u>-</u>	<u>6,542,896</u>
Capital assets being depreciated:				
Buildings	3,798,690	111,055	-	3,909,745
Land improvements	36,969	-	-	36,969
Computer Equipment	100,937	-	-	100,937
Equipment	623,388	125,872	17,473	731,787
Office furniture	146,948	-	-	146,948
Vehicles and motorized equip	2,289,220	51,650	17,038	2,323,832
Infrastructure	12,500	-	-	12,500
Total capital assets being Depreciated	<u>7,008,652</u>	<u>271,114</u>	<u>34,511</u>	<u>7,262,718</u>
Less accumulated depreciation for:				
Buildings	496,470	85,332	-	581,802
Land improvements	26,472	1,267	-	27,739
Computer Equipment	83,254	19,201	-	102,455
Equipment	367,371	45,652	17,473	395,550
Office furniture	144,499	26,940	-	171,439
Vehicles and motorized equip	1,530,604	155,238	17,038	1,668,804
Infrastructure	3,091	417	-	3,508
Total accumulated depreciation	<u>2,651,761</u>	<u>334,047</u>	<u>34,511</u>	<u>2,951,297</u>
Total capital assets being depreciated, net	<u>4,356,891</u>			<u>4,311,421</u>
Governmental activity capital assets, net	<u>\$ 7,035,054</u>		<u>\$ 10,854,317</u>	

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	\$	105,649
Public Safety		172,058
Transportation		51,990
Human Services		4,350
Total	\$	<u>334,047</u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
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	37,997	13,411	-	51,408
Furniture and Fixtures	-	-	-	-
Equipment	-	-	-	-
Total accumulated depreciation	<u>37,997</u>	<u>13,411</u>	<u>-</u>	<u>51,408</u>
Total capital assets being depreciated, net	<u>632,539</u>			<u>619,128</u>
ABC capital assets, net	<u>\$ 853,111</u>			<u>\$ 839,700</u>

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 6.95% and 7.05%, 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, 2012, 2011, and 2010 were \$146,706, \$139,223, and \$95,747, respectively. The contributions made by the Town equaled the required contributions for each year.

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, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>12</u>
Total	<u><u>15</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.

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 \$32,500, or 4.59% 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, 2012 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 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. 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, 2010 was 20 years.

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

Annual required contribution	\$	37,953
Interest on net pension obligation		3,815
Adjustment to annual required contribution		(4,551)
Annual pension cost		<u>37,217</u>
Contributions made		<u>32,500</u>
Increase (decrease) in net pension obligation		4,717
Net pension obligation; beginning of year		<u>76,294</u>
Net pension obligation; end of year	\$	<u><u>81,011</u></u>

3 Year Trend Information

Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	32,934	94.18%	69,045
2011	38,249	81.05%	76,294
2012	37,217	87.33%	81,011

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, 2011, the most recent actuarial valuation date, the plan was 19.45 percent funded. The actuarial accrued liability for benefits was \$484,200, and the actuarial value of assets was \$94,197, resulting in an unfunded actuarial accrued liability (UAAL) of \$390,003. The covered payroll (annual payroll of active employees covered by the plan) was \$708,930, and the ratio of the UAAL to the covered payroll was 55.01 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, 2011 were \$53,392, which consisted of \$43,018 from the Town and \$10,374 from the law enforcement officers.

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, 2012, total contributions to the plan equaled \$79,992, which consisted of \$41,903 from the Town and \$68,499 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.

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, 2012, 2011, and 2010, the Town paid all annual required contributions to the Plan for postemployment healthcare benefits of \$103,897, \$90,537, and \$88,506, respectively. These contributions represented 5.00%, 4.90%, and 4.90%, of covered payroll, respectively.

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)	146,585
Fire District Fees (General Fund)	63,967
Total	\$ 210,552

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.

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, 2011, are as follows:

Year Ending June 30	Governmental Type Activities	
	Principal	Interest
2013	411,908	35,872
2014	310,000	22,196
2015	309,998	11,098
Total	\$ 1,031,906	\$ 118,651

3. Changes in Long-Term Liabilities

	Balance			Balance June 30, 2012	Current Portion of Balance
	July 1, 2011	Increases	Decreases		
Governmental activities:					
Compensated absences	\$ 166,422	\$ 1,904	\$ -	\$ 168,326	\$ -
Installment purchases	1,441,299	-	409,392	1,031,907	411,907
Net pension obligation	76,294	37,217	32,500	81,011	-
Governmental activity long-term Liabilities	\$ 1,684,015	\$ 39,121	\$ 441,892	\$ 1,281,244	\$ 411,907

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.

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, 2012, consist of the following:

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 Bike and Walk Paths Fund for future construction expenditures	<u>100,000</u>
Total	\$ <u><u>260,000</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.

G. Fund Balance

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

Total fund balance – General Fund	\$ 8,932,881
Less:	
Stabilization by State Statute	592,158
Streets – Powell Bill	517,600
Development	1,555,715
Beach Erosion	246,819
Street Paving	1,093,330
Bike and Walk Paths	331,551
Appropriated Fund Balance in 2013 budget	325,536
Remaining Fund Balance	4,270,72

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	General Fund	Non-Major Funds
\$	-	-

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.

